

URGENT Modification Report
Deferral of Annual Storage Invitation
Modification Reference Number 0619

Version 1.0

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because Ofgem has agreed that urgent status is warranted, given the benefits of being able to consult with shippers on the implications of a capacity withdrawal and the imminent date for the launch of the ASI.

Procedures Followed:

Transco agreed with Ofgem (and has followed) the following procedures for this Proposal:

Proposal agreed as Urgent	26 February 2003
Circulate proposal to Users requesting representations	26 February 2003
Representation Close-Out	27 February 2003
Final Modification Report to Ofgem	28 February 2003
Ofgem Decision Expected	28 February 2003

1. The Modification Proposal

Transco proposes that for the 2003/4 Storage Year, the date for the launch of the Annual Storage Invitation (ASI), detailed in Section Z3.1.1, be deferred from 1 March 2003 to no later than the 1 April 2003.

It is further proposed that the "Transco Invitation Close Date" detailed in Section Z3.1.3(a) be amended to not less than 14 days following the date of invitation.

As the withdrawal of storage capacity potentially has implications on quantities of gas held under Constrained Storage arrangements and as Operating Margins, it is proposed that the date for publication of the Network Code statements is also deferred from 1 March 2003 to no later than 1 April 2003. Also publication of Constrained LNG credits available from 1 May 2003 would similarly be reduced from two months to one month notice ie issued by 1 April 2003.

Transco LNG has agreed to submit a paper to Ofgem by 5 March 2003 detailing the storage capacity to be withdrawn and the reasons. Ofgem has indicated that it would wish to consult shippers on this withdrawal prior to reaching a decision.

2. Transco's Opinion

Transco LNG intends to withdraw part of its storage capacity and would reflect this in its ASI. Transco LNG has agreed to send Ofgem a paper detailing the quantities and reasons by 5 March 2003. Ofgem has in turn expressed the wish to consult with shippers on this withdrawal of storage capacity.

To ensure that this consultation is completed prior to the issue of the ASI, a deferral is required to the date of invitation, which is currently set in the Network Code as no later than 1 March.

Furthermore, Transco considers it would be prudent to defer issue of its statements detailing CLNG and Operating Margins requirements for 2003/04 until the consultation has been completed.

3. Extent to which the proposed modification would better facilitate the relevant objectives

Amendments to the time-scales contained with the Network Code would allow Ofgem to ascertain the industry's views on the intended level of capacity withdrawal by Transco LNG. This is consistent with the efficient and economic operation by the licensee of its pipe-line system. Allowing for a period of industry consultation would also be consistent with facilitating the securing of effective competition between relevant shippers and between relevant suppliers.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

Transco is not aware of any implications for the operation of the System.

b) development and capital cost and operating cost implications:

Transco is not aware of any development, capital cost or operating implications which would arise from implementation of this Proposal.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Not applicable.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Transco is not aware of any consequences that this Proposal would have on price regulation, other than that the advance publication notice of CNLG credits for 2003/04 would be reduced to one month.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Transco does not anticipate there would be any consequences on the level of contractual risk under the Network Code, as a result of implementation of this Proposal.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Transco does not anticipate any development implications for its computer systems or the related systems of Users.

7. The implications of implementing the Modification Proposal for Users

For the Storage Year 2003/04, Users would be invited to tender one month later than in previous years (from 1 March to 1 April) and be requested to submit bids within a reduced period of not less than 14 days from the date of issue of the ASI. Implementation of this Proposal would be consistent with the consultation that Ofgem proposes to conduct on the implications of capacity withdrawal.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

As a result of the proposed delay to the launch of the ASI and the subsequent publication deferrals of the CLNG and OM statements a Non-Network Code Party may be impacted. Transco understands that non-Network Code parties will be invited to respond to the consultation. Implementation of this Proposal would be consistent with the consultation that Ofgem proposes to conduct on the implications of capacity withdrawal.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco is unaware of any effect on the legislative and regulatory obligations and contractual relationships of Transco and each User and non-Network Code Party.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantage: Consistent with Ofgem's proposed consultation on 2003/04 capacity withdrawal.

Disadvantage: Delay of one month to 1 April and reduced period of 14 days to submit bids.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Two responses were received in favour of the consultation: Scottish & Southern Electricity and British Gas Trading, together with comments from the Health & Safety Executive.

The Health & Safety Executive confirmed it had no objection to the proposal to defer the date for the ASI. It requested a copy of Transco's LNG paper to Ofgem detailing the reasons for the capacity withdrawal, and confirmation from Transco that there were no implications for its Safety Case concerning CLNG and OM.

Scottish & Southern (SSE) supported implementation of the Proposal to delay the ASI by one month, citing present uncertainties concerning the outcome of Modification Proposal 0608, which is due to close-out on 12 March, and the proposed volume of LNG capacity withdrawal.

British Gas Trading (BGT) whilst supporting implementation of the Proposal expressed disappointment that the issue of withdrawing capacity has been raised at such a late stage "given that Transco has indicated at a much earlier stage their desire to reduce the volume of capacity to be offered in the auctions."

Transco Comment

Transco will endeavour to submit the Final Modification Report for Modification Proposal 0608 in sufficient time to allow Ofgem to make a determination prior to the close of the ASI. The uncertainty surrounding the proposed capacity withdrawal will be clarified as a result of Ofgem's consultation.

Transco notes BGT's disappointment as to the timing of this issue, but believes that the benefits of providing Ofgem with an opportunity to consult with the industry on the implications of capacity withdrawal will outweigh this.

Ofgem Consultation

SSE requested clarification whether the outcome of Ofgem's consultation would have any impact upon the capacity volumes offered in the ASI.

BGT additionally commented that it "does not believe that Transco should be allowed to reduce the quantities from a fully utilised facility" and that "the most appropriate course of action would be to run the auction as normal, at the original specified time and with the full volumes. However, if this is not possible, BGT would welcome the opportunity to participate in a consultation process as suggested by Ofgem, and would reluctantly support a delay to the auction process as described."

Transco Comment

Transco confirms that the conclusions of Ofgem's proposed consultation will influence the volumes made available in the ASI and which will not be issued until the consultation is complete.

Transco notes BGT's comments regarding the withdrawal of capacity. Ofgem's consultation will afford BGT the opportunity to represent its views in full.

Period of Deferral

Whilst SSE appreciated that Transco had raised the Urgent Proposal to facilitate the consultation process on the proposed capacity withdrawal, it queried as to whether one month would be sufficient to enable Shippers to fully evaluate the changes to LNG arrangements and requested consideration be given to a delay of six weeks.

Transco Comment

Transco understands that Ofgem's consultation will close-out during week commencing 17 March and it is proposed that the ASI will close-out during week commencing 14 April. Transco believes that these timescales will allow Shippers sufficient time to fully evaluate any changes to 2003/04 LNG arrangements. In accordance with Network Code provisions, details of Maximum Storage Space and Deliverability, CNLG credits and maximum available capacity will be published in the ASI. The ASI will be launched as soon as possible after the conclusions of Ofgem's consultation have been assimilated. A period for response will be left open as long as is possible, bearing in mind the commencement of the Storage Year on 1 May.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Implementation is not required to enable compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco does not believe that this Modification Proposal is required in respect of any proposed change in the methodology established under Standard Condition 4(5) of the statement, furnished by Transco under Standard Condition 4(1) of the licence.

14. Programme of works required as a consequence of implementing the Modification Proposal

Transco is not aware of any programme of works that would be required as a consequence of implementing the Proposal.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Transco is not aware of any system changes that would be required as a result of this Proposal.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification Proposal be implemented by 1 March 2003.

17. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Add new paragraph 8.8.3 in Part II of the Transition Document, as follows:-

8.8.3 K2.2.3 For the purposes of Section K2.2.3, in relation to the Storage Year commencing 1st May 2003, Transco will, not later than 1st April 2003, provide to Users and the Director details of:

- (i) the assumptions made pursuant to Section K2.2.2; and
- (ii) the amounts estimated under Section K2.2.1 and (on the basis of the assumptions referred to in paragraph (i)) the calculation of such estimated amounts.

Add new paragraph 8.14.10 in Part II of the Transition Document, as follows:-

8.14.10 R4.1.4 For the purposes of Section R4.1.4, in relation to the Storage Year commencing 1st May 2003, where any Storage Facility is to be a Constrained Storage Facility for that Storage Year, Transco will, not later than 1st April before the start of that Storage Year, publish a document (the "Constrained Storage Statement") containing the following details for each Constrained Storage Facility:

- (a) the "Constrained Point(s)", being a point or points on the NTS as identified by Transco as being relevant, for the purposes of Section R4, to a Constrained Storage Facility;
- (b) the rate of flow ("Constrained Threshold Demand Flow") at a Constrained Storage Point at which Transco may make Constrained Storage Renominations in respect of the relevant Constrained Storage Facility.
- (c) the System Entry Capacity Charges in respect of the relevant Storage Connection Point;
- (d) a percentage for each Week in the Winter Period for the purposes of Section R4.6.3.

Add new paragraph 8.17.8 in Part II of the Transition Document:-

8.17.8 Z3.1 For the Storage Year commencing 1st May 2003, Transco LNG Storage will, not later than 1st April 2003, invite (for the purposes of Section Z 3.1.1 and in accordance with Section Z 3.1.2) applications for Storage Capacity in each Transco LNG Storage Facility, and (for the purposes of Section Z 3.1.3(a)) the date ("Transco LNG Invitation Close Date") by which applications pursuant to such invitation must be made shall not be less than 14 Days after the date of the invitation.

Signed for and on behalf of Transco.

Signature:

Nigel Sisman
Trading Arrangements Manager
NT & T

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0619**, version **1.0** dated **28/02/2003**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code
Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
 - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
 - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.
2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.