

Draft Modification Report
Publication of additional forward and option surrender of entry capacity tender
information
Modification Reference Number 0620
Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

Proposal submitted to Panel	20 March 2003
DMR issued	10 April 2003
Closeout for Reps	06 May 2003
FMR issued	27 May 2003
Ofgem decision	03 June 2003
Implementation Effective Date	04 June 2003

1. The Modification Proposal

The Proposal stated:

"This Proposal will supplement the provisions of Modification 0587, 'Prospective Publication of Further Forward and Option Entry Capacity Information', from 11 February 2003, the additional tender information required prior to that date having been released under Modification Proposal 0588, 'Publication of Further Forward and Option Entry Capacity Information'.

For completeness the full tender information requirement is included below, although much is the same as that already published under Modification 0587:

For each forward tender held where Transco receives tender offers and enters into Forward Agreement(s) in respect of an ASEP/forward delivery period combination then, Transco should publish the following information for each day of the forward delivery period for the relevant ASEP/forward delivery period combination:

- the volume weighted average price of valid forward tender offers received;
- the aggregate quantity of Firm System Entry Capacity for which valid forward tender offers are received;
- the minimum price offered in valid forward tender offers received;
- the maximum price offered in valid forward tender offers received;
- the volume weighted average price of forward tender offers accepted;
- the aggregate quantity of Firm System Entry Capacity surrendered pursuant to forward tender offers accepted;
- the minimum price paid in respect of forward tender offers accepted; and
- the maximum price paid in respect of forward tender offers accepted.

This information should be published on the Business Day following that on which Transco

enters into such Forward Agreement(s).

For each forward tender held where Transco receives tender offers but does not enter into any Forward Agreement(s) in respect of an ASEP/forward delivery period combination, then Transco should publish for the relevant ASEP / forward delivery period combination:

- the volume weighted average price of valid forward tender offers received;
- the aggregate quantity of Firm System Entry Capacity for which valid forward tender offers are received;
- the minimum price offered in valid forward tender offers received; and
- the maximum price offered in valid forward tender offers received.

This information should be published within four Business Days following the last day of the tender or, for the period from 11 February to the implementation of this Modification Proposal, on the Business Day following implementation.

For each option tender held where Transco receives tender offers and enters into Option Agreement(s) in respect of an ASEP/option exercise period combination then Transco should publish the following information in respect of the relevant ASEP/option exercise period combination:

- the volume weighted average of valid option strike prices received;
- the aggregate quantity of Firm System Entry Capacity for which valid option tender offers are received;
- the minimum of valid offered option strike prices;
- the maximum valid of offered option strike prices;
- the volume weighted average of accepted option strike prices;
- the aggregate quantity of Firm System Entry Capacity available for surrender pursuant to option tender offers accepted;
- the minimum of accepted option strike prices; and
- the maximum of accepted option strike prices.

This information should be published on the Business Day following that on which Transco enters into such Option Agreement(s).

For each option tender held where Transco receives tender offers but does not enter into any Option Agreements in respect of any ASEP/option exercise period combination, then Transco should publish for the relevant ASEP/option exercise period combination:

- the volume weighted average of valid option strike prices received;
- the aggregate quantity of Firm System Entry Capacity for which valid option tender offers are received;
- the minimum of valid offered option strike prices; and
- the maximum of valid offered option strike prices.

This information should be published within four Business Days following the last day of the tender or, for the period from 11 February to the implementation of this Modification

Proposal, on the Business Day following implementation.

Where Transco exercises one or more Option Agreements in respect of a Gas Day Transco should also notify Users of the volume of Firm System Entry Capacity exercised at each relevant ASEP on that Gas Day and the volume weighted average strike price of the capacity exercised at each relevant ASEP on that Gas Day. This information should be published on the next Business Day following the Gas Day associated with the exercise of such Option Agreements."

2. Transco's Opinion

Transco does not support implementation of this Proposal.

Transco recognises that implementation of this Proposal would augment the information provision in respect of forwards and option tender processes for capacity management products introduced following recent Network Code amendments including the implementation of Modification 0587 - 'Prospective Publication of Further Forward and Option Entry Capacity Information'. Implementation of this Proposal would align the treatment of information derived from prospective forward and option capacity tenders with that provided in respect of earlier tender processes as required following the implementation of Modification Proposal 0588 - 'Publication of Further Forward and Option Entry capacity Information'.

Specifically implementation of this Proposal would facilitate the additional release of information pertaining to the tender offers where Transco has not entered into any agreements in that tender process for any forward and option ASEP/delivery period combinations.

At the request of the NT&T Workstream Transco agreed to raise a Modification Proposal to facilitate the release of the additional forward and option capacity tender information in respect of trades conducted after 11 February 2003. Similar information release in respect of tender processes conducted prior to that point in time has already been facilitated by the implementation of Modification Proposal 0588. Implementation of this Proposal will therefore ensure full information release for all forward and option capacity buy back tenders.

For the reasons offered in the draft and final Modification Reports associated with Modification Proposal 0587 Transco does not support this Proposal. Transco maintains that this Proposal seeks to impose unnecessary and inappropriate obligations on Transco that do not apply to any other participant in the secondary capacity market. Furthermore the incentive structure delivers alignment between Transco and the Community interest and that these interests are best served by allowing Transco discretion in respect of the information it releases in respect of its forward contracting activity. Transco is concerned that greater information exposure may discourage participation in forwards contracting leaving Transco with greater dependence on the RGTA capacity buy back mechanism.

The current regime requires Transco to offer for sale system entry capacity that is generally acknowledged to be in excess of the physical capability of the Network. The regime

structure has therefore, by design, placed Transco in a distressed position. Transco considers that disclosure of tender offer information for forward and option ASEP/delivery period combination, that Transco has not entered into, may detract from the economic and efficient management of buy back risk. Transco remains concerned that publication of such information might see changes in behaviour in such tender processes that could exploit Transco's distress. If this was to happen then this would generate increased cost for the community.

Transco was able to mitigate considerable exposure by forwards and options contracting throughout the summer of 2002. Following the implementation of Modification Proposal 0587 on 25 October 2002, which was intended to increase liquidity in respect of forward and option entry capacity tenders, Transco notes reduced volumes being offered in subsequent tenders and at higher prices. Whilst this does not conclusively indicate information is the primary cause of this change Transco remains of the view that obligatory release of information is not helpful in respect of encouraging liquidity but rather that Transco, like any other market player, should have discretion in respect of what information about its trading activity that it releases.

Transco believes that, given the very low level of competition evident in the secondary capacity market, further information release might better inform such participants of the value that they might be able to extract from the regime. This might increase short-term costs for the industry but with no assurance that benefit in respect of increased competition might accrue in the longer term.

Given the interpretational issues experienced with respect to Modification Proposals 0587 and 0588 and in order to facilitate efficient consideration of this Proposal, Transco has included draft legal text with this report and would welcome the views of respondents if this drafting does not reflect the intent of the NT&T Workstream in respect of this Proposal.

Transco has considered the possible interactions between the gas and electricity regimes and has concluded that there would be no impact on the electricity regime if this Modification Proposal was implemented. However, respondents' views on any potential interactions with the electricity regime would be welcomed.

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

The intent of this Proposal is to align the provision of prospective forward and option capacity tender information with the treatment of retrospective provision as implemented in Modification Proposal 0588 and to supplement the provisions of Modification Proposal 0587.

Transco maintains the view expressed in the draft and final Modification Reports, 0587 and 0588, that it does not believe that the Proposals would further the relevant objectives.

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

Transco maintains the view expressed in the draft and final Modification Reports for 0587, ' Prospective Publication of Further Forward and Option Entry Capacity Information', that release of capacity buy back information might have a detrimental impact on the operation of the System. Transco believes that greater information disclosure may discourage participation in forwards and option contracting. This may detract from Transco's use of such commercial risk management tools and place inappropriate reliance on within day buy backs using the RGTA buy back mechanism. This may lead to volatile financial outcomes in respect of the capacity incentive. Transco considers that it would not be economic or efficient to implement an information requirement that has the potential to undermine the viability of the risk management tool itself.

b) development and capital cost and operating cost implications:

Implementation would involve some additional administrative effort each time Transco conducts forward or option tender processes.

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:

Any additional System Operator costs incurred as a result of implementing this Proposal would be shared with Users under the proposed incentive schemes, as defined in the Transco Licence.

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

Transco is not aware of any consequences this Proposal would have on price regulation.

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

Tenders issued after 11 February 2003 were amended to provide for the additional information requirements envisaged by this Proposal. Transco considers that any foreseeable contractual risk arising from this Proposal has therefore been mitigated. The following paragraphs have been added to Tender documentation:-

Clause 11. Confidentiality

- (c) it is agreed that Transco may disclose any information (including, without limitation, details of prices and quantities contained in any

Tender Document whether or not an Option is entered into in relation thereto) to the extent required by the Network Code, including to the extent that any subsequent amendments or modifications thereto may require such disclosure (notwithstanding that any such amendments or modifications may, whether in whole or in part, have retrospective effect.

Tender Offer Notice

8. In submitting this Tender Offer Notice the Tendering User acknowledges and agrees that, irrespective of whether or not a Tender Acceptance Notice is issued in relation to any Tender Offer(s) set out herein, Transco may disclose any information contained herein as provided in Clause 11 of the Terms.

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

If implemented, Transco would envisage publication of the required data in a standardised data format via the Transco Website. Users would then need to download the data and further process (if required) within their systems.

7. The implications of implementing the Modification Proposal for Users

If implemented this Proposal would result in Users having access to information about the outcome of tenders for forward and option contracts for entry capacity buy backs, including the provision of information relating to tender offers for ASEP/time period combinations which have not been accepted by Transco, from 11 February 2003 onwards.

Users might share in any increase in capacity buy back cost that may arise.

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

Transco has not identified any implications for Terminal Operators, Consumers, Connected System Operators, Suppliers, Producers and any Non-Network Code Party.

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

This Modification Proposal would change the basis of information provision in respect of the capacity buy back forwards and options tender processes conducted after 11 February 2003.

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

Advantages:

- Users would have access to additional information.
- Increased information may promote liquidity.
- Users can better understand the value Transco ascribes to capacity.

Disadvantages:

- Commercially sensitive information may be published.
- Prices for forward and option contracts might increase and might not reflect a Users' valuation of capacity.
- Users may face higher costs through the SO incentive arrangements.
- Risk of reduced forward liquidity.
- May discourage Users from offering capacity at their opportunity cost.

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

Representation are now sought.

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

Implementation is not required for this purpose.

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

Implementation is not required having regard to any such proposed change.

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

No such program of work is required.

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

As Transco does not support implementation, no timetable is provided.

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend implementation.

17. Text

SECTION B

Amend paragraph 2.8.8 as follows:

“For the purposes ...:

“**Forward Agreement**” means ...;

“**Option Agreement**” means ...;

“**Relevant Forward Combination**” means a specific combination of Aggregate System Entry Point and forward delivery period as set out in a valid tender offer submitted to Transco pursuant to a Tender Invitation Notice;

“**Relevant Option Combination**” means a specific combination of Aggregate System Entry Point and option exercise period as set out in a valid tender offer submitted to Transco pursuant to a Tender Invitation Notice; and

“**Tender Invitation Notice**” means”

Amend paragraph 2.8.9 as follows:

“(a) Where, in respect of a Relevant Forward Combination and pursuant to a Tender Invitation Notice, Transco enters into Forward Agreement(s) with Users...giving effect to this paragraph (a), it shall publish on the Business Day following that on which it enters into such Forward Agreement(s) and in respect ...:

(i) ...Firm System Entry Capacity for that Relevant Forward Combination pursuant to that Tender Invitation Notice;

(ii) ... received by Transco for that Relevant Forward Combination pursuant to

that Tender Invitation Notice;

(iii) ... Firm System Entry Capacity for that Relevant Forward Combination pursuant to that Tender Invitation Notice;

(iv) ... Firm System Entry Capacity for that Relevant Forward Combination pursuant to that Tender Invitation Notice;

(v) in respect of such Forward Agreement(s), the volume weighted average price ...;

(vi) in respect of such Forward Agreement(s), the aggregate quantity ... ;

(vii) in respect of such Forward Agreement(s), the minimum price ... ; and

(viii) in respect of such Forward Agreement(s), the maximum price

(b) Where, in respect of a Relevant Option Combination and pursuant to a Tender Invitation Notice, Transco enters into Option Agreement(s) with Users... giving effect to this paragraph (b), it shall publish on the Business Day following that on which it enters into such Option Agreement(s):

(i) ... Firm System Entry Capacity for that Relevant Option Combination pursuant to that Tender Invitation Notice;

(ii) ... received by Transco for that Relevant Option Combination pursuant to that Tender Invitation Notice;

(iii) ... Firm System Entry Capacity for that Relevant Option Combination pursuant to that Tender Invitation Notice;

(iv) ... Firm System Entry Capacity for that Relevant Option Combination pursuant to that Tender Invitation Notice;

(v) in respect of such Option Agreement(s), the volume weighted average strike price ...;

(vi) in respect of such Option Agreement(s), the aggregate quantity ...;

(vii) in respect of such Option Agreement(s), the minimum strike price ...; and

- (viii) in respect of such Option Agreement(s), the maximum strike price ...
- (c) ...this paragraph (c), Transco ...:
 - (i) ...; and
 - (ii) ...
- (d) Where, after the date of implementation of the modification proposal giving effect to this paragraph (d) and pursuant to a Tender Invitation Notice, Transco receives valid tender offers in respect of a Relevant Forward Combination but Transco does not enter into any Forward Agreements with Users in respect of that Relevant Forward Combination pursuant to that Tender Invitation Notice, it shall nevertheless publish, within four Business Days following the last Day on which such tender offers may have been submitted to Transco pursuant to that Tender Invitation Notice, and in respect of each Gas Flow Day in the relevant forward delivery period:
 - (i) the volume weighted average price in respect of all valid offers received by Transco for the surrender of Firm System Entry Capacity for that Relevant Forward Combination pursuant to that Tender Invitation Notice;
 - (ii) the aggregate quantity of Firm System Entry Capacity for which valid offers to surrender were received by Transco for that Relevant Forward Combination pursuant to that Tender Invitation Notice;
 - (iii) the minimum price offered by Users in valid offers for the surrender of Firm System Entry Capacity for that Relevant Forward Combination pursuant to that Tender Invitation Notice; and
 - (iv) the maximum price offered by Users in valid offers for the surrender of Firm System Entry Capacity for that Relevant Forward Combination pursuant to that Tender Invitation Notice.

- (e) Where, after the date of implementation of the modification proposal giving effect to this paragraph (e) and pursuant to a Tender Invitation Notice, Transco receives valid tender offers in respect of a Relevant Option Combination but Transco does not enter into any Option Agreements with Users in respect of that Relevant Option Combination pursuant to that Tender Invitation Notice, it shall nevertheless publish within four Business Days following the last Day on which such tender offers may have been submitted to Transco pursuant to that Tender Invitation Notice:
- (i) the volume weighted average strike price in respect of all valid offers received by Transco for the surrender of Firm System Entry Capacity for that Relevant Option Combination pursuant to that Tender Invitation Notice;
 - (ii) the aggregate quantity of Firm System Entry Capacity for which valid offers to surrender were received by Transco for that Relevant Option Combination pursuant to that Tender Invitation Notice;
 - (iii) the minimum strike price offered by Users in valid offers for the surrender of Firm System Entry Capacity for that Relevant Option Combination pursuant to that Tender Invitation Notice; and
 - (iv) the maximum strike price offered by Users in valid offers for the surrender of Firm System Entry Capacity for that Relevant Option Combination pursuant to that Tender Invitation Notice.”

TRANSITION DOCUMENT PART II

Insert a new paragraph 8.1.4B as follows:

- “B2.8.9 Sections B2.8.9(d) and (e) shall apply in respect of Tender Invitation Notices issued on or after 11 February 2003 save that in respect of the period from 11 February 2003 to the date of the implementation of the modification proposal giving effect to this paragraph 8.1.4B, the references to the date by which

information is to be provided shall instead be to the first Business Day following the implementation of such modification proposal.”

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Nigel Sisman
Gas Balancing Manager
NT & T

Date: