

Modification Report
Determination of Additional Available Daily System Entry Capacity
Modification Reference Number 0621
Version 1.0

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

1. The Modification Proposal

It is proposed that the determination of Available Within-Day Capacity should be amended to reflect the arrangements that presently apply at the day-ahead stage such that the quantity to be made available should be equal to the sum of any Unsold System Entry Capacity plus any additional Daily System Entry Capacity that Transco may in its sole discretion choose to make available for the day.

2. Transco's Opinion

Transco supports implementation of the Proposal because implementation would:

1. Enable a consistent process to be utilised by Transco to determine the quantities of Daily System Entry Capacity that can be released at both the day ahead and within-day stage; and
2. Allow Transco to more efficiently optimise capacity allocation such that Transco can if appropriate take into account the interaction of system capability and expected gas flow.

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

Transco believes that implementation of the Modification Proposal should reduce the risk of stranding gas off-shore within-day by enabling Transco to take into account a range of factors, including the probability that previously released capacity will be utilised for the purposes of gas flow. Reducing the probability of stranding gas offshore will increase the diversity of potential gas supply. This will increase the efficiency of the gas trading market. This might therefore be expected to improve the economic and efficient operation of the pipeline system. Furthermore, Transco believes that the removal of restrictions in respect of the determination of Available With-Day Capacity would increase the efficiency of capacity release which might be expected to increase Shipper ability to be able to purchase capacity for the purposes of bringing gas onto the system and thereby promoting competition between Shippers.

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

Transco believes that a reduced risk of stranding gas offshore will lead to more efficient utilisation of physically available capacity. This might therefore be expected to improve the economic and efficient operation of the system and also to increase security of supply.

b) development and capital cost and operating cost implications:

None.

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:

Transco considers that no additional costs would arise should this Proposal be implemented.

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

Transco considers there to be no such consequence.

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 anticipates that implementation of the Modification Proposal may impact upon the Entry Capacity buy back incentive defined in Special Condition 28B Part 2 14(7) of the Transco Licence to the extent that Transco would be able to release more Daily System Entry Capacity within day.

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

Transco is unaware of any such implications.

7. The implications of implementing the Modification Proposal for Users

Transco considers that Users may have a greater opportunity to obtain above baseline capacity within day if this Proposal were to be implemented. To the extent that additional sales may be made Users should be aware that the risks and rewards accrued to the Entry Capacity buy back incentive would change.

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 been made aware of any such implications.

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

No such consequences are envisaged.

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

Advantages:

1. Reduced risk of gas being stranded off-shore;
2. Higher secondary capacity prices may be avoided by Network Code parties;
3. Creates a potential revenue opportunity to capacity buy back incentive from additional daily capacity sales.

Disadvantages

1. Creates a potential for increased buy back costs if additional Daily System Entry Capacity is released;
2. May reduce opportunities for secondary trading.

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

Transco received a total of 9 representations in response to this Proposal:

TotalFinaElf Gas and Power Ltd (TFE)
Scottish and Southern Energy plc (SSE)
Innogy (INN)
Conoco U.K. Ltd (CON)
PowerGen UK plc (POW)
London Electricity Group (LEG)
British Gas Trading Ltd (BGT)
Scottish Power (SCP)
Shell Gas Direct Ltd (SGD)

Of these, seven respondents (TFE, SSE, INN, POW, LEG, BGT, SCP) express support for the implementation of the Proposal, and two (CON, SGD) provide comment.

Transco Discretion in the Determination of Additional Daily Entry Capacity

Seven respondents (TFE, SSE, INN, POW, LEG, SCP, SGD, BGT) supported the Proposal intent to allow Transco to offer for sale the maximum amount of firm entry capacity having taken account of entry capacity sales and likely system flows. One respondent (BGT) noted that implementation of this Proposal should remove any unnecessary constraint of gas flows on a day.

The proposal to ensure consistency and clarity in the approach to determination of daily system entry capacity regardless of whether this was carried out day-ahead or within-day was welcomed by four respondents (TFE, SSE, BGT, SGD).

One respondent (CON) supported Transco discretion in the release of additional entry capacity but suggested that shippers should have notice at D-1 of Transco's intent to exercise its discretion.

One respondent (POW) expressed a concern that a departure in determination of daily entry capacity from the mechanistic Network Code approach risked Transco being able to limit the amount of available capacity.

Transco Response

Transco welcomes the high level of support for this Modification Proposal and agrees with respondents that implementation of the Proposal should allow Transco to optimise entry capacity allocation to the benefit of the gas industry.

Transco notes the concern that shippers should have notice on D-1 of any intention by Transco to release additional within-day capacity but does not consider that the nature of the Proposal allows this suggestion to be met within any practical consideration. This Modification Proposal if implemented would allow Transco to respond within-day to market and system conditions, advance notice of Transco's intent is therefore unlikely to be practical and may indeed undermine the secondary trading market.

Transco considers that if implemented the Modification Proposal is unlikely to lead to a reduction in capacity allocation compared to the present arrangements. Both the existing and proposed arrangements will require that no less than baseline capacity is made available through to and including on the gas day. However, the proposed arrangements would also offer further upside in terms of potential quantities that could be released at Transco's discretion.

Impact on SO Incentives and Revenue

Four respondents (TFE, SSE, BGT, SGD) noted that the Proposal presented potential increased risk of entry capacity buyback, but all four respondents viewed this to represent minimal additional risk since Transco would factor this risk as part of its assessment of whether additional within-day daily capacity could be made available.

One respondent (SCP) offered qualified support for the Proposal on the basis that it could be demonstrated that additional revenue gained from the sale of additional capacity could offset the extra exposure to buy back costs. Another respondent (SSE) suggested the Final Modification Proposal Report should provide information in relation to the impact or interaction between allowed revenue, entry / buyback incentives, and capacity neutrality.

Transco Response

Transco shares the view of respondents that the risk of entry capacity buyback is potentially increased by implementation of this Modification Proposal, and further agrees with respondents that the exercise of its within-day discretion to release additional daily entry capacity should take account of prevailing system conditions in order to strike an appropriate balance of risk and reward. Transco considers that the impact of any potential buyback exposure can be managed by taking into account the prevailing system capability and gas flow expectations through to the end of the Gas Day. Transco believes that the alignment between Transco and Users via the incentive arrangements should provide comfort that any exercise of discretion, should implementation of the Proposal be directed, be expected to generate

a shared benefit between Transco and the community.

Transco considers that the Proposal provides an opportunity for Transco to release capacity in excess of baseline and as such believes that any revenues that may arise would contribute towards the capacity neutrality arrangements. The outcome of capacity neutrality is used to inform performance against the Capacity Buy Back Incentive.

Impact on Capacity Trading

Two respondents (LEG, SGD) noted benefits to entry capacity secondary market trading in that Transco's ability to release additional capacity could limit artificially high secondary market prices and reduce the potential for gas to be stranded off-shore.

Transco Response

Transco agrees with respondents that high secondary market prices could be limited by this Proposal.

Impact on the Interruptible Daily Product

A concern was expressed by one respondent (CON) that implementation of the Proposal could potentially increase the frequency of Transco interruption of the Interruptible daily capacity product where Transco used its discretion to offer additional firm daily entry capacity based on an evaluation of unused entry capacity.

Transco Response

Transco notes the concern and recognises that the Proposal could tend to increase the probability of interruption being called. Transco believes that this type of determination should be part of a shipper assessment of which entry capacity product to purchase dependent upon their need to secure entry capacity.

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

No such requirement exists in respect of the Modification Proposal.

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

No such requirement exists in respect of the Modification Proposal.

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

No such requirement exists in respect of the Modification Proposal.

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

Draft Modification Report circulated - 10th April 2003

Consultation period ends - 6th May 2003

Final Modification Report issued - 28th May 2003

Ofgem decision expected - August 2003

Effective date for implementation of Proposal - 1st October 2003

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of this Modification Proposal from 1 October 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

SECTION B: SYSTEM USE AND CAPACITY

Delete text at paragraph 2.4.7 and replace with text to read as follows:

2.4.7 For each Day (or part of each such Day) in respect of each Aggregate System Entry Point, where Available Daily Capacity is available Transco will initiate a capacity allocation period.

Amend paragraph 2.4.13 to read as follows:

2.4.13 For the purposes of this paragraph 2.4:

- (a) the "**Available Daily Capacity**" in relation to an Aggregate System Entry Point, is an amount of Daily System Entry Capacity equivalent to the sum of Unsold System Entry Capacity (which was available for such Day in accordance with paragraph 2.3 (if any)) which remains available following the application of paragraph 2.3 in respect of each Day in the calendar month in which such Day falls and any additional Daily System Entry Capacity that Transco may in its sole discretion choose to make available for the Day (if any);
- (b) the "**bid effective time**" is the time on the hour in relation to a daily capacity bid being the later of:
 - (i) 06:00 hours on the Gas Flow Day; or
 - (ii) the time falling no earlier than 60 minutes after Daily System Entry Capacity has been allocated in respect of such bid;
- (c) a "**capacity allocation period**" is the period of 15 minutes, in which Transco conducts capacity allocation at an Aggregate System Entry Point for a Day, and which subject to there being Available Daily Capacity and available daily capacity bids at such time:
 - (i) first commences at 13:00 hours on the Preceding Day to that for which the Daily System Entry Capacity is applied for;
 - (ii) commences on any hour bar falling thereafter up to and including 02:00 hours on the Day for which the Daily System Entry Capacity is applied for (but not thereafter);
- (d) a "**capacity allocation**" is the allocation of Daily System Entry Capacity during a capacity allocation period in accordance with paragraph 2.7;
- (e) a "**fixed bid**", is a daily capacity bid in relation to which the Daily System Entry Capacity applied for is not conditional on the bid effective time and a "**reducing bid**" is a daily capacity bid in relation to which the amount of Daily Entry Capacity applied for is determined as:

$$(DSEC / BET) * N$$

where:

- DSEC is the amount of Daily System Entry Capacity applied for when the bid was first submitted;
- BET commencing from the earliest bid effective time in respect of such bid, the number of hours remaining on the Gas Flow Day;
- N the number of hours remaining from the actual bid effective time were Daily System Entry Capacity to be allocated in respect of such a bid.

Signed for and on behalf of Transco.

Signature:

Nigel Sisman
Development Manager, Gas Balancing
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 **0621**, version **1.0** dated **23/05/2003**) 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.