

30/09/2002

Dear Colleague,

**NOTICE OF IMPLEMENTATION
MODIFICATION PROPOSAL No: 0500**

"Long Term Capacity Allocation"

Please note that Modification Proposal No 0500 was implemented with effect from 06:00 hours on 01/10/2002. The Final Modification Report, Version 3.0, was signed by Ofgem on 30/09/2002.

The new Network Code text resulting from this Modification follows.

Modified Text:

[Draft] proposed legal text

SECTION B: SYSTEM CAPACITY

[Amend paragraph 1.7.3 to read as follows:

"at a System Point, or a charge payable by reference to the arrangements in Special Condition [28B] of the Transco Licence."]

Delete all the text at paragraph 2 and insert new text to read as follows:

"2.1 Introduction

2.1.1 Subject to the provisions of the Code, a User may deliver gas to the System at any System Entry Point.

2.1.2 Users may apply for and be registered as holding System Entry Capacity:

- (a) as Quarterly System Entry Capacity pursuant to an auction in accordance with paragraph 2.2;
- (b) as Monthly System Entry Capacity pursuant to an auction in accordance with paragraphs 2.2 and 2.3;
- (c) as Daily System Entry Capacity pursuant to a bid under paragraph 2.4; and
- (d) as Daily Interruptible System Entry Capacity pursuant to a bid under paragraph 2.5.

2.1.3 A User may not apply for or be registered as holding System Entry Capacity at an Aggregate System Entry Point in an amount less than 100,000 kWh/Day (the "**minimum eligible amount**").

2.1.4 In relation to an Aggregate System Entry Point:

- (a) **"Quarterly System Entry Capacity"** is Firm System Entry Capacity which may be applied for and registered as held (in a given amount) by a User for each Day in a particular calendar quarter;
- (b) **"Monthly System Entry Capacity"** is Firm System Entry Capacity which may be applied for and registered as held (in a given amount) by a User for each Day in a particular calendar month;
- (c) **"Daily System Entry Capacity"** is Firm System Entry Capacity which may be applied for and registered as held (in a given amount) by a User for a particular Day only; and
- (d) **"Daily Interruptible System Entry Capacity"** is Interruptible System Entry Capacity which may be applied for and registered as held (in a given amount) by a User for a particular Day only.

2.1.5 In respect of an Aggregate System Entry Point and in relation to a Day in a calendar month in a Formula Year:

- (a) **"Baseline Entry Capacity"** is the amount of System Entry Capacity which Transco is required to make available to Users pursuant to the Transco Licence as set out in the Transportation Statement;
- (b) **"Incremental System Entry Capacity"** is the amount of Firm System Entry Capacity (if any) in excess of the Unsold System Entry Capacity which Transco may (but shall not be required to) invite applications for pursuant to paragraphs 2.2 and 2.3; and
- (c) **"Unsold System Entry Capacity"** is the amount of Firm System Entry Capacity that Transco has, for the purposes of:
 - (i) paragraph 2.2, in relation to each Day in a calendar quarter;
 - (ii) paragraph 2.3, in relation to each Day in a calendar month;
 - (iii) paragraph 2.4, in relation to a Day,

an obligation to make available (in accordance with the procedures set out in this paragraph 2) to Users pursuant to paragraph 14(5)(f) of Part 2 of Special Condition 28B of the Transco Licence as, in the case of System Entry Capacity to be made available under paragraphs 2.2, 2.3 and 2.4 but not paragraph 2.5, set out in the Transportation Statement.

2.1.6 For the purposes of the application of paragraph 2.6, the amount of Unsold System Entry Capacity in existence at a particular time will, unless expressly stated otherwise, be calculated by reference to a continuing obligation to make available Firm System Entry Capacity through the application of paragraph 14(5) of Part 2 of Special Condition 28B of the Transco Licence prior to the time at which the amount of Unsold System Entry Capacity is to be ascertained.

2.1.7 For the purposes of this paragraph 2:

- (a) at any time, in respect of an Aggregate System Entry Point and in relation to a Day, the "**System Entry Capability**" is the amount (in kWh) or rate (in kWh/Day) (in each case consistent with the provisions of paragraph 2.1.9), determined by Transco at such time, as the maximum amount of gas which it will be feasible to take delivery on that Day at that Aggregate System Entry Point, or (as the case may be) the maximum rate at which it will be feasible to take delivery of gas on that Day or in the remaining part of that Day at that Aggregate System Entry Point;
 - (b) "**Firm System Entry Capacity**" means Quarterly System Entry Capacity, Monthly System Entry Capacity and Daily System Entry Capacity which (without prejudice to Section I3.7) is not subject to curtailment and "**Interruptible System Entry Capacity**" means Daily Interruptible System Entry Capacity which is liable to be curtailed pursuant to paragraph 2.9;
 - (c) a reference to the amount of a User's Available or Registered System Entry Capacity (of any class) at an Aggregate System Entry Point for a Day as "**Adjusted**":
 - (i) pursuant to paragraph 2.8.4, is a reference to such amount as reduced pursuant to that paragraph;
 - (ii) pursuant to paragraph 2.9.4, is a reference to such amount as reduced pursuant to that paragraph; and
 - (iii) pursuant to paragraph 2.10.8, is a reference to such amount as determined pursuant to that paragraph,and a reference to such amount as "**Unadjusted**" pursuant to any such paragraph is a reference to such amount before and disregarding such reduction or determination;
 - (d) a reference to the amount of a User's Available or Registered System Entry Capacity (of any class) at an Aggregate System Entry Point for a Day as "**Fully Adjusted**" is a reference to such amount as adjusted pursuant to paragraphs 2.8.4, 2.9.4 and 2.10.8;
 - (e) an "**invitation date**" is a day on which Users may make applications for System Entry Capacity in accordance with paragraphs 2.2 and 2.3;
 - (f) a "**capacity bid**" is an application for System Entry Capacity in accordance with paragraphs 2.2, 2.3, 2.4 or 2.5; and
 - (g) a "**calendar quarter**" is a period of three calendar months commencing 1 January, 1 April, 1 July and 1 October in any calendar year.
- 2.1.8 All determinations (as to quantities in which or rates at which gas is or is to be delivered to or accepted by the System at an Aggregate System Entry Point) to be made by Transco under this paragraph 2 will be made on the assumption that the requirement in Section I3.10.2 is complied with.
- 2.1.9 For the purposes of determining the System Entry Capacity available to the User for each hour in a Day:

- (a) where the System Entry Capacity is held in respect of the whole Day, the User shall hold in respect of each hour in the Day an amount of the System Entry Capacity equal to the System Entry Capacity held by the User, divided by 24; and
 - (b) where the System Entry Capacity is held for less than a Day, the User shall hold in respect of each remaining hour of the Day an amount of the System Entry Capacity equal to the System Entry Capacity, divided by the period (in hours) from the time the System Entry Capacity was first registered as being held by a User to the end of the Day.
- 2.1.10 References to rates at which gas is or may be delivered to or accepted by the System at an Aggregate System Entry Point are references to an instantaneous rate of flow, whether expressed in kWh/Day or other units.
- 2.1.11 For the avoidance of doubt, where a User ceases to be a User in accordance with Section V4.3, the System Entry Capacity which the User was registered as holding shall (with effect from the latest time by which a transferee election might be made) cease to be treated as held by any User, save to the extent to which any other User elects to be registered as holding such System Entry Capacity pursuant to paragraph 5.4.1(c) (a 'transferee election').
- 2.1.12 Any price to be specified by Transco or a User pursuant to any provision of this paragraph 2 shall be expressed in pence/kWh/Day and specified to four decimal places.
- 2.1.13 For the purposes of this paragraph 2 and in particular in the context of applications for System Entry Capacity in accordance with the further provisions of this paragraph 2, a reference to a 'Gas Year + n ' is a reference to the Gas Year commencing on the n anniversary of the first Day of the Gas Year in which the applications are invited to be made.
- 2.2 **Annual System Entry Capacity auctions**
- 2.2.1 By:
- (a) not later than the Day falling twenty eight (28) Days before the first annual invitation date in any Gas Year, Transco will notify Users of the reserve prices and the step prices that will apply in respect of each Aggregate System Entry Point for the purposes of the annual invitation; and
 - (b) not earlier than 1 August and not later than 31 August in a Gas Year, Transco will invite, and Users may make, applications for System Entry Capacity in respect of each Aggregate System Entry Point for the periods specified in the invitation in Gas Year + 1 to Gas Year + 15 (inclusive) in accordance with this paragraph 2.2.
- 2.2.2 Transco will invite applications ("**annual invitation**") for:
- (a) Monthly System Entry Capacity for each calendar month in Gas Year + 1 and Gas Year + 2; and
 - (b) Quarterly System Entry Capacity for each calendar quarter in Gas Year + 3 to Gas Year + 15 (inclusive),
- in each case for such aggregate amounts of System Entry Capacity as is specified in the annual invitation.

2.2.3 Transco's annual invitation under paragraph 2.2.2 will specify:

- (a) the date(s) (on which applications pursuant to the annual invitation may be made), which for the purposes of:
 - (i) paragraph 2.2.2(a), shall be a Business Day; and
 - (ii) paragraph 2.2.2(b), shall be a period of ten (10) consecutive Business Days ("**annual invitation period**"),(each such date an "**annual**" invitation date);
- (b) for each Aggregate System Entry Point, and in respect of each of Gas Year + 1 to Gas Year + 15 (inclusive), the Available System Entry Capacity and the reserve price for Unsold System Entry Capacity (in accordance with the Transportation Statement) (the "**reserve price**");
- (c) for each Aggregate System Entry Point, and in respect of each of Gas Year + 3 to Gas Year + 15 (inclusive):
 - (i) the relevant number of incremental amounts (each being for a different amount) of Quarterly System Entry Capacity greater than the Baseline Entry Capacity (the maximum incremental amount being not less than an amount equal to 150% of Baseline Entry Capacity) (each amount an "**incremental capacity amount**"); and
 - (ii) the price payable by Users for each different incremental capacity amount (the "**step price**") were Transco to make such incremental capacity amount available,in each case (in accordance with the Transportation Statement); and
- (d) the relevant number for the purposes of paragraph (c) being twenty (20) except in the case of an Aggregate System Entry Point where the Baseline Entry Capacity is less than 300,000,000 kWh/Day where the relevant number (being not greater than twenty (20) and not less than five (5)) shall be set out in the Transportation Statement.

2.2.4 Users may apply for Monthly System Entry Capacity for a calendar month in Gas Year + 1 and Gas Year + 2 and/or (without prejudice to paragraph 2.2.14) for Quarterly System Entry Capacity for a calendar quarter in each of Gas Year + 3 to Gas Year + 15 (inclusive) in respect of an Aggregate System Entry Point on the relevant annual invitation dates.

2.2.5 The "**Available System Entry Capacity**" for an Aggregate System Entry Point is, in respect of:

- (a) a calendar month in Gas Year +1 and Gas Year + 2, not less than the sum of:
 - (i) Unsold System Entry Capacity (if any); and
 - (ii) Incremental System Entry Capacity (if any); and
- (b) a calendar quarter in Gas Year + 3 to Gas Year + 15 (inclusive), is not less than the sum of:
 - (i) Unsold System Entry Capacity (if any); and

(ii) Incremental System Entry Capacity (if any).

2.2.6 An application (a "**quarterly**" capacity bid) for Quarterly System Entry Capacity in respect of Gas Year + 3 to Gas Year + 15 (inclusive) shall specify:

- (a) the identity of the User;
- (b) the Aggregate System Entry Point;
- (c) the calendar year and calendar quarter for which Quarterly System Entry Capacity is applied for;
- (d) the amount (not less than the minimum eligible amount) of Quarterly System Entry Capacity applied for (in kWh/Day);
- (e) the minimum amount (not less than the minimum eligible amount) of Quarterly System Entry Capacity which the User is willing to be allocated for the purposes of paragraph 2.6.4; and
- (f) the price (being either the reserve price or a step price as set out in the Transportation Statement) in respect of which the User is applying for the amount of Quarterly System Entry Capacity.

2.2.7 An application (a "**monthly**" capacity bid) for Monthly System Entry Capacity in respect of Gas Year + 1 and Gas Year + 2 shall specify:

- (a) the identity of the User;
- (b) the Aggregate System Entry Point;
- (c) the Gas Year and calendar month for which Monthly System Entry Capacity is applied for;
- (d) the amount (not less than the minimum eligible amount) of Monthly System Entry Capacity applied for (in kWh/Day);
- (e) the minimum amount (not less than the minimum eligible amount) of Monthly System Entry Capacity which the User is willing to be allocated for the purposes of paragraph 2.7.2(e); and
- (f) the amount (the "**bid price**") which shall not be less than the reserve price which the User is willing to pay by way of Capacity Charge in respect of the Monthly System Entry Capacity applied for.

2.2.8 A User may have, at any one time:

- (a) on an annual invitation date, up to but not more than twenty (20) monthly capacity bids; and
- (b) during the annual invitation period, up to but not more than twenty one (21) quarterly capacity bids provided that during such period the User may only have one (1) such

quarterly capacity bid for which the price specified for the purposes of paragraph 2.2.6(f) is the reserve price or any particular step price,

in respect of a particular Aggregate System Entry Point for each calendar month or (as the case may be) calendar quarter capable of acceptance in accordance with paragraphs 2.6 and 2.7.

2.2.9 A capacity bid:

- (a) may not be submitted before 08:00 hours or after 17:00 hours on an invitation date; and
- (b) may be withdrawn or amended after 08:00 hours and until, but not after, 17:00 hours:
 - (i) where such bid is a monthly capacity bid, on the invitation date;
 - (ii) where such bid is a quarterly capacity bid, on each annual invitation date in the annual invitation period.

2.2.10 Where in relation to the incremental amounts of Quarterly System Entry Capacity specified in an annual invitation the step prices specified:

- (a) increase as the corresponding incremental amount itself increases, Users may only submit a second or further quarterly capacity bid where the step price applied for is greater than that applying to any other bid, if the amount of Quarterly System Entry Capacity applied for in such bid is no greater than that applied for under any earlier bid;
- (b) decrease as the incremental amount itself increases, Users may only submit a second or further Quarterly capacity bid where the step price applied for is less than that applying to any other bid, if the amount of Quarterly System Entry Capacity applied for in such bid is no less than that applied for under any earlier bid.

2.2.11 Transco shall reject a capacity bid submitted on an annual invitation date where:

- (a) the bid price is less than the reserve price or is not a step price;
- (b) the requirement in paragraph 2.2.10 is not complied with;
- (c) any other requirement of paragraphs 2.2.6 or 2.2.7 is not complied with,

and Transco may reject a capacity bid in accordance with Section V3.

2.2.12 Nothing in this paragraph 2.2 shall be construed as giving rise to any restriction on Transco's ability to make available Quarterly System Entry Capacity (or Monthly System Entry Capacity) in an annual invitation in an amount which exceeds the Unsold System Entry Capacity.

2.2.13 In the event that a User submits monthly capacity bids in response to an annual invitation and the sum of:

- (a) the aggregate System Entry Capacity Charges payable by the User where all the Monthly System Entry Capacity applied for under the User's capacity bids in respect of Gas Year +1 to be allocated in full; and

- (b) the User's Relevant Code Indebtedness at 17:00 hours on the Business Day on which monthly capacity bids may be made,

exceeds 85% of the User's Code Credit Limit, Transco shall not later than five (5) Business Days after the last relevant annual invitation date inform the User.

- 2.2.14 Following a notice under paragraph 2.2.13, in the event the User does not within ten (10) Business Days of such notice provide adequate surety or security (in accordance with the Code Credit Rules), all quarterly capacity bids submitted by the User in response to the annual invitation shall be disregarded for the purposes of this paragraph 2 (and have no effect).

- 2.2.15 Where at 17:00 hours on the first Business Day of a calendar month in relation to a User the sum of:

- (a) the aggregate System Entry Charges payable by the User in respect of its Registered Quarterly Firm System Entry Capacity for each Day in the twelve (12) calendar months commencing from the first Day of the following calendar month ("**relevant months**"); and

- (b) the User's Relevant Code Indebtedness at such time,

exceeds 85% of its Code Credit Limit Transco shall not later than five (5) Business Days after the first Business Day of the calendar month inform the User.

- 2.2.16 Following a notice under paragraph 2.2.15, in the event the User does not within ten (10) Business Days of such notice provide adequate surety or security (in accordance with the Code Credit Rules), the User's Registered Quarterly Firm System Entry Capacity for each of the relevant calendar quarters will lapse and the User will cease to be treated as holding the Registered Quarterly Firm System Entry Capacity.

- 2.2.17 Following the submission of quarterly capacity bids on each annual invitation date in the annual invitation period Transco will as soon as reasonably practicable after 17:00 hours on each such date identify, and notify Users of, the prevailing relevant step price group (by reference to the quantities of Quarterly System Entry Capacity applied for in aggregate by Users up until such time and on the basis of a provisional allocation of capacity in accordance with paragraph 2.6 exclusive of capacity to be made pursuant to the Incremental Entry Capacity Release Statement) and in the event the relevant step price group remains identical to the prevailing relevant step price group identified in respect of bids submitted by Users by 17:00 hours on the immediately preceding annual invitation date:

- (a) Transco shall by not later than 08:00 hours on the following annual invitation date, notify Users that this paragraph 2.2.17 applies and that the annual invitation period has ended; and
- (b) Users shall not be permitted to submit and Transco shall not be permitted to accept any further quarterly capacity bids in respect of the annual invitation.

2.3 **Rolling Monthly System Entry Capacity auctions**

- 2.3.1 In respect of an Aggregate System Entry Point where there is in relation to a calendar month Unsold System Entry Capacity Transco will invite applications (a "**rolling monthly invitation**")

for Monthly System Entry Capacity (in an amount not less than the sum of Unsold System Entry Capacity (if any) and Incremental System Entry Capacity (if any)) in respect of the Aggregate System Entry Point for the relevant calendar month in accordance with this paragraph 2.3.

2.3.2 Transco's rolling monthly invitation under paragraph 2.3.1 will specify:

- (a) the date (a "**rolling monthly**" invitation date) being one of the five (5) Business Days preceding the last Business Day in the calendar month preceding the relevant calendar month for which applications may be made) on which applications pursuant to the rolling monthly invitation may be made; and
- (b) for each Aggregate System Entry Point, the amount of Monthly System Entry Capacity to be made available; and
- (c) the reserve price to be applied.

2.3.3 Users may apply for Monthly System Entry Capacity in respect of an Aggregate System Entry Point in the relevant calendar month on a rolling monthly invitation date.

2.3.4 An application (a "**rolling monthly**" capacity bid) for Monthly System Entry Capacity shall specify:

- (a) the identity of the User;
- (b) the Aggregate System Entry Point;
- (c) the calendar month for which Monthly System Entry Capacity is applied for;
- (d) the amount (not less than the minimum eligible amount) of Monthly System Entry Capacity applied for (in kWh/Day);
- (e) the minimum amount (not less than the minimum eligible amount) of Monthly System Entry Capacity which the User is willing to be allocated for the purposes of paragraph 2.7.2(e); and
- (f) the amount (the "**bid price**"), which shall not be less than the reserve price which the User is willing to pay by way of Capacity Charge in respect of the Monthly System Entry Capacity applied for.

2.3.5 A rolling monthly capacity bid:

- (a) may not be submitted before 08:00 hours or after 17:00 hours on a rolling monthly invitation date; and
- (b) may be withdrawn or amended until, but not after, 17:00 hours on a rolling monthly invitation date.

2.3.6 Transco shall reject a rolling monthly capacity bid where:

- (a) the bid price is less than the reserve price;
- (b) any other requirement of paragraph 2.3.4 is not complied with,

and Transco may reject a rolling monthly capacity bid in accordance with Section V3.

2.4 Daily System Entry Capacity

2.4.1 Users may apply for Daily System Entry Capacity in respect of an Aggregate System Entry Point for a Day in accordance with this paragraph 2.4.

2.4.2 An application (a "**daily**" capacity bid) for Daily System Entry Capacity shall specify:

- (a) the identity of the User;
- (b) the Aggregate System Entry Point;
- (c) the Day for which the Daily System Entry Capacity is applied for;
- (d) the amount (not less than the minimum eligible amount) of Daily System Entry Capacity applied for;
- (e) the minimum amount (not less than the minimum eligible amount) of Daily System Entry Capacity which the User is willing to be allocated for the purposes of paragraph 2.7.2(e);
- (f) the amount (the "**bid price**"), which shall not be less than the reserve price which the User is willing to pay by way of Capacity Charge in respect of the Daily System Entry Capacity applied for; and
- (g) whether such bid is a fixed or reducing daily capacity bid.

2.4.3 A daily capacity bid:

- (a) may be submitted at any time from the 7th Day before the Gas Flow Day until 02:00 hours on the Day for which the Daily System Entry Capacity is applied for; and
- (b) may, subject to paragraph 2.4.4, in the case of a fixed bid be withdrawn or amended and in the case of a reducing bid withdrawn, at any time before Daily System Entry Capacity is allocated in respect of such bid.

2.4.4 A daily capacity bid may not be withdrawn during a capacity allocation period (irrespective of whether or not the daily capacity bid is in relation to an Aggregate System Entry Point at which, for the purposes of the capacity allocation, there is Available Daily Capacity) and where a User seeks to withdraw a bid during such period, Transco will notify the User that a capacity allocation period is current and Transco may, subject to paragraph 2.4.6, accept such daily capacity bid.

2.4.5 In relation to each Aggregate System Entry Point and in respect of any Day (or part of any such Day) a User may have, at any one time, up to but not more than twenty (20) daily capacity bids which are capable of acceptance in accordance with this paragraph 2.4.

2.4.6 Transco shall reject a daily capacity bid where:

- (a) the bid price is less than the reserve price;
- (b) any other requirement of paragraph 2.4.2 is not complied with,

and Transco may reject a daily capacity bid in accordance with Section V3.

- 2.4.7 For each Day (or part of each such Day) in respect of each Aggregate System Entry Point, where Available Day-ahead Capacity is available or where Transco determines that Available Within-Day Capacity is available at one or more Aggregate System Entry Points, Transco will initiate a capacity allocation period and for the purposes of paragraph 2.7.2(b)(iii):
- (a) where the capacity allocation period commences before 06:00 hours on the Day in respect of which Daily System Entry Capacity will be allocated, the Available Daily Capacity shall be the Available Day-ahead Capacity; and
 - (b) where the capacity allocation period commences on or after 06:00 hours on the Day in respect of which Daily System Entry Capacity will be allocated, the Available Daily Capacity shall be the Available Within-Day Capacity.
- 2.4.8 Where Transco has initiated a capacity allocation period or for the purposes of paragraph 2.4.11, Daily System Entry Capacity (up to the amount, if any, of the Available Daily Capacity) will be allocated in accordance with paragraph 2.7.
- 2.4.9 Subject to paragraph 2.7.3, Transco will accept bids in respect of which Daily System Entry Capacity is allocated in accordance with paragraph 2.7.2, and each User whose bid is so accepted will be registered as holding Daily System Entry Capacity (in the amount so allocated) for the Day in respect of the Aggregate System Entry Point.
- 2.4.10 Where there is no Available Daily Capacity in respect of an Aggregate System Entry Point for a Day, or the amount thereof is less than the minimum eligible amount, Transco will not accept any daily capacity bids.
- 2.4.11 Daily capacity bids will also be selected for acceptance in accordance with the System Management Principles.
- 2.4.12 Transco will accept daily capacity bids selected pursuant to paragraph 2.7.2 or 2.4.11 and the amount of Available Daily Capacity for the Day at the Aggregate System Entry Point will be decreased by the amount for which the bid was selected.
- 2.4.13 For the purposes of this paragraph 2.4:
- (a) the "**ASEP Non-specific Available Within-Day Capacity**" in respect of two or more Aggregate System Entry Points (each a "**relevant**" Aggregate System Entry Point), for any Day or part of such Day, is the amount determined by Transco, by which System Entry Capability exceeds the Firm System Entry Capacity at each relevant Aggregate System Entry Point for the time being held by Users in aggregate (including pursuant to any preceding capacity allocation);
 - (c) the "**ASEP Specific Available Within-Day Capacity**" in respect of an Aggregate System Entry Point, for any Day or part of such Day, is the amount determined by Transco, by which System Entry Capability exceeds the Firm System Entry Capacity for the time being held by Users in aggregate (including pursuant to any preceding capacity allocation);

- (d) the "**Available Daily Capacity**" in relation to an Aggregate System Entry Point for any Day or remaining part of any such Day, is as appropriate, the Available Day-ahead Capacity or the Available Within-day Capacity
- (e) the "**Available Day-ahead 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);
- (f) the "**Available Within-Day Capacity**" in relation to an Aggregate System Entry Point, for a Day or any remaining part of such Day is the greater of the:
 - (i) ASEP Specific Available Within-Day Capacity (if any);
 - (ii) ASEP Non-specific Available Within-Day Capacity (if any); and
 - (iii) the Unsold System Entry Capacity (if any);
- (g) 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;
- (h) 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);
- (i) a "**capacity allocation**" is the allocation of Daily System Entry Capacity during a capacity allocation period in accordance with paragraph 2.7;
- (j) 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.

2.4.14 A daily capacity bid is "**available**" where:

- (a) submitted and not withdrawn prior to the start of any capacity allocation period; and
- (b) the bid effective time is later than 06:00 on the Gas Flow Day, the implied capacity rate is less than or equal to the available capacity rate at the relevant Aggregate System Entry Point,

and for the avoidance of doubt, where Daily System Entry Capacity is allocated in respect of a bid such bid shall be extinguished and no longer be available for the purposes of paragraph 2.7.

2.4.15 For the purposes of this paragraph 2.4:

- (a) the "**available capacity rate**" in relation to an Aggregate System Entry Point is the rate (in kWh/hour) calculated as an amount of Daily System Entry Capacity equal, as appropriate, to the Available Daily Capacity, divided by the number of hours remaining in the Day following the capacity allocation effective time;
- (b) the "**capacity allocation effective time**" is:
 - (i) where the capacity allocation period ends prior to 04:00 hours on the Preceding Day, 06:00 on the Gas Flow Day;
 - (ii) the hour bar following the next hour bar falling after the end of a capacity allocation period;
- (c) the "**implied capacity rate**" in relation to a:
 - (i) fixed bid, is the rate (in kWh/hour), calculated as the amount of Daily System Entry Capacity in respect of which the bid was made divided by the number of hours remaining in the Day were Daily System Entry Capacity to be allocated in respect of such bid;
 - (ii) reducing bid, is the rate (in kWh/hour) calculated as the amount of Daily System Entry Capacity in respect of which the bid was made divided by the number of hours remaining in the Day from the hour bar following the hour bar next falling after submission of such bid.

2.5 Daily Interruptible System Entry Capacity

2.5.1 Users may apply for Daily Interruptible System Entry Capacity in respect of an Aggregate System Entry Point for a Day in accordance with this paragraph 2.5.

- 2.5.2 An application (a "**daily interruptible**" capacity bid) for Daily Interruptible System Entry Capacity pursuant to this paragraph 2.5 shall specify:
- (a) the identity of the User;
 - (b) the Aggregate System Entry Point;
 - (c) the Day for which the Daily Interruptible System Entry Capacity is applied for;
 - (d) the amount (not less than the minimum eligible amount) of Daily Interruptible System Entry Capacity applied for;
 - (e) the minimum amount (not less than the minimum eligible amount) of Daily Interruptible System Entry Capacity which the User is willing to be allocated for the purposes of paragraph 2.7.2(e); and
 - (f) the amount (the "**bid price**"), which shall not be less than the reserve price which the User is willing to pay by way of Capacity Charge in respect of the Daily Interruptible System Entry Capacity applied for.
- 2.5.3 A daily interruptible capacity bid:
- (a) may be submitted at any time from the 7th Day before the Gas Flow Day until 13:00 hours on the Preceding Day; and
 - (b) may be withdrawn or amended until, but not after, 13:00 hours on the Preceding Day.
- 2.5.4 For each Day, in respect of each Aggregate System Entry Point:
- (a) Transco will notify Users of the amount of Available Interruptible Capacity by not later than 12:00 hours on the Preceding Day; and
 - (b) Daily Interruptible System Entry Capacity (up to the amount if any of the Available Interruptible Capacity) will be allocated pursuant to daily interruptible capacity bids in accordance with paragraph 2.7.
- 2.5.5 In relation to each Aggregate System Entry Point and in respect of any Day a User may have, at any one time, up to but not more than 20 daily interruptible capacity bids which are capable of acceptance in accordance with paragraph 2.7.
- 2.5.6 Transco will reject a daily interruptible capacity bid where:
- (a) the bid price is less than the reserve price;
 - (b) any other requirement of paragraph 2.5.2 is not complied with,
- and Transco may reject a daily interruptible capacity bid in accordance with Section V3.
- 2.5.7 Subject to paragraph 2.7.3, Transco will accept bids in respect of which Daily Interruptible System Entry Capacity is allocated in accordance with paragraph 2.7.2, and each User whose bid is so accepted will be registered as holding Daily Interruptible System Entry Capacity (in the amount so allocated) for the Day in respect of the Aggregate System Entry Point.

- 2.5.8 Where there is no Available Interruptible Capacity in respect of an Aggregate System Entry Point for a Day, or the amount thereof is less than the minimum eligible amount, Transco will not accept any daily interruptible capacity bids.
- 2.5.9 Transco will, not later than 15:00 hours on the Preceding Day, inform each User of those of its daily interruptible capacity bids which have been accepted and the amount of Daily Interruptible System Entry Capacity which it is registered as holding pursuant to each such accepted bid.
- 2.5.10 For the purposes of this paragraph 2.5 the "**Available Interruptible Capacity**" in respect of an Aggregate System Entry Point for any Day is an amount of System Entry Capacity equal to the daily average unutilised firm capacity.
- 2.5.11 The "**daily average unutilised firm capacity**" in respect of any relevant period in relation to an Aggregate System Entry Point is an amount of System Entry Capacity equal to:

$$\text{AUC} / 30$$

where:

AUC is the aggregate amount, for each relevant day, by which the Firm System Entry Capacity at the Aggregate System Entry Point held by Users in aggregate exceeds the sum of the Entry Point Daily Quantity Delivered for each System Entry Point comprised in the Aggregate System Entry Point,

and a "**relevant day**" is each of the thirty (30) Days up to (and including) the Day falling seven (7) Days before the first Day in any relevant period and "**relevant period**" is a period of seven (7) consecutive Days .

2.6 Allocation: Quarterly System Entry Capacity

- 2.6.1 Following an annual invitation and in relation to an Aggregate System Entry Point and a calendar quarter where the Reserve Price Bid Amount:
- (a) is equal to or less than the Unsold System Entry Capacity, paragraph 2.6.2 will apply;
 - (b) is greater than the Unsold System Entry Capacity, paragraph 2.6.3 will apply (other than where the circumstances in paragraph 2.6.4 exist in which case such paragraph shall apply) .
- 2.6.2 Where this paragraph 2.6.2 applies pursuant to paragraph 2.6.1:
- (a) Quarterly System Entry Capacity will be allocated to each quarterly capacity bid (excluding any quarterly capacity bid rejected pursuant to paragraph 2.2.11) in the amount of Quarterly System Entry Capacity applied for; and
 - (b) the User agrees to pay by way of System Entry Charge for the Quarterly System Entry Capacity allocated in accordance with paragraph (a) the applicable reserve price for the calendar quarter.
- 2.6.3 Where this paragraph 2.6.3 applies pursuant to paragraph 2.6.1, subject to paragraph 2.6.4:

- (a) Quarterly System Entry Capacity will be allocated to each quarterly capacity bid in the relevant step price group (excluding any quarterly capacity bid rejected pursuant to paragraph 2.2.11) in the amount of Quarterly System Entry Capacity applied for; and
- (b) the User agrees to pay by way of System Entry Charge for the Quarterly System Entry Capacity allocated in accordance with paragraph (a) the step price corresponding to the relevant step price group for the calendar quarter.

2.6.4 In the event that there is no relevant step price group the Actual Available System Entry Capacity will be allocated to each quarterly capacity bid:

- (a) where paragraph 2.2.10(a) applies, in the step price group for which Users specified the highest step price when applying for Quarterly System Entry Capacity;
- (b) where paragraph 2.2.10(b) applies, in the step price group for which the incremental capacity amount which is equal to the Actual Aggregate System Entry Capacity,

(in each case excluding any quarterly capacity bid rejected pursuant to paragraph 2.2.11) pro rata the amount applied for (provided that where the amount to be allocated is less than the minimum amount specified in the quarterly capacity bid, the bid will be disregarded (and have no effect) and a revised allocation will be made between the quarterly capacity bids in accordance with this paragraph).

2.6.5 For the purposes of this paragraph 2.6, and in respect of an Aggregate System Entry in relation to a calendar quarter:

- (a) "**Actual Available System Entry Capacity**" is, following an annual invitation, an amount of Quarterly System Entry Capacity equal to the sum of:
 - (i) Unsold System Entry Capacity (as determined prior to the annual invitation);
 - (ii) any additional Quarterly System Entry Capacity which Transco is required to make available pursuant to the Incremental Entry Capacity Release Statement following the submission of quarterly capacity bids in response to the annual invitation; and
 - (iii) any additional Quarterly System Entry Capacity which Transco in its sole discretion determines to make available to Users;
- (b) the "**relevant step price group**" is the step price group, when considering the incremental quantities specified in the annual invitation in ascending order, in respect of which the step price group quantity is first equal to or less than the Actual Available System Entry Capacity;
- (c) the "**Reserve Price Bid Amount**" is, in relation to an annual invitation, the aggregate amount of Quarterly System Entry Capacity applied for pursuant to quarterly capacity bids in respect of which different Users specified a price other than a step price when applying for Quarterly System Entry Capacity;

- (d) a "**step price group**" are those quarterly capacity bids in respect of which different Users specified the same step price when applying for Quarterly System Entry Capacity; and
 - (e) the "**step price group quantity**" is the aggregate amount of Quarterly System Entry Capacity applied for by Users pursuant to quarterly capacity bids comprised in a step price group.
- 2.6.6 Transco will accept quarterly capacity bids in respect of which Quarterly System Entry Capacity is allocated in accordance with paragraphs 2.6.2, 2.6.3 and 2.6.4, and each User whose bid is so accepted will be registered as holding Quarterly System Entry Capacity (in the amount so allocated) for the relevant calendar quarter in respect of the Aggregate System Entry Point.
- 2.6.7 Transco will, not later than:
- (a) two months following the last annual invitation date in a Gas Year inform each User of those of its quarterly capacity bids which have been accepted and the amount of Quarterly System Entry Capacity which it is registered as holding for each calendar quarter pursuant to each such accepted quarterly capacity bid; and
 - (b) twenty four (24) hours after the time at which Transco notifies Users in accordance with paragraph (a) notify all Users in respect of each calendar quarter in accordance with paragraph 2.14.2.
- 2.7 **Allocation: Monthly, Daily and Daily Interruptible System Entry Capacity**
- 2.7.1 Following the submission of monthly capacity bids, rolling monthly, daily capacity bids and daily interruptible capacity bids, System Entry Capacity will be allocated for a relevant short term period in accordance with this paragraph 2.7.
- 2.7.2 For a relevant short term period, System Entry Capacity in respect of an Aggregate System Entry Point will be allocated pursuant to capacity bids submitted in respect of such short term period as follows:
- (a) all capacity bids submitted in respect of the relevant short term period (excluding any bid rejected pursuant to paragraphs 2.2.11, 2.3.6, 2.4.6 or 2.5.6) will be ranked in order of bid price (the highest priced ranking first);
 - (b) System Entry Capacity will be allocated in respect of each bid, in descending order of bid price starting with the highest priced, in the amount applied for, until the amount of System Entry Capacity in aggregate for which bids are accepted is equal to (or falls short by no more than the minimum eligible amount of):
 - (i) in the case of monthly capacity bids made pursuant to paragraphs 2.2.4, the Available System Entry Capacity for the calendar month;
 - (ii) in the case of rolling monthly capacity bids made pursuant to paragraphs 2.3.3, the amount of Monthly System Entry Capacity for the calendar month;
 - (iii) in the case of daily capacity bids made pursuant to paragraph 2.4.1 the Available Daily Capacity; and

- (iv) in the case of daily interruptible capacity bids made pursuant to paragraph 2.5.1, the Available Interruptible Capacity;
 - (c) subject to paragraphs (d) and (e) and paragraph 2.7.3, where the amount of System Entry Capacity applied for under a bid exceeds the amount (the "**remaining unallocated amount**") of the relevant capacity remaining unallocated after allocation to higher priced bids, the User will be allocated an amount equal to the remaining unallocated amount;
 - (d) subject to paragraph (e) and paragraph 2.7.3, where each of two or more bids ("**equal priced bids**") specifies the same bid price, and the amount of relevant capacity remaining applied for in aggregate under such bids exceeds the remaining unallocated amount, the remaining unallocated amount will be allocated pro rata the amounts applied for in each such bid;
 - (e) where the amount to be allocated in respect of a bid pursuant to paragraph (c) or (d) is less than the minimum amount specified in the capacity bid, the bid will be disregarded (and of no effect), and a revised allocation will be made between remaining equal price bid(s) under paragraph (d), or (as the case may be) an allocation made in respect of the next priced bid.
- 2.7.3 Where the amount to be allocated in respect of any bid pursuant to paragraph 2.7.2 is less than the minimum eligible amount, Transco will not accept that or any further capacity bids under, as appropriate, paragraphs 2.2, 2.3, 2.4 or 2.5.
- 2.7.4 Subject to paragraph 2.7.2, Transco will accept bids in respect of which System Entry Capacity is allocated in accordance with paragraph 2.7.2, and each User whose bid is so accepted will be registered as holding System Entry Capacity (in the amount so allocated) for the relevant short term period in respect of the Aggregate System Entry Point.
- 2.7.5 Each User who applies for System Entry Capacity for a relevant short term period shall tender in respect of each capacity bid a bid price (in accordance with paragraphs 2.2.7(f), 2.3.4(f), 2.4.2(f) or 2.5.2(f)) and agrees by making such application to pay by way of System Entry Capacity Charges the relevant bid price for the relevant short term period in respect of the System Entry Capacity allocated in accordance with this paragraph 2.7 pursuant to such capacity bid.
- 2.7.6 For the purposes of this paragraph 2.7:
- (a) "**relevant short term period**" means:
 - (i) in the case of an annual invitation or a rolling monthly invitation under paragraphs 2.2 and 2.3, the relevant calendar month; and
 - (ii) for the purposes of paragraphs 2.4 and 2.5, the relevant Day; and
 - (b) "**relevant capacity remaining**" is, for the purposes of an allocation in accordance with paragraph 2.7.2 following applications made under:
 - (i) paragraphs 2.2.5 or 2.3.3, Monthly System Entry Capacity;
 - (ii) paragraph 2.4.1, Daily System Entry Capacity; and
 - (iii) paragraph 2.5.1, Daily Interruptible System Entry Capacity.

2.7.7 Transco will:

- (a) in respect of Monthly System Entry Capacity allocated in respect of Gas Year + 1 not later than one month following the date on which applications for Monthly System Entry Capacity could be made, inform each User of those of its monthly capacity bids which have been accepted and the amount of Monthly System Entry Capacity which it is registered as holding for each calendar month in Gas Year +1 pursuant to each such accepted monthly capacity bid;
- (b) in respect of Monthly System Entry Capacity allocated in respect of Gas Year + 2 not later than two months following the date on which applications for Monthly System Entry Capacity could be made, inform each User of those of its monthly capacity bids which have been accepted and the amount of Monthly System Entry Capacity which it is registered as holding for each calendar month in Gas Year + 2;
- (c) in respect of Monthly System Entry Capacity allocated in respect of a calendar month not later than three (3) Business Days following rolling monthly invitation inform each User of those of its rolling monthly capacity bids which have been accepted and the amount of Monthly System Entry Capacity which it is registered as holding for the calendar month;
- (d) one (1) hour after a capacity allocation of Daily System Entry Capacity and Daily Interruptible System Entry Capacity inform each User of those of its capacity bids which have been accepted and the amount of Daily System Entry Capacity and Daily Interruptible System Entry Capacity which it is registered as holding pursuant to each such accepted capacity bid; and
- (e) twenty four (24) hours after the time at which Transco notifies Users in accordance with paragraph (a), (b), (c) and (d) notify all Users [in respect of each relevant short term period in accordance with paragraph 2.14.2.

2.8 **Capacity Constraint Management**

2.8.1 Transco may, for the purposes of Capacity Management:

- (a) initiate a capacity allocation period in accordance with the System Management Principles; and
- (b) undertake Capacity Management in accordance with the System Management Principles (which may include the acceptance of daily capacity offers on any Day at an Aggregate System Entry Point in such aggregate amounts as is consistent with the System Management Principles).

2.8.2 For the purposes of the Code:

- (a) **"Capacity Management"** means, in relation to an Aggregate System Entry Point and in relation to any Day:
 - (i) the entering into of a Capacity Management Agreement by Transco; and/or
 - (ii) the curtailment of Interruptible System Entry Capacity in accordance with paragraphs 2.9; and/or

- (iii) the acceptance by Transco of daily capacity offers submitted by Users in accordance with paragraph 2.10,

in each case in accordance with the System Management Principles (and this paragraph 2);
 - (b) "**Capacity Management Charges**" are all amounts payable by Transco to a User pursuant to a Capacity Management Agreement and include Capacity Surrender Charges; and
 - (c) a "**Capacity Management Agreement**" is any form of agreement (or mechanism) identified in the statement to be prepared and published by Transco pursuant to Special Condition 27(3) of the Transco Licence which may be utilised by Transco and pursuant to which Transco may secure the surrender of Firm System Entry Capacity by Users for the purposes of the management of a capacity constraint.
- 2.8.3 Transco may enter into a Capacity Management Agreement with a User.
- 2.8.4 Where pursuant to the terms of a Capacity Management Agreement a User surrenders Firm System Entry Capacity at an Aggregate System Entry Point in relation to a Day, the amount of the User's Available Firm System Entry Capacity at the Aggregate System Entry Point shall be reduced by the amount surrendered by the User pursuant to the terms of the Capacity Management Agreement.
- 2.8.5 Capacity Surrender Charges will be invoiced and payable in accordance with Section S.
- 2.8.6 Transco shall for the purposes of the management of a capacity constraint take such steps as are in accordance with the System Management Principles; it however being acknowledged that the System Management Principles do not form part of, and are not incorporated into, and are not binding upon Transco pursuant to, the Code.
- 2.8.7 For the avoidance of doubt, Transco shall not be under any obligation pursuant to paragraphs 2.2, 2.3, 2.4, 2.5 or any other provision of this Section B2 to make available to Users System Entry Capacity surrendered by Users pursuant to the terms of a Capacity Management Agreement.
- 2.9 **Curtailment of Interruptible System Entry Capacity**
- 2.9.1 For the purposes of this paragraph 2.9, an "**Entry Capability Shortfall**" in respect of an Aggregate System Entry Point for a Day is the amount (in kWh) by which the amount of (or rate at which) gas is or will be delivered exceeds the System Entry Capability (as determined by Transco).
- 2.9.2 Where at any time after 15:00 hours on the Preceding Day Transco determines in relation to any Aggregate System Entry Point that there is or will be an Entry Capability Shortfall, the Interruptible System Entry Capacity held by Users at that Aggregate System Entry Point will be curtailed subject to and in accordance with the System Management Principles and the further provisions of this paragraph 2.9.
- 2.9.3 Transco will give a notice ("**interruptible curtailment notice**") to all Users specifying:
 - (a) the Aggregate System Entry Point and the Day to which the notice relates;

- (b) the time ("**curtailment effective time**") with effect from which such curtailment is to take place, which shall be on the hour, shall not be earlier than 06:00 hours nor later than 02:00 hours on the Gas Flow Day, and shall not be less than 60 minutes after such notice is given; and
- (c) a factor ("**interruptible curtailment factor**") determined in accordance with the System Management Principles.

2.9.4 Where Transco gives an interruptible curtailment notice, the amount of each User's Available Interruptible System Entry Capacity (excluding any negative Available Interruptible System Entry Capacity) will be determined as:

$$R * (ICF1 * P1 + ICF2 * P2 + + ICFn * Pn) / 24$$

where R is the amount of the User's Available Interruptible System Entry Capacity for the Day;

and where for each interruptible curtailment notice (from 1 to n) given in respect of the Aggregate System Entry Point and the Day:

ICF is the interruptible curtailment factor, and

P is the period in hours from the curtailment effective time until the end of the Gas Flow Day or (if earlier) the curtailment effective time of a subsequent curtailment notice,

and for the purposes of which, in the absence of any other interruptible curtailment notice, there shall be deemed to be an interruptible curtailment notice specifying an interruptible curtailment factor of one (1) in force at the start of the Gas Flow Day.

2.10 Surrender of System Entry Capacity

2.10.1 Users may offer to surrender Available Firm System Entry Capacity for a Day in respect of an Aggregate System Entry Point, and Transco may accept such offers, subject to and in accordance with the System Management Principles and this paragraph 2.10.

2.10.2 An offer ("**daily capacity offer**") to surrender Firm System Entry Capacity pursuant to this paragraph 2.10 shall specify:

- (a) the identity of the User;
- (b) the Aggregate System Entry Point;
- (c) the Day for which System Entry Capacity is offered for surrender;
- (d) the amount (not less than the minimum eligible amount) of System Entry Capacity offered for surrender (in kWh/Day);
- (e) the minimum amount (not less than the minimum eligible amount) of System Entry Capacity for which the User is willing to have the offer accepted;
- (f) the amount (the "**offer price**") in pence/kWh/Day which the User wishes to be paid in respect of the of the surrender of the offered System Entry Capacity; and

- (g) whether such offer is a fixed or reducing daily capacity offer.

2.10.3 A daily capacity offer:

- (a) may be submitted at any time from 06:00 hours on the 7th Day before the Gas Flow Day until 02:00 hours on the Day for which the System Entry Capacity is offered for surrender; and
- (b) may, subject to paragraph 2.10.4, in the case of a fixed offer be withdrawn or amended and in the case of a reducing offer be withdrawn, at any time before System Entry Capacity in such bid is selected for surrender.

2.10.4 A daily capacity offer may not be withdrawn during a capacity selection period (irrespective of whether or not the daily capacity offer is in relation to an Aggregate System Entry Point at which, for the purposes of capacity selection, there is a Firm Capacity Shortfall) and where a User seeks

to withdraw an offer during such period, Transco will notify the User that a capacity selection period is current and Transco may, subject to paragraph 2.10.6, accept such daily capacity offer.

2.10.5 In relation to each Aggregate System Entry Point and in respect of any Day (or part of any such Day) a User may have, at any one time, up to but not more than twenty (20) daily capacity offers which are capable of acceptance in accordance with this paragraph 2.10.

2.10.6 Transco will reject a daily capacity offer where any requirement of paragraph 2.10.2 is not complied with, and may reject such an offer where the amount of System Entry Capacity offered for surrender exceeds the amount of the User's Available Firm System Entry Capacity (determined by reference to System Capacity Transfers which have at the relevant time become effective pursuant to paragraph 5.2.4 and the provisions of paragraph 2.8 and this paragraph 2.10).

2.10.7 For each Day (or part of each such Day) in respect of each Aggregate System Entry Point, where Transco determines that there is a Firm Capacity Shortfall at one or more Aggregate System Entry Points, Transco will initiate, not earlier than 13:00 hours on the Preceding Day, a capacity selection period.

2.10.8 Transco may accept daily capacity offers in accordance with the System Management Principles and the amount of Available Firm System Entry Capacity held (for the relevant Day in respect of the relevant Aggregate System Entry Point) by each User whose offer is so accepted will be reduced by the amount for which the offer was selected.

2.10.9 Transco will, not later than one (1) hour after each capacity selection, inform each User of those of its daily capacity offers which have been accepted, the amount of System Entry Capacity surrendered pursuant to each such accepted offer, and the amount by which its Available System Entry Capacity is accordingly reduced in respect of each Aggregate System Entry Point.

2.10.10 For the purposes of this paragraph 2.10:

- (a) the "**offer effective time**" is the time on the hour in relation to a daily capacity offer being the later of:
 - (i) 06:00 hours on the Gas Flow Day; and

- (ii) the time not earlier than 60 minutes after Firm System Entry Capacity has been selected pursuant to such bid for surrender;
- (b) a "**capacity selection period**" is the period of 15 minutes in which, where Transco intends to accept Firm System Entry Capacity for surrender pursuant to available daily capacity offers, it conducts a capacity selection;
- (c) a "**capacity selection**" is the acceptance of Firm System Entry Capacity for surrender during a capacity selection period in accordance with this paragraph 2.10;
- (d) a "**fixed offer**", is a daily capacity offer in relation to which the amount of Firm System Entry Capacity offered for surrender is not conditional on the offer effective time and a "**reducing offer**" is a daily capacity offer in relation to which the amount of Firm System Entry Capacity offered for surrender is determined as:

$$(FSEC / OET) * N$$

where:

- FSEC is the amount of Firm System Entry Capacity offered for surrender when the offer was first submitted;
 - OET commencing from the earliest offer effective time in respect of such bid, the number of hours remaining on the Gas Flow Day; and
 - N the number of hours remaining from the actual offer effective time were Firm System Entry Capacity to be selected for surrender pursuant to such offer; and
- (e) a "**Firm Capacity Shortfall**" is an amount of Firm System Entry Capacity equal to the amount by which the lesser of Transco's estimate of the amount of gas that will be delivered to the System at the Aggregate System Entry Point during a Day (or part thereof) and the Aggregate Registered Firm System Entry Capacity held by all Users at that Aggregate System Entry Point exceeds the System Entry Capability at that Aggregate System Entry Point.

2.10.11 A daily capacity offer is "**available**" where:

- (a) submitted and not withdrawn prior to the start of any capacity selection period; and
- (b) where the offer effective time is later than 06:00 on the Gas Flow Day, the implied surrender rate is less than or equal to the available surrender rate at the relevant Aggregate System Entry Point,

and for the avoidance of doubt, where Firm System Entry Capacity is selected for surrender pursuant to an offer such offer shall be extinguished and no longer be available for the purposes of this paragraph 2.10.

2.10.12 For the purposes of this paragraph 2.10:

- (a) the "**available surrender rate**" in relation to an Aggregate System Entry Point is the rate (in kWh/hour) calculated as an amount of Firm System Entry Capacity equal, as appropriate, to the Firm Capacity Shortfall, divided by the number of hours remaining in the Day following the capacity selection effective time;
- (b) the "**capacity selection effective time**" is the hour bar following the next hour bar falling after the end of a capacity selection period;
- (c) the "**implied surrender rate**" in relation to:
 - (i) a fixed offer, is the rate (in kWh/hour), calculated as the amount of Firm System Entry Capacity in respect of which the offer was made divided by the number of hours remaining in the Day were Firm System Entry Capacity to be selected for surrender pursuant to such offer;
 - (ii) a reducing offer, is the rate (in kWh/hour) calculated as the amount of Firm System Entry Capacity in respect of which the offer was made divided by the number of hours remaining in the Day from the hour bar following the hour next falling after submission of such offer.

2.11 Capacity Charges and Capacity Surrender Charges

2.11.1 A User shall pay Capacity Charges ("**System Entry Capacity Charges**") in respect of its Registered System Entry Capacity at Aggregate System Entry Points.

2.11.2 The System Entry Capacity Charge payable by a User in respect of each Day will be determined for each Aggregate System Entry Point and each class (as described in paragraph 2.1.4) of System Entry Capacity, as the amount of the User's Registered System Entry Capacity (of the relevant class, and in the case of Quarterly System Entry Capacity and Monthly System Entry Capacity, applied for pursuant to paragraphs 2.2 and/or 2.3, and allocated following an invitation date) multiplied by the Applicable Daily Rate.

2.11.3 The Applicable Daily Rate shall be:

- (a) in respect of Quarterly System Entry Capacity applied for pursuant to an annual invitation under paragraph 2.2, the applicable reserve or cleared price (for the calendar quarter) as determined following the relevant annual invitation date in accordance with paragraph 2.6;
- (b) in respect of Monthly System Entry Capacity applied for pursuant to an invitation under paragraphs 2.2 and 2.3, the bid price tendered by the User in respect of the Monthly System Entry Capacity allocated for the relevant calendar month pursuant to paragraph 2.7.2;
- (c) in respect of Daily System Entry Capacity, the bid price tendered by the User in respect of the Daily System Entry Capacity allocated for the Day pursuant to paragraph 2.7.2; and
- (d) in respect of Daily Interruptible System Entry Capacity, the bid price tendered by the User in respect of the Daily Interruptible System Entry Capacity allocated for the Day pursuant to paragraph 2.7.2.

- 2.11.4 For the purposes of paragraph 2.11.2, the amount of the User's Registered System Entry Capacity shall be determined Adjusted pursuant to paragraph 2.9.4 (but for the avoidance of doubt Unadjusted pursuant to paragraphs 2.8.4 and 2.10.7).
- 2.11.5 Where Transco accepts a daily capacity offer pursuant to paragraph 2.10 Transco will pay to the User a charge ("**Capacity Surrender Charge**") in an amount determined as the amount of System Entry Capacity for which the daily capacity offer was accepted by Transco multiplied by the offer price specified in the daily capacity offer.
- 2.11.6 System Entry Capacity Charges and Capacity Surrender Charges will be invoiced and payable in accordance with Section S.

2.12 **Overrun charges**

- 2.12.1 If for any reason the quantity of gas delivered by a User to the System at an Aggregate System Entry Point on any Day exceeds the User's aggregate Available System Entry Capacity (determined as Fully Adjusted), the User shall pay a charge ("**System Entry Overrun Charge**") in respect of System Entry Capacity at that Aggregate System Entry Point on that Day.
- 2.12.2 For the purposes of this paragraph 2.12, in respect of a User at an Aggregate System Entry Point for any Day, the "**overrun quantity**" is the amount by which the sum of the User's UDQIs on that Day in respect of each System Entry Point comprised in the Aggregate System Entry Point exceeds the sum of the User's Fully Adjusted Available System Entry Capacity.
- 2.12.3 The System Entry Overrun Charge shall be calculated as the amount of the overrun quantity multiplied by whichever is the greatest of:
- (a) $(8 * A)$, where 'A' is the highest bid price in relation to a capacity bid in respect of which System Entry Capacity was allocated following an invitation under paragraphs 2.2, 2.3 and 2.4; and
 - (b) $(1.1 * B)$, where 'B' is the relevant average accepted offer price;
 - (c) $(1.1 * C)$, where 'C' is the relevant average accepted forward price; and
 - (d) $(1.1 * D)$, where 'D' is the relevant average accepted exercise price,

where (a), (b), (c) and (d) are calculated by reference to information available to Transco at 02:00 hours on the relevant Day.

- 2.12.4 For the purposes of paragraph 2.12.3(b), in respect of an Aggregate System Entry Point the "**relevant average accepted offer price**" for a Day is calculated as:

[]

where:

n is the number of relevant successful offers;

Q is the amount of Daily System Entry Capacity surrendered pursuant to each relevant successful offer (being in aggregate equal to the relevant capacity); and

P is the offer price of each relevant successful offer,

and for the purposes of this paragraph 2.12.4 a "**relevant successful offer**" is an offer in respect of which relevant capacity was surrendered by a User and "**relevant capacity**" is that amount of System Entry Capacity equal to the first 25% of the total Firm System Entry Capacity surrendered by Users (determined by ranking all relevant successful offers for the Day in price order (the highest ranked first) and aggregating the Firm System Entry Capacity surrendered for each relevant successful offer, in descending order of bid price starting with the highest priced until the aggregate Firm System Entry Capacity surrendered equals the relevant capacity) in accordance with paragraph 2.10 and the System Management Principles.

2.12.5 For the purposes of paragraph 2.12.3(c), in respect of an Aggregate System Entry Point the "**relevant average forward price**" for a Day is calculated as:

$$[]$$

where:

n is the number of relevant forward arrangements;

Q is the amount of Daily System Entry Capacity surrendered (being in aggregate equal to the relevant forward capacity) pursuant to the relevant forward arrangements; and

P is the forward price of each relevant forward arrangement,

and for the purposes of this paragraph 2.12.5 a "**relevant forward arrangement**" is a Capacity Management Agreement pursuant to which relevant forward capacity was surrendered by a User for the relevant Day on any earlier Day and "**relevant forward capacity**" is that amount of System Entry Capacity equal to the first 25% of Firm System Entry Capacity surrendered by Users (determined by ranking all relevant forward offers for the Day in price order (the highest ranked first) and aggregating the Firm System Entry Capacity surrendered for each relevant forward offer, in descending order of bid price starting with the highest priced until the aggregate Firm System Entry Capacity surrendered equals the relevant forward capacity) in accordance with paragraph 2.10 and the System Management Principles.

2.12.6 For the purposes of paragraph 2.12.3(d), in respect of an Aggregate System Entry Point the "**relevant average accepted exercise price**" for a Day is calculated as:

$$[]$$

where:

n is the number of relevant option arrangements;

Q is the amount of Daily System Entry Capacity surrendered (being in aggregate equal to the relevant option capacity) pursuant to the relevant option arrangements; and

P is the exercise price of each relevant option arrangement,

and for the purposes of this paragraph 2.12.5 a "**relevant option arrangement**" is a Capacity Management Agreement pursuant to which relevant option capacity was surrendered by a User for

the relevant Day on any earlier Day following the exercise by Transco of an option that System Entry Capacity be surrendered on such Day and "**relevant option capacity**" is that amount of System Entry Capacity equal to the first 25% of Firm System Entry Capacity surrendered by Users (determined by ranking all relevant option offers for the Day in price order (the highest ranked first) and aggregating the Firm System Entry Capacity surrendered for each relevant option offer, in descending order of bid price starting with the highest priced until the aggregate Firm System Entry Capacity surrendered equals the relevant option capacity) in accordance with paragraph 2.10 and the System Management Principles.

2.12.7 Where on any Day Transco makes a Constrained Storage Renomination in respect of the Storage Connection Point of an LNG Facility then, subject to the proviso below, the System Entry Overrun Charge for a User in respect of that LNG Facility shall be zero for any overrun quantity but only to the extent and for such part of that Day that the implied rate derived from the Constrained Storage Renomination exceeds the implied rate derived from that User's Registered Storage Deliverability (as defined in Section Z) (in both cases for that LNG facility). This paragraph shall only apply in respect of a User where that User sends written notification to Transco within three Business Days of the relevant Day stating (a) that the zero rate is to apply; (b) the overrun quantity and the period for which it is to apply; and (c) reasonable evidence to support its claim.

2.12.8 System Entry Overrun Charges shall be invoiced and payable in accordance with Section S.

2.13 Capacity Neutrality Arrangements

2.13.1 For each Aggregate System Entry Point the difference between amounts received or receivable and paid or payable by Transco in respect of Relevant Capacity Charges and certain other amounts in respect of each Day in a calendar month shall be payable to or recoverable from relevant Users (and such amount shall not be reduced by any amount to be retained or borne by Transco).

2.13.2 For each Aggregate System Entry Point, in relation to each Day:

- (a) "**Relevant Capacity Revenues**" are the aggregate of the amounts payable to Transco by Users:
 - (i) by way of Capacity Charges in respect of:
 - (1) Daily System Entry Capacity where the User was registered as holding the Daily System Entry Capacity for the Day with effect from the start of the Day or at any time during the Day;
 - (2) Daily Interruptible System Entry Capacity; and
 - (3) any additional Firm System Entry Capacity made available by Transco (as determined by Transco acting in its sole discretion) in excess of, and not comprising (for the avoidance of doubt), Unsold System Entry Capacity,at the Aggregate System Entry Point;
 - (ii) System Entry Overrun Charges; and

- (iii) where any User has negative Available System Entry Capacity, by way of System Entry Overrun Charges pursuant to (and calculated in respect of the amount determined under) paragraph 5.5.2(ii);

in respect of such Day;

- (b) **"Relevant Capacity Costs"** are the aggregate of the amounts payable by Transco to Users by way of:

- (i) Capacity Management Charges (for which purposes any premium payable by Transco shall be attributable to the Day pro rata to the number of Days during which Transco may exercise rights in respect of the surrender of Firm System Entry Capacity pursuant to the relevant Capacity Management Agreement); and
- (ii) Aggregate Constraint Amounts pursuant to Section I3.7.2,

in relation to the Aggregate System Entry Point in respect of such Day.

2.13.3 In relation to each Aggregate System Entry Point and a calendar month, Transco shall pay to each relevant User an amount ("**Capacity Revenue Neutrality Charge**") determined as:

$$RCR * UFAC / AFAC$$

where:

RCR is the Relevant Capacity Revenues;

UFAC is the aggregate sum of the User's Fully Adjusted Firm Available System Entry Capacity at each Aggregate System Entry Point; and

AFAC is the aggregate sum of all Users' Fully Adjusted Firm Available System Entry Capacity at each Aggregate System Entry Point,

in each case as determined at 04:00 hours on the relevant Day.

2.13.4 In relation to each Aggregate System Entry Point and a calendar month, each relevant User shall pay to Transco an amount ("**Capacity Cost Neutrality Charge**") determined as:

$$RCC * UFAC / AFAC$$

where:

RCC are the Relevant Capacity Costs,

and 'UFAC' and 'AFAC' have the meanings in paragraph 2.13.3.

2.13.5 For the purposes of this paragraph 2.13:

- (a) the "**Second Capacity Adjustment Neutrality Amount**" for a Day in a calendar month (month 'm') is
 - (i) the sum of:

- (1) the amount of any charge of a kind referred to in the definition of Relevant Capacity Revenues, and of any Capacity Neutrality Charge (payable to Transco), which was due for payment to Transco in month m-2 but was unpaid to Transco as at the last Day of month m;
- (2) the amount of any interest paid (in accordance with Section S4.3.2) by Transco to any User on any Day in month m by virtue of the User having made an over-payment in respect of any of such amount as is referred to in paragraph (1) above;

less

(ii) the sum of:

- (1) the amount of any charge of a kind referred to in the definition of Relevant Capacity Revenues, and of any Capacity Neutrality Charge (payable to Transco) which:
 - (A) was unpaid as at the last Day of month m-3 and was taken into account (under paragraph (a)(i) above) in calculating the Second Capacity Adjustment Neutrality Amount for month m-1, but
 - (B) has been paid to Transco since the last Day of month m-1;
- (2) the amount of any interest paid (in accordance with Section S4.3.2) by any User to Transco on any Day in month m by virtue of late payment of any such charge as is referred to in paragraph (1) above,

divided by the numbers of Days in calendar month 'm';

- (b) "**Capacity Neutrality Charges**" comprise Capacity Revenue Neutrality Charges, Capacity Cost Neutrality Charges and Capacity Adjustment Neutrality Charges;
- (c) "**Relevant Capacity Charges**" comprise Relevant Capacity Revenues and Relevant Capacity Costs; and
- (d) a "**relevant User**" is a User registered as holding Firm System Entry Capacity at an Aggregate System Entry Point on the relevant Day.

2.13.6 In relation to a Day (and all Aggregate System Entry Points), where:

- (a) the Second Capacity Adjustment Neutrality Amount (if any) is negative, Transco shall pay to each relevant User; and
- (b) the Second Capacity Adjustment Neutrality Amount (if any) is positive, each relevant User shall pay to Transco,

an amount ("**Capacity Neutrality Adjustment Charge**") determined as:

$$\text{CNAA} * \text{UFAC} / \text{AFAC}$$

where CNAA is the Second Capacity Adjustment Neutrality Amount and 'UFAC' and 'AFAC' have the meanings in paragraph 2.13.3 (provided that in the event that no Firm System Entry Capacity was held by any User at any Aggregate System Entry Point on such Day, 'UFAC' and 'AFAC' shall be determined on the basis of the most recent preceding Day in respect of which a User held Firm System Entry Capacity at an Aggregate System Entry Point).

2.13.7 Capacity Neutrality Charges shall be invoiced and payable in accordance with Section S.

2.14 Auction information

2.14.1 In respect of each annual invitation pursuant to paragraph 2.2.2(b), Transco will by not later than 20:00 hours on each invitation date (under paragraph 2.2.3(b)) notify Users, in respect of each Aggregate System Entry Point and each relevant long term period, of the cumulative amounts of Quarterly System Entry Capacity in relation to which Users have in aggregate submitted Quarterly capacity bids at each price step on such and earlier annual invitation dates for each relevant Gas Year.

2.14.2 Following each allocation of System Entry Capacity pursuant to paragraphs 2.2, 2.3, 2.4 and 2.5 Transco will, in accordance with paragraphs 2.6.7 and 2.7.7 and in respect of each Aggregate System Entry Point and relevant long term period or (as the case may be) relevant short term period, notify Users of:

- (a) the price (in pence/kWh) accepted for System Entry Capacity by a User (and the amount of System Entry Capacity applied for);
- (b) the relevant step price group;
- (c) the lowest accepted bid price in respect of a successful capacity bid and the amount of System Entry Capacity applied for;
- (d) aggregate volume of System Entry Capacity allocated to successful capacity bids;
- (e) the number of Users who submitted successful capacity bids and the number of Users who submitted unsuccessful capacity bids;
- (f) the weighted average price in respect of capacity bids for which System Entry Capacity was allocated calculated as:

[]

where:

n is the number of successful relevant capacity bids;

Q is the amount of System Entry Capacity allocated to each successful relevant capacity bid; and

p is the bid price of each successful relevant capacity bid,

and for the purposes of this paragraph 2.14.2(f), "**relevant capacity bid**" is a bid in respect of which relevant capacity was allocated and "**relevant capacity**" is that amount of capacity equal to

the first 50% of the total System Entry Capacity allocated (determined in accordance with the provisions of paragraphs 2.6.2 or 2.6.6 or (as the case may be) paragraph 2.7.2;

- (g) the amount of Baseline Entry Capacity which remains unsold (if any) following the allocation; and
- (h) in the case of an allocation of Quarterly System Entry Capacity only, the number of Users who submitted, in respect of each step price group, a Quarterly capacity bid."

[Amend paragraph 3.5.1 to read as follows:

"

(i)

- (ii)on any Day or a charge payable by reference to the arrangements in Special Condition [28B] of the Transco Licence."]

SECTION I: ENTRY REQUIREMENTS

Amend text at paragraph 3.7.1 to read as follows:

".....as Adjusted pursuant to Sections B2.10.8

Amend text at paragraph 3.7.2 to read as follows:

"

X_tpursuant to Section B2.10.8;

.....

R1where ADR is the Applicable Daily Rate determined as the weighted average price of Quarterly System Entry Capacity and Monthly System Entry Capacity in respect of capacity bids for which System Entry Capacity was allocated calculated as:

[]

where:

n is the number of successful relevant capacity bids;

Q is the amount of System Entry Capacity allocated to each successful relevant capacity bid; and

p is the bid price of each successful relevant capacity bid,

and for the purposes of this paragraph I.3.7.2, "**relevant capacity bid**" is a bid in respect of which relevant capacity was allocated and "**relevant capacity**" is that amount of capacity equal to the first 50% of the total System Entry Capacity allocated (determined in accordance with the provisions of paragraphs 2.6.2 or 2.6.6 and paragraph 2.7.2;

F2 is one decimal four (1.4),

and for purposes of determining the aggregate notional surrender costs on a Day in respect of an Aggregate System Entry Point, such costs shall include the exercise price (in pence/kWh/Day) payable by Transco pursuant to a Capacity Management Agreement were Transco to exercise its rights there under) in respect of the surrender of System Entry Capacity on such Day but shall not include any costs payable by Transco pursuant to the Capacity Management Agreement by way of a premium and which for any other purpose under the Code is determined as attributable to such Day)."

Amend text at paragraph 3.7.3 to read as follows:

".....

U”pursuant to Section 2.10.8, “.....

A”pursuant to Section B.2.8.4, B.2.9.4 and B.2.10.8 held by Users at the “...

Amend text at paragraph 3.7.4 to read as follows:

“ADQ1” and for the purposes of Section B.2.13 the “.....

SECTION W: INTERPRETATION

Add, at appropriate alphabetical position in paragraph 1, text to read as follows:

""**Incremental Entry Capacity Release Statement**" is the statement prepared and published by Transco in accordance with Special Condition 34 of the Transco Licence;"

"**System Management Principles**" are the principles and criteria established and published by Transco pursuant to Special Condition 27(5) of the Transco Licence for the purposes of (inter alia) Capacity Management;"

At paragraph 2.2.1 add new paragraph (j) to read as follows:

""**Formula Year**" means the period from 1 April in any year until and including 31 March in the following year."

TRANSITION DOCUMENT PART II

Add new paragraph 8.1.15 to read as follows:

"8.1.15 B2.2 (1) Users may have made applications and be registered as holding Monthly System Entry Capacity for each calendar month in Gas Year + 1 (2002/2003) in accordance with paragraph 8.1.3 of this Part II.

(2) Users may make applications for Monthly System Entry Capacity for each calendar month in Gas Year + 2 (2003/2004) pursuant to an invitation to be held by Transco, for which purposes:

- (a) the provisions of Section B2 ("**Old Section B2**") which applied immediately prior to the date on which the Modification giving effect to this paragraph had effect shall continue to apply (except as provided for otherwise in paragraph (b));
- (b) the provisions of paragraph 8.1.3 of this Part II in respect of Old Section B2 shall apply for which purposes Transco's invitation shall:
 - (i) be in respect of each of the calendar months October 2003 to March 2004 (inclusive); and
 - (ii) shall specify four dates, the last of which shall be not later than 31 August 2003,and the System Entry Capacity which Users may be registered as holding following such invitation in respect of a calendar month shall be Monthly System Entry Capacity.
- (3) Users may make applications for Quarterly System Entry Capacity for each calendar quarter in Gas Year + 3 (2004/2005) to Gas Year + 15 (2016/2017) (inclusive) pursuant to an annual invitation to be held not earlier than 1 January 2003 and not later than 31 January 2003.
- (4) In determining the amount of Unsold System Entry Capacity for each Day in a calendar month in Gas Year + 1 (2002/2003) and Gas Year + 2 (2003/2004) for the purposes of a rolling monthly invitation in respect of each such calendar month account shall be taken of the Monthly System Entry Capacity previously made available to and held by Users in relation to such calendar month pursuant to paragraph 8.1.3 of this Part II or (as the case may be) paragraph (2).
- (5) References to a Gas Year + *n* in paragraphs (1), (2), (3) and (4) shall be interpreted as if the relevant invitation had taken place in Gas Year 2001/2002."

Yours sincerely,

Julian Majdanski
Modification Panel Secretary

