

Modification Report
URGENT Modification Reference Number 0371
Shipper Determination of Entry Capacity Profiles

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

1. Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent.

This proposal has been the subject of discussion within Development Workgroup 0371, with a view to enhancing the auction process for Monthly System Entry Capacity (MSEC). Following the implementation of Modification Proposal 0378, the Network Code requires Transco to begin the auction of MSEC for use in April to September 2000 by 6 March 2000. It was therefore considered that there would be insufficient time for non urgent modification procedures and that urgent procedures would be the most appropriate process for concluding proposal 0371.

2. Procedures Followed:

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

| | |
|---|------------------|
| Issued to Ofgem for decision on urgency | 31 January 2000 |
| Proposal agreed as Urgent | 31 January 2000 |
| Proposal issued for consultation | 31 January 2000 |
| Close out for Representations | 18 February 2000 |
| Final Report to Ofgem | 23 February 2000 |
| Ofgem decision expected | 28 February 2000 |

3. The Modification Proposal:

Monthly System Entry Capacity (MSEC) profiles are determined by a methodology that is based upon analysis of historic flow. The application of this methodology has resulted in MSEC not being available at some locations in quantities which reflect User's future plans for delivery.

Two variations to the proposal have been discussed by the development workgroup and representations were requested in respect of both options.

1. Offer 90% of available MSEC in rounds one to four , then offer unsold capacity from those rounds plus the remaining 10% of available MSEC in a fifth variable profile round.

2. Offer 100% of MSEC in auction rounds 1 to 4. Any unsold capacity from those auctions would be offered in a fifth variable profile round.

In the fifth round Users will bid in the same fashion as other rounds but Transco will rank all bids in price order irrespective of the location. Transco will then select bids in price order until such time as all the available MSEC is sold at either an ASEP or aggregate level, or all valid bids have been satisfied. Where a bid is selected in this fifth round the successful bidder will be registered as holding MSEC at the location specified in the bid. Any bid which is for less than 100,000 kWh/day, or where the bid price is less than the applicable reserve price for the specified ASEP, will be rejected.

For each ASEP the maximum amount of capacity that can be allocated to the ASEP after all five rounds will be the lesser of :

- (1) The ASEP maximum; or
- (2) The greater of:
 - (i) 110% of the quantity apportioned to the ASEP by application of the methodology set out in the Network Code; or
 - (ii) The ASEP minimum

The ASEP maximum will be calculated on the basis of optimising delivery from a given ASEP by reducing flows from other terminals in order to meet an aggregate demand level equal to the aggregate MSEC availability. The ASEP minimum quantity is a minimum quantity which ensures that capacity can be purchased at ASEPs where no MSEC was otherwise made available under the Network Code apportionment methodology. In the absence of this minimum, the application of 110% of the apportioned quantity would remain at zero which would negate one of the potential benefits of this proposal.

The minimum quantity at an ASEP for a given month will be determined as follows:

$$(\text{ASEP deliverability at 1 in 20}) * x$$

Where

$$x = \frac{\text{Aggregate available MSEC for the month}}{\text{Highest aggregate available MSEC for a month}}$$

As the aggregate MSEC availability will change from year to year, both the ASEP maximums and, where applicable, the absolute minimums will also vary. As is the case with MSEC availability these parameters will be published in the Transportation Statement.

4. Transco's opinion :

Transco believes that this proposal could introduce greater flexibility into the determination of entry capacity profiles that are presently based on historical flow information and is of the opinion that the proposed methodology should afford Users an opportunity to influence entry capacity profiles to better match their commercial requirements.

Additionally it is envisaged that primary auctions of monthly capacity will become a mechanism through which MSEC can be made available at all Aggregate System Entry Points.

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

It is anticipated that shipper determination of entry capacity profiles in an additional fifth round will secure a greater degree of effective competition between Users. This can be achieved by enabling entry capacity to be allocated to Users and locations where it is valued most.

The greater degree of flexibility in the determination of entry capacity profiles that would be facilitated by this proposal should enhance the efficient and economic operation of the pipeline system. Those improvements will be gained through an allocation of entry capacity that is closer to Users' gas flow intentions. Transco will in turn gain an improved view of shippers' anticipated scheduling requirements.

6. The implications for Transco of implementing the Modification Proposal, including:

a) implications for the operation of the System:

The proposal increases the probability that some ASEPs may operate at levels at or close to their maximum deliverability. This in turn could increase the risks for Transco of having to buy back capacity. The proposal may also lead to higher operating costs, if more gas is sourced from northerly ASEPs, which could drive up compressor fuel costs.

b) development and capital cost and operating cost implications:

Transco will incur significant IT development costs associated with the new services to be delivered within RGTA. The developments required for this modification proposal have been included as part of the changes to the NGTA capacity system required for the next stage of RGTA.

The increase in the administration effort to support the service is not expected to lead to a significant increase in operating costs.

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

Any additional development and ongoing costs will be accounted for under the price control formula and Transco does not intend to recover additional costs for the provision of the service under this proposal in the present formula period.

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

It is not clear what impact upon auction income this proposal would have. All income gained from auctions of monthly capacity contributes to Transco's transportation income. The maximum permissible transportation income is controlled by Special Condition 9C of BG Transco's Public Gas Transporter Licence. Any deviation from predicted formula income may be corrected in the following year through the correction factor (K).

7. **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 may face increased exposure under the capacity incentive scheme. Implementation of variable entry profiles implies that Users will be able to use monthly capacity to a greater degree at the locations where it is most desired. This could result in a consequent reduction in demand for daily capacity and an increased risk of buy back.

8. **The development implications and other implications for computer systems of Transco and related computer systems of Users:**

The existing systems for the auction of MSEC are being further developed to enable capacity to be allocated in a fifth variable profile round, provided that predetermined capacity limits for each ASEP are not exceeded. A matching functionality is being built for the sale of any quantities of Unsold Long Term Firm Capacity on a non location specific basis. Transco has not been made aware of any systems implications for Users.

9. **The implications of implementing the Modification Proposal for Users:**

The proposal will provide a mechanism for Users to purchase additional monthly capacity at the ASEPs where they judge it to be of the most commercial benefit. Users may then be in a better position to match their portfolios of gas supplies and entry capacity.

10. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Storage Operators suppliers, producers and, any Non-Network Code Party:

A variable profile auction would enable allocations of monthly capacity to be determined to a greater extent by Users' commercial requirements. This should increase the validity of aggregate monthly capacity booking as a medium term signal to terminal operators of Users' expected gas supply profiles.

11. 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 significant consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party are anticipated as a result of the implementation of this proposal.

12. Analysis of any advantages or disadvantages of the implementation of the Modification Proposal:

Advantages :

- Determination of Monthly System Entry Capacity profiles will potentially be more closely aligned with the future delivery plans of Users.
- MSEC may be reallocated from ASEPs with low demand to other ASEPs where Users have expressed a greater desire for increased quantities.
- Capacity allocation at ASEPs with a high demand can be expanded, provided maximum ASEP quantities are not exceeded.

Disadvantages :

The ability to allocate capacity between ASEPs by means of an auction presents a potentially difficult task for Users in determining the appropriate bid strategy.

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

Transco received eighteen representations on the Modification Proposal.

Of these, the following fifteen express support for the proposal :

| | |
|--------------------------------------|--------|
| Agip (UK) Limited | (AGIP) |
| Alliance Gas Limited | (AGL) |
| Association of Electricity Producers | (AEP) |

| | |
|-----------------------------------|---------|
| BP Amoco | (BP) |
| British Gas Trading Limited | (BGT) |
| Enron | (En) |
| Elf Gas and Power | (ELF) |
| National Power | (NP) |
| Powergen | (PG) |
| Quantum Gas Management | (QGM) |
| Scottish and Southern Energy plc | (SSE) |
| Shell Gas Direct Limited | (SGD) |
| TXU Europe Energy Trading | (TXU) |
| UK Offshore Operators Association | (UKOOA) |
| Yorkshire Energy Limited | (YE) |

The following two respondents did not support the proposal :

| | |
|--------------|------|
| Amerada Hess | (AH) |
| Conoco | (Co) |

Of the respondents that oppose the proposal AH maintains that there is no evidence of inefficiency in the October 1999 auctions. Co opposes the proposal, in part because the SND basis upon which MSEC allocation is founded is a “black box” calculation, which can result in artificially high prices for firm capacity and very low prices for interruptible capacity. Co seeks to remind Transco that the purpose of RGTA was for Users to have firm rights to capacity, instead of which many Users are relying upon large quantities of interruptible capacity to meet their gas commitments.

The following respondent made no comment regarding the validity of the proposal, but questioned the appropriateness of the proposed MSEC quantities from St. Fergus.

| | |
|---------|------|
| Chevron | (CH) |
|---------|------|

A number of specific issues were raised by respondents which, for clarity, have been summarised below under the following headings;

- i. Flexibility options
- ii. Storage and smaller ASEPs
- iii. Information provision
- iv. Limits upon redistribution
- v. Floor prices
- vi. St. Fergus capacity
- vii. Implementation date

Flexibility Options

Nine respondents support an auction of 100% of MSEC over four rounds with only unsold quantities carried over to the fifth round.

While supporting this option, both AGIP and NP express concern that prices in the fifth auction round will be set by bid prices at St. Fergus, with the requirement for bids for competing ASEPs to be submitted at a similar level. It is suggested by En that the proposed methodology should not be established with the purpose of redistributing capacity between ASEPs at which capacity is in demand and that if reallocation is thought to be appropriate, then that should be achieved through buy back and sale of daily capacity.

Five respondents support a fifth auction round of 10% of MSEC plus any unsold quantities from earlier rounds.

AEP and PG consider that this option is most consistent with the earlier RGTA objective of indicating where there is greatest demand for further capacity. Similarly UKOOA believes that this option would better match allocations and demand for capacity, though it considers that the use of differential reserve prices may prove to be ‘discriminatory’.

BGT considers it to be essential that the allocation of MSEC is not constrained by historical data. To that end it expresses further concern that the commissioning of new fields is not fully taken into account in the present methodology.

En expresses concern that this option may lead to ASEPs receiving an allocation that is less than that received under the present allocation methodology. Co does not accept Modification Proposal 0371 in part because dry gas ASEPs are unlikely to have sufficient margins to be able to secure capacity in the fifth round when competing with lower cost fields that are linked to more northerly ASEPs. Consequently capacity provision will be expanded in the north where the highest prices might be expected. Co suggests that a partial remedy is to reduce the differential between floor prices at the various ASEPs.

Storage and Smaller ASEPs

TXU seeks clarification of how storage will be treated. AGL lends their support to the principle of allocating two or three percent of MSEC to smaller ASEPs so that Users can satisfy their storage requirements. AGIP is also concerned that any quantities allocated to smaller ASEPs are not drawn off for use at higher priced locations before Users have had the opportunity to satisfy their storage capacity requirements. QGM proposes that 100% of Hornsea entry capacity should be made available in the forthcoming auctions.

Information Provision

Two respondents, BP and QGM, propose that the information to be provided by Transco following each auction round should be identified in the Network Code.

Limits upon redistribution

Some uncertainty is expressed by SSE as to the degree by which Users will be able to influence entry capacity profiles. In particular, an absolute maximum and minimum

quantity creates a cap and collar within which variability is limited. In a similar vein UKOOA believe that the 110% limit to MSEC allocations at any ASEP will prove to be an unnecessary restriction which may result in price distortions where demand exceeds the upper capacity limit.

Floor Prices

A number of respondents expressed concern that differing floor prices at each ASEP for the fifth round may prevent an economic and/or efficient allocation of MSEC during the final auction round. Of particular concern to some is a possibility that capacity will tend to higher priced northerly terminals unless Users wishing to obtain capacity in the south submit bids to match the price paid for capacity in the north.

St. Fergus Capacity

CH drew attention to the proposed quantities of MSEC to be offered at St. Fergus. In particular, it questioned why the quantities should be less than the quantities delivered in the corresponding period of June to September 1999. The respondent suggested that a limitation on the quantities of MSEC offered at St. Fergus would result in higher prices.

Implementation Date

YE express concern that there should be no further delay beyond 6th March 2000 for commencement of the auctions. It felt that this was particularly important because Users should not be left with inadequate time to rearrange their portfolios for April.

Transco Response:

Transco welcomes the level of support for the principles underlying this modification proposal. Transco's response to each of the discussion areas is set out below under the same headings.

Flexibility Options

Transco agrees with the observation that capacity, if allocated on a price only basis, could lead to a redistribution away from that based entirely upon ASEP capability, although it is not clear that Users wishing to obtain capacity at locations other than St. Fergus will have to bid at prices comparable to the St. Fergus bid prices. Such an outcome would be dependent upon a number of factors including, a continuing unsatisfied demand at St. Fergus, a perception of fair value for Users and unutilised capacity being available. It is not the purpose of the proposal to create a large redistribution of entry capacity but rather to facilitate a limited form of redistribution if the market should signal that such an outcome is appropriate. Of the two options, the greatest potential for redistribution of entry capacity would be achieved by allocating 10% of MSEC in the fifth round.

When taken together with Modification Proposal 0380, the aggregate quantity of capacity offered through auction of MSEC could be increased by 10%. If all available capacity is offered in the first four rounds then each ASEP will initially have a greater capacity availability than that allocated under the present Network Code arrangements. If all demand is satisfied at a location then the residual quantities would be offered for use at other locations in the fifth auction round. If the additional 10% of MSEC is offered in a fifth round then, based upon the proposal contained in Modification Proposal 0380 to offer specific quantities to smaller ASEPs, it may be possible that the minimum allocation to beach ASEPs will be less than that allocated under the present arrangements (96%). It will then be open to Users to allocate the additional capacity to the locations at which they value it most. Transco accepts that it would be possible to modify the allocation methodology to ensure a base allocation (for sale in the first four rounds) that is equal to the allocation under the present arrangements. Additional MSEC could then be offered for allocation based upon User valuations.

Storage and Smaller ASEPs

Clarification is sought regarding how Modification Proposal 0371 would treat non beach entry points.

Based on Modification Proposal 0380 it is anticipated that a quantity of MSEC will be offered at all locations in each of the initial four rounds. In the final auction round Users will have the opportunity to bid for additional quantities at any ASEP, including the non beach ASEPs, up to the specified maximum quantity determined by the methodology described in Modification Proposal 0371. The methodology is devised to remain consistent with previous auctions, whereby quantities allocated to each ASEP will be offered at that specific location through a number of auction rounds prior to making any excess quantities available for use at other locations.

At Hornsea the maximum possible quantities that could be allocated in a fifth auction round are consistent with the absolute maximum that Transco is able to accept on a firm basis.

Information Provision

Transco can confirm that included in the proposed legal text (2.3.10) is a reference to the provision after each MSEC auction round of the highest and lowest accepted bid price and weighted average price in addition to details of a User's own accepted bids.

Limits upon redistribution

A limit to the degree of variability is proposed at this time in order to limit the degree of change and to enable a relatively simple auction model to be developed. During the recent Development Workgroup debate the possibility of enabling a greater degree of flexibility was discussed. In that debate Transco indicated that it would be possible to have higher maximum limits at various ASEPs but that would necessitate additional account being taken by Users of the linked capabilities of ASEPs. A number of ASEPs, when considered together have an aggregate maximum deliverability that is

lower than the sum of the stand alone capabilities of each ASEP. In a similar manner the minimum quantities at each ASEP could be set at zero if all auction rounds become variable profile auctions as proposed for the fifth round. Any changes to the upper and lower limits are therefore thought to add to the potential complexity of bidding by Users. Transco agrees that the upper limit may lead to distortions in price if demand exceeds the quantities that can be allocated at any location. However, this proposal would, if implemented, be likely reduce the effect of such supply/demand imbalances in comparison to the existing auction process. In anticipation of a progressive change to higher ASEP limits Transco has designed functionality into the new IT systems to enable maximum ASEP type linkages to be taken into account when sorting bids.

Floor Prices

Transco is aware that the debate regarding the appropriate floor prices for a fifth round has generated much attention. Transco remains concerned about a single floor price for the fifth round which would differ from the prices that Users had to bid above in the earlier rounds. This would conceivably alter bid behavior in the earlier rounds, whereby Users may shade bids in order to take advantage of any reduced floor prices in the final round. This is not considered to be a desirable feature. A consistent floor price at each terminal in all auction rounds is, in the opinion of Transco, a means of avoiding any incentive for bid shading in earlier rounds, encouraging Users to bid their true valuations.

With regard to the appropriate allocation at each ASEP, Transco has sought through this proposal to bolster a methodology based on historic gas flow patterns with a market based mechanism to allocate capacity based on Users valuations. It is assumed that, in an auction, Users would bid at levels that they consider to be economic and no higher, and an allocation based upon that valuation represents an efficient allocation of resources. Transco would in effect be guided by Users to some extent as to the appropriate allocation of capacity between ASEPs.

St. Fergus Capacity

Transco believes that it will be necessary to limit St. Fergus MSEC throughout the period April to September 2000 in order to enable a number of capacity expansion projects to be put in place for future operation. The extensive maintenance requirements necessitate a limitation to both St. Fergus and Teesside MSEC throughout the six month period. Transco has taken the opportunity presented by this Modification Proposal to reassess its maintenance requirements. Consequently, the proposed maximum MSEC quantities at St. Fergus are higher throughout the summer than the quantities published in Transco's Gas Transportation Charges Statement of 1 October 1999.

Transco publishes a maintenance schedule to afford Users with prior knowledge of any planned works carried out on the National Transmission System. Details of maintenance plans at sub-terminals are subject to confidentiality agreements between Transco and the respective Delivery Facility Operators. Transco, does however,

attempt to harmonise the Transco maintenance periods as far as possible with those required at sub-terminals.

Implementation Date

Transco sympathises with the view of YE that there should be no further delay to the auctions scheduled from 6 March. Transco IT systems for the proposed variable profile auction have been developed in parallel with the recent Network Code discussions to ensure that the systems would be operational and available for the required start date were the Modification Proposal to be implemented.

The short delay in the MSEC auctions was proposed and agreed so that decisions could be made with regard to the associated entry capacity modifications (Modification Proposals 0365, 0371, 0379, 0380, 0382) prior to commencement of those auctions.

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

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

15. **The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:**

No such change to the methodology is anticipated in respect of the modification proposal.

16. **Programme of works required as a consequence of implementing the Modification Proposal:**

Development work in respect of this Modification Proposal is ongoing within the present RGTA changes. It is anticipated that system development and acceptance testing will be completed in time for the next auctions of MSEC commencing on 6 March 2000.

17. **Proposed implementation timetable (inc timetable for any necessary information systems changes):**

It is anticipated that the proposal would be implemented in time for the next auctions of MSEC commencing on 6 March 2000.

18. Recommendation concerning implementation of the Modification Proposal:

Transco recommends that this Modification Proposal is implemented. In the light of representations received, Transco's recommendation is that option 2 should be implemented whereby 100% of available MSEC is offered in rounds 1 to 4 (25% in each round). Any MSEC which remains unsold after these first four rounds would then be offered in a fifth variable profile round.

19. 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.

20. Transco's Proposal:

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report.

21. Text:

SECTION B: SYSTEM USE AND CAPACITY

Add new paragraphs 2.1.5 (h) and (i) to read as follows:

- “(h) the “**Actual Outstanding System Entry Capacity**” for any Aggregate System Entry Point in relation to any calendar month is an amount of System Entry Capacity equal to the amount by which the Determined System Entry Capacity exceeds the Monthly System Entry Capacity for the time being held by Users in aggregate;
- (i) the “**Aggregate Actual Outstanding System Entry Capacity**” in relation to any calendar month is an amount of System Entry Capacity equal to the aggregate of the Actual Outstanding System Entry Capacity at all Aggregate System Entry Points.”.

Amend paragraph 2.3.2 (a) as follows:

“the five dates (“**invitation dates**”, each of which shall be a Business Day) on which ...”

Amend paragraph 2.3.2 (b) as follows:

“(b) in respect of: _

- (i) each of the first four invitation dates and each Aggregate System Entry Point, the Available Monthly Capacity (being an equal amount for each such date);
- (ii) on the fifth invitation date for each Aggregate System Entry Point, the Aggregate Actual Outstanding System Entry Capacity (if any) and the Residual System Entry Capacity.”

Amend paragraph 2.3.3 to read as follows:

“Users may apply for Monthly System Entry Capacity in respect of an Aggregate System Entry Point for a calendar month in the Gas Year on:

- (a) each of the first four invitation dates;
- (b) subject to there being Aggregate Actual Outstanding System Entry Capacity, on the fifth invitation date

in accordance with this paragraph 2.3.”

Amend paragraph 2.3.4 (a)(iv) as follows:

“...applied for (in kWh/Day);”

Amend paragraph 2.3.5 to read as follows:

“On each invitation date a User may have, at any one time, up to but not more than 20 monthly capacity bids in respect of a particular Aggregate System Entry Point for each calendar month in the Gas Year capable of acceptance in accordance with this paragraph 2.3.”

Insert new paragraph 2.3.7 (a) and renumber existing paragraphs (a) to (e) and references thereto in the same paragraph, (i) to (v) accordingly:

“For each calendar month in the Gas Year:

- (a) in respect of each Aggregate System Entry Point, Monthly System Entry Capacity will be allocated pursuant to monthly capacity bids submitted, on each of the first four invitation dates as follows:”

Insert a new paragraph 2.3.7 (b):

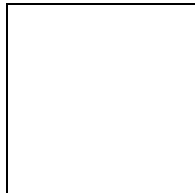
- “(b) in respect of all Aggregate System Entry Points (including those Aggregate System Points in respect of which the Determined System Entry Capacity is zero), Monthly System Entry Capacity will be allocated pursuant to monthly capacity bids submitted on the fifth invitation date in accordance with paragraph 2.3.7(a) except that:
 - (i) in ranking the monthly capacity bids no account will be taken of the Aggregate System Entry Point for which the bid is made;
 - (ii) Monthly System Entry Capacity will be allocated:

- (1) without prejudice to paragraph (2), in respect of an Aggregate System Entry Point, until (taking into account the amount of Monthly System Entry Capacity for the time being held by Users in aggregate) the amount of Monthly System Entry Capacity, in aggregate for which bids are accepted, equals (or falls short by no more than the minimum eligible amount of) an amount of System Entry Capacity equal to the Maximum System Entry Capacity;
- (2) in respect of all Aggregate System Entry Points, until the amount of Monthly System Entry Capacity in aggregate for which bids are accepted, equals (or falls short by no more than the minimum eligible amount of) an amount of System Entry Capacity equal to the Aggregate Actual Outstanding System Entry Capacity;
- (iii) for the purposes of paragraph 2.3.7(a)(iii), the reference to Available Monthly Capacity will be treated for the purposes of
 - (1) paragraph 2.3.7(b)(ii)(1), as a reference to the Maximum System Entry Capacity;
 - (2) paragraph 2.3.7(b)(ii)(2), as a reference to the Aggregate Actual Outstanding System Entry Capacity.”

Amend paragraph 2.3.10 to read as follows:

“....and in addition Transco will notify all Users of:

- (a) the highest and lowest bid price in respect of a bid for Monthly System Entry Capacity was allocated; and
- (b) the weighted average price in respect of bids for Monthly System Entry Capacity was allocated (in pence/kWh) calculated as:



where:

- n is the number of successful bids;
- Q is the amount of Monthly System Entry Capacity allocated to each successful bid;
- P is the bid price of each successful bid.

Amend paragraph 2.3.13 (b) as follows:

“...monthly capacity bids on the first four invitation dates; and the aggregate of the Available Monthly Capacity in relation to the first four invitation dates in respect of an Aggregate System Entry Point will be the Determined System Entry Capacity...”

Insert new paragraphs 2.3.13 (c),(d) and (e) as follows:

“(c) the “**Maximum System Entry Capacity**” for any Aggregate System Entry Point in relation to any calendar month, is an amount of System Entry Capacity equal to the lesser of:

- (i) Maximum System Capacity; and
- (ii) the greater of:
 - (1) 110% of the Determined System Entry Capacity; and
 - (2) the ASEP Absolute Capacity

for such Aggregate System Entry Capacity Point as set out in the Transportation Statement;

(d) the “**Residual System Entry Capacity**” for any Aggregate System Entry Point in relation to any calendar month is an amount of System Entry Capacity (if any) by which the Determined System Entry Capacity exceeds, after the allocation of System Entry Capacity following applications made on the first four invitation dates, the Monthly System Entry Capacity held by all Users in aggregate; and

(e) the “**ASEP Absolute Capacity**” for any Aggregate System Entry Point in relation to any calendar month is an amount of System Entry Capacity equal to:

$$PR * (AC / HC)$$

where:

PR has the meaning given in paragraph 2.2.4;

AC is the Aggregate Estimated System Entry Capacity for the calendar month; and

HC is the highest Aggregate Estimated System Entry Capacity for a calendar month in the Gas Year in which the calendar month falls.

Amend paragraph 2.4.1 as follows:

“...is less than the Maximum System Entry Capacity....until such time as there is no longer any Outstanding Notional System Entry Capacity.”

Amend paragraph 2.4.2 as follows:

“...the “**Outstanding Notional System Entry Capacity**” for any calendar month and in relation to any Aggregate System Entry Point is the amount (if any) by which the Maximum System Entry Capacity exceeds ...”

Amend paragraph 2.4.3(a)(iv) as follows:

“...applied for (in kWh/Day),”

Amend paragraph 2.4.6 as follows:

“...the Outstanding Notional System Entry Capacity or the Aggregate Actual Outstanding System Entry Capacity is less than the minimum eligible amount, Transco will not accept any (or any further) applications for Monthly System Entry Capacity (in respect of the relevant calendar month) at the relevant Aggregate System Entry Point and where the Aggregate Actual Outstanding System Entry Capacity is less than the minimum eligible amount (in respect of the relevant calendar month) Transco will not accept any further applications for Monthly System Entry Capacity at any Aggregate System Entry Point under this paragraph 2.4.”

Delete existing text at paragraph 2.4.7 and insert text as follows:

“Subject to paragraph 2.4.6, where under any application the amount of Monthly System Entry Capacity applied for is greater than the lesser of:

- (a) the Outstanding Notional System Entry Capacity at the relevant Aggregate System Entry Point; or
- (b) at the time application is made, the Aggregate Actual Outstanding System Entry Capacity

the User will be allocated an amount equal to the lesser of the Outstanding Notional System Entry Capacity and the Aggregate Actual System Entry Capacity unless the minimum amount specified pursuant to paragraph 2.4.3(a)(v) exceeds such amount of System Entry Capacity, in which case the application will be disregarded (and of no effect) and the next application will be considered.”

Amend paragraph 2.4.9 as follows:

“...calendar month in the amount allocated or applied for pursuant to paragraph 2.4.7 and/or 2.4.8.”.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0371**, version **1.0** dated **28/03/2000**) be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

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

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause:

1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:

(i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") 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 Director 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 paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.