

11th May 2000

To: Shippers, Panel Members & Non-Network Code Parties

Dear Colleague,

**NOTICE OF IMPLEMENTATION
MODIFICATION PROPOSAL No: 0373
"Changes to Shipper Tolerance, Cash Out and Introduction of Tolerance Services"**

Please note that The Final Modification Report , Version 1.0 was signed by Ofgem on 28th February 2000 for Modification Proposal No: 0373. The delay in issuing this notice has been associated with seeking clarification from Ofgem as to the date from which the effects of the changes associated with the removal of the cap and collar in the energy incentive mechanism should take effect.

Ofgem have confirmed that the changes are to take effect from the 1st October 2000. However to implement the tolerance service from 1st October 2000 will require Transco to publish the tolerance quantities that will be made available by the 31st July 2000 and for the community to complete the "long term tolerance" auctions by 7th September 2000. Hence in the period prior to 1st October 2000 it is essential that the prevailing version of the Network Code is considered in conjunction with the text in this implementation notice.

This Modification will take effect from the gas year commencing 06.00 hours on 1st October 2000. The new Network Code text resulting from this Modification is detailed below.

Modified Text:

SECTION C: NOMINATIONS

Delete paragraph 5.1.4.(v)

SECTION D: OPERATIONAL BALANCING, TRADING ARRANGEMENTS AND ENERGY BALANCING

Delete text at paragraph 3.1.5(c) and insert text to read as follows:

The "**Annual Maximum Incentive Amount**" is, in respect of the Sell Incentive Arrangement and the Buy Incentive Arrangement:

- (a) for superior performance, £2,000,000 (being a positive amount);
- (b) for inferior performance, £2,000,000 (being a positive amount); and".

Add new paragraph 3.1.5(d) to read as follows:

“in relation to any Gas Year the “**Incentive Interest Trigger Day**” is, in relation to superior and inferior performance respectively, the Day on which the aggregate Daily Incentive Amounts for all Days in the Gas Year up to and including such Day first exceed the Annual Maximum Incentive Amount.”.

Delete paragraph 3.2.2(b).

Rename paragraph 3.3 ‘Aggregate Annual Amount’ and delete text at paragraphs 3.3.1 and 3.3.2 and insert text to read as follows:

“For any Gas Year the “**Aggregate Annual Amount**” :

- (a) in relation to superior performance, is the sum of:
 - (i) the aggregate Daily Incentive Amounts under the Buy Incentive Arrangement for all Days in the Gas Year for which performance was superior; and
 - (ii) the aggregate Daily Incentive Amounts under the Sell Incentive Arrangement for all Days in the Gas Year for which performance was superior;
- (b) in relation to inferior performance, is the sum of:
 - (i) the aggregate Daily Incentive Amounts under the Buy Incentive Arrangement for all Days in the Gas Year for which performance was inferior; and
 - (ii) the aggregate Daily Incentive Amounts under the Sell Incentive Arrangement for all Days in the Gas Year for which performance was inferior.”.

Rename paragraph 3.4 ‘Daily Incentive Amount’.

Amend paragraph 3.4.2(b) to read as follows:

“...., the “**User Daily Incentive Amount**” is the Daily Incentive Amount multiplied by the User Proportion for that Day;”.

Renumber existing paragraph 3.5 as 3.7 and insert text to read as follows at paragraphs 3.5 and 3.6:

“3.5 Annual Incentive Adjustment

3.5.1 The provisions of this paragraph 3.5 apply in respect the Buy Incentive Arrangement and the Sell Arrangement, and shall be given effect in respect of each of them separately, in relation to any Gas Year in respect of which the Aggregate Annual Amount exceeds the Annual Maximum Incentive Amount (but not otherwise).

3.5.2 For the purposes of this paragraph 3:

- (a) the “**User Annual Maximum Incentive Amount**” is, in relation to a Gas Year, the Annual Maximum Incentive Amount multiplied by the User Annual Proportion;
- (b) for each relevant User, for each Gas Year in respect of which this paragraph 3.5 applies, the “**User Annual Incentive Adjustment Amount**” is the amount by which the aggregate of the User Daily Incentive Amounts exceeds the User Annual Maximum Incentive Amount; and
- (c) the “**User Annual Proportion**” for a User in relation to a Gas Year is the sum of the relevant UDQIs and relevant UDQOs for that User for each Day in the Gas Year, divided by the sum for all relevant Users of their relevant UDQIs and relevant UDQOs for each Day in the Gas Year.

3.5.3 In respect of each Gas Year for which performance was superior, Transco shall pay each User the User Annual Incentive Adjustment Amount.

3.5.4 In respect of each Gas Year for which performance was inferior, each User shall pay Transco the User Annual Incentive Adjustment Amount.

3.6 Incentive Interest Amount

3.6.1 The provisions of this paragraph 3.6 apply in respect any Gas Year during which there is an Incentive Interest Trigger Day and apply in respect of both aggregate superior and inferior performance under the Buy Incentive Arrangement and the Sell Incentive Arrangement and shall be given effect in respect of each of superior and inferior performance separately.

3.6.2 For the purposes of this paragraph 3:

- (a) the “**Daily Incentive Interest Amount**” for a Day is the amount calculated as:

$$(CB * IR) / GYD$$

where:

CB is the closing balance for the Day;

IR is the base rate of Barclays Bank plc applying on the Day;

GYD is the number of Day in the Gas Year;

- (b) the “**closing balance**” for a Day in the Gas Year following the Incentive Interest Trigger Day, is the amount of the opening balance, plus the aggregate amount (if any) of Daily Incentive Amounts for the Day for which performance under the Buy Incentive Arrangement and the Sell Incentive Arrangement was superior or (as the case may be) inferior;

- (c) the “**opening balance**” for a Day in the Gas Year following the Incentive Interest Trigger Day is:

- (i) in the case of the Day following the Incentive Interest Trigger Day, the amount by which the aggregate Daily Incentive Amounts for all Days in the Gas Year up to and including the Incentive Interest Trigger Day exceeds the Annual Maximum Incentive Amount
- (ii) for each subsequent Day in the Gas Year, the closing excess balance for the Preceding Day;

- (d) in respect of a Gas Year the “**Annual Incentive Interest Amount**” is the sum of the Daily Incentive Interest Amount for each remaining Day in the Gas Year following the Incentive Interest Day; and

- (e) for each relevant User, for each Gas Year in respect of which this paragraph 3.6 applies, the “**User Annual Incentive Interest Amount**” is the Annual Incentive Interest Amount multiplied by the User Annual Incentive Proportion; and

- (d) the “**User Annual Interest Proportion**” for a User in relation to a Gas Year is the sum of the relevant UDQIs and relevant UDQOs for that User for each Day following the Incentive Interest Trigger Day in the Gas Year, divided by the sum for all relevant Users of their relevant UDQIs and relevant UDQOs for each Day in the Gas Year following the Incentive Interest Trigger Day.

3.6.3 In respect of a Gas Year for which performance was superior, Transco will pay to each User the User Annual Incentive Interest Amount.

3.6.4 In respect of a Gas Year for which performance was inferior, each relevant User will pay to Transco the User Annual Incentive Interest Amount.”.

Amend renumbered paragraph 3.7 to read as follows:

“Amounts payable by way of User Daily Incentive Amount, User Annual Incentive Interest Amount and User Annual Incentive Adjustment Amount....”

SECTION E: DAILY QUANTITIES, IMBALANCE AND RECONCILIATION

Rename Section E ‘DAILY QUANTITIES, IMBALANCE, RECONCILIATION AND IMBALANCE TOLERANCES’.

Add new paragraphs 9 and 10 to read as follows:

“9. IMBALANCE TOLERANCES

9.1 Introduction

9.1.1 Users may apply for and be registered as holding an Imbalance Tolerance:

- (a) as Monthly Imbalance Tolerance pursuant to an auction under paragraph 9.3;
- (b) as Daily Imbalance Tolerance pursuant to an auction under paragraph 9.4.

9.1.2 A User may not apply for or be registered as holding an Imbalance Tolerance on any Day in an amount less than 100,000 kWh (the “**minimum imbalance tolerance**”).

9.1.3 For the purposes of the Code:

- (a) “**Monthly Imbalance Tolerance**” is an Imbalance Tolerance which may be applied for and registered as held (in a given amount) by a User for each Day in a particular calendar month;
- (b) “**Daily Imbalance Tolerance**” is an Imbalance Tolerance which may be applied for and registered as held (in a given amount) by a User for a particular Day only;

9.1.4 For the purposes of the Code:

- (a) an “**Imbalance Tolerance**” is, in relation to a User and a Day, a tolerance (expressed in kWh) determined in accordance with this paragraph 9;
- (b) a User’s “**Registered**” Imbalance Tolerance on any Day is the Imbalance Tolerance which the User is registered (in accordance with this paragraph 9) as holding on such Day;
- (c) a User’s “**Available**” Imbalance Tolerance on any Day is the Imbalance Tolerance which the User holds on such Day after taking account of any Imbalance Tolerance Transfer, in accordance with paragraph 10;
- (d) a “**Tolerance Charge**” is a charge payable by reason of the User holding an Imbalance Tolerance (without prejudice to paragraph 10.5.2(c), pursuant to the allocation of Monthly Imbalance Tolerance or Daily Imbalance Tolerance in respect of bids submitted by the User in accordance with this paragraph 9); and
- (e) an Imbalance Tolerance may be either:
 - (i) a surplus Imbalance Tolerance, in which case it will be used for the purposes of calculating Imbalance Charges payable where the relevant User’s Daily Imbalance is positive, and not otherwise; or
 - (ii) a deficit Imbalance Tolerance, in which case it will be used for the purposes of calculating Imbalance Charges payable where the relevant User’s Daily Imbalance is negative, and not otherwise.

9.1.5 For the avoidance of doubt:

- (a) in respect of any Day, a User may hold both a surplus Imbalance Tolerance and a deficit Imbalance Tolerance (but need not hold either or both);
- (b) where a User ceases to be a User in accordance with Section V4.3, the Imbalance Tolerance which the User was registered as holding shall (with effect from the latest time by which a tolerance 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 Imbalance Tolerance pursuant to paragraph 10.5.1(c) (a “**transferee tolerance election**”) or paragraph 10.5.3 applies.

9.2 Imbalance Tolerance Availability

9.2.1 Transco will calculate, in accordance with this paragraph 9.2, for each calendar month in the Gas Year, the amount (“**Aggregate Monthly Imbalance Tolerance**”) (in kWh) available to be held as Monthly Imbalance Tolerance and notify Users by not later than 31 July in the Preceding Year.

9.2.2 For each calendar month in the Gas Year:

- (a) the “**Aggregate Monthly Imbalance Tolerance**” is a quantity of gas equivalent to:

$$\text{TIT} * \text{AMTF}$$

where:

TIT is the Total Imbalance Tolerance; and

AMTF is the Available Monthly Tolerance Factor;

- (b) the “Total Imbalance Tolerance” is:

$$\text{SMTF} * \text{SND}$$

where:

SMTF is the System Monthly Tolerance Factor; and

SND is System Normal Demand

provided that in respect of any calendar month the Total Imbalance Tolerance shall be not less than:

$$(\text{A} + \text{B} + \text{C}) * \text{RF}$$

where in respect of the relevant month:

A is 2.0% of System Normal Demand;

B is 3.0% of the forecast of the quantities of gas to be offtaken at VLDMC Supply Point Components;

C is 8% of the forecast of the quantities of gas to be offtaken at DM Supply Point Components other than VLDMC Supply Point Components; and

RF is the Reduction Factor

in the case of A, B and C, as set out in the Transportation Statement;

- (c) the “**Available Monthly Tolerance Factor**” and the “**System Monthly Tolerance Factor**” are the factors so named in respect of each calendar month set out, together with the Total Imbalance Tolerance, in the Transportation Statement;

- (d) for the purposes of paragraph (b) the “**Reduction Factor**” is zero decimal seven five (0.75).

9.2.3 For the avoidance of doubt in respect of any calendar month the amount of surplus Aggregate Monthly Imbalance Tolerance and deficit Aggregate Monthly Imbalance Tolerance shall always be equal.

9.3 Auction of the Monthly Imbalance Tolerance Amount

9.3.1 Transco will invite applications for Monthly Imbalance Tolerance for the calendar months:

- (a) October to March (inclusive) in the Gas Year, by not later than 7 September in the Preceding Year;
- (b) April to September (inclusive) in the Gas Year, by not later than 7 March in such Gas Year.

9.3.2 Transco's invitations under paragraph 9.3.1 shall specify the two dates ("**invitation dates**", each of which shall be a Business Day) on which applications pursuant to each such invitation may be made, the last of which such dates shall be not later than the respective dates referred to in such paragraph; and the period between each such invitation date shall be not less than one Business Day.

9.3.3 Subject to paragraph 9.3.14, in respect of each invitation date Users may apply for Monthly Imbalance Tolerance in respect of a relevant calendar month in the Gas Year in accordance with this paragraph 9.3.

9.3.4 Where there is more than one invitation date in respect of any calendar month in the Gas Year the amount of Monthly Imbalance Tolerance which Transco may make available on each such invitation date shall be equal.

9.3.5 An application (a "**monthly tolerance bid**") for Monthly Imbalance Tolerance pursuant to this paragraph 9.3:

- (a) shall specify:
 - (i) the identity of the User;
 - (ii) the calendar month in the Gas Year for which Monthly Imbalance Tolerance is applied for;
 - (iii) the amount, in multiples of 100,000 kWh, of Monthly Imbalance Tolerance applied for;
 - (iv) whether the monthly tolerance bid is for surplus or deficit Monthly Imbalance Tolerance;
 - (v) the amount (the "**bid price**", which shall not be less than zero) in pence/kWh (expressed to four decimal places) which the User is willing to pay by way of Tolerance Charge for the Monthly Imbalance Tolerance applied for;
- (b) may not be submitted:
 - (i) in respect of the first invitation date in March or September, before 06:00 on the first Day of such calendar month;

- (ii) in respect of any later invitation date in such month, before 06:00 hours on the Business Day next following the previous invitation date; and
- (iii) after 17:00 hours on an invitation date;
- (c) may be amended or withdrawn until, but not after, 17:00 hours on the invitation date.

9.3.6 In respect of each invitation date:

- (a) a User may submit up to but not more than 20 monthly tolerance bids (for each of surplus and deficit Monthly Imbalance Tolerance) for a relevant calendar month; and
- (b) a User may not submit more than one bid for surplus or deficit Imbalance Tolerance at the same bid price in respect of the same calendar month

(and a bid submitted and subsequently withdrawn will not be considered for the purposes of this paragraph 9.3.6).

9.3.7 Transco will reject a monthly tolerance bid where the amount of Monthly Imbalance Tolerance applied for exceeds the maximum amount of Monthly Imbalance Tolerance available to be applied for on such invitation date, or where any requirement of paragraph 9.3.5 is not complied with and may reject such an application in accordance with Section V3.

9.3.8 For each calendar month in the Gas Year, both surplus and deficit Monthly Imbalance Tolerance will be allocated pursuant to monthly tolerance bids as follows (and the provisions of this paragraph 9.3.8 and paragraphs 9.3.9 shall apply separately and independently as regards bids for surplus Monthly Imbalance Tolerance and deficit Monthly Imbalance Tolerance):

- (a) all monthly tolerance bids (excluding any rejected pursuant to paragraph 9.3.7) will be ranked in order of price (the highest priced ranked first);
- (b) Monthly Imbalance Tolerance will be allocated in respect of each bid, in descending order of price starting with the highest priced, subject to paragraph (c), in the amount applied for, until the amount of Monthly Imbalance Tolerance in aggregate for which bids have been accepted for is equal the Available Monthly Imbalance Tolerance;

- (c) subject to paragraph (d), where the amount of Monthly Imbalance Tolerance applied for exceeds the amount (the “**remaining unallocated amount**”) of the Available Monthly Imbalance Tolerance remaining unallocated after allocation to higher priced bids, the User will be allocated Monthly Imbalance Tolerance in an amount equal to:
 - (i) where the remaining unallocated amount is less than the minimum imbalance tolerance, the minimum imbalance tolerance;
 - (ii) where the remaining unallocated amount is greater than the minimum imbalance tolerance, the next following multiple of the minimum imbalance tolerance;
- (d) where each of two or more bids (“**equal priced bids**”) specifies the same bid price, and the amount of Monthly Imbalance Tolerance applied for in aggregate exceeds the remaining unallocated amount, each User submitting an equal price bid will be allocated Monthly Imbalance Tolerance pro rata to the amounts applied for in each such bid (the “**remaining eligible amount**”) provided that:
 - (i) where the remaining eligible amount is less than the minimum imbalance tolerance, the amount allocated will be equal to the minimum imbalance tolerance;
 - (ii) where the remaining eligible amount is greater than the minimum imbalance tolerance, the amount allocated will be equal to the next following multiple of the minimum imbalance tolerance.

9.3.9 Transco will accept bids in respect of which Monthly Imbalance Tolerance is allocated in accordance with paragraph 9.3.8, and each User whose bid is so accepted will be registered as holding Monthly Imbalance Tolerance (in the amount so allocated) for the relevant calendar month in the Gas Year.

9.3.10 Transco will, not later than 06:00 hours on the Business Day following each invitation date, inform each User of those of its monthly tolerance bids which have been accepted and the amount of surplus and/or deficit Monthly Imbalance Tolerance which it is registered as holding for a calendar month in the Gas Year pursuant to each such accepted bid.

9.3.11 Each User who applies for Monthly Imbalance Tolerance shall tender, in respect of each monthly tolerance bid made, a bid price (in accordance with paragraph 9.3.4(a)(v)), and agrees by making such application to pay by way of Tolerance Charges the bid price so tendered in respect of Monthly Imbalance Tolerance allocated in accordance with this paragraph 9.3 pursuant to such monthly tolerance bid.

9.3.12 For the purposes of this paragraph 9.3, the “**Available Monthly Imbalance Tolerance**” in respect of a calendar month is the maximum amount of Monthly Imbalance Tolerance which will be allocated following submission of monthly tolerance bids on an invitation date; and the aggregate of the Available Monthly Imbalance Tolerance in relation to the invitation dates in respect of a calendar month shall be equal to the Aggregate Monthly Imbalance Tolerance.

9.3.13 As soon as reasonably practicable after the time referred to in paragraph 9.3.10, Transco will notify all Users of:

- (a) the number of Users who submitted an application for surplus and/or deficit Monthly Imbalance Tolerance and the number of Users who were allocated surplus and/or deficit Monthly Imbalance Tolerance;
- (b) the Available Monthly Imbalance Tolerance and the aggregate amount of both surplus and deficit Monthly Imbalance Tolerance allocated to Users;
- (c) the highest and lowest bid price in respect of a bid for which surplus and/or deficit Monthly Imbalance Tolerance was allocated; and
- (d) the weighted average price in respect of bids for which surplus and/or deficit Monthly Imbalance Tolerance was allocated (in pence/kWh) calculated as:

$$\frac{\sum_{i=1}^n Q_i * P_i}{\sum_{i=1}^n Q_i}$$

where (separately in respect of surplus and deficit bids):

n is the number of successful bids;

Q is the amount of Monthly Imbalance Tolerance allocated to each successful bid;

P is the bid price of each successful bid.

9.3.14 In the event that following submission of monthly tolerance bids on any invitation date the amount of surplus or deficit Monthly Imbalance Tolerance allocated to bids in aggregate is less than the Available Monthly Imbalance Tolerance available on such date Transco shall notify Users accordingly and Users may not apply for surplus or (as the case may be) deficit Monthly Imbalance Tolerance for the relevant month on any subsequent invitation date.

9.4 Daily Imbalance Tolerance Amount

9.4.1 Users may apply for Daily Imbalance Tolerance for a Day in accordance with this paragraph 9.4.

9.4.2 An application (a “**daily tolerance bid**”) for Daily Imbalance Tolerance pursuant to this paragraph 9.4:

- (a) shall specify:
 - (i) the identity of the User;
 - (ii) the Day for which Daily Imbalance Tolerance is applied for;
 - (iii) the amount, in multiples of 100,000 kWh/Day, of Daily Imbalance Tolerance applied for;
 - (iv) whether the daily tolerance bid is for surplus or deficit Daily Imbalance Tolerance;
 - (v) the amount (the “**bid price**”, which shall not be less than zero) in pence/kWh (expressed to four decimal places) which the User is willing to pay by way of Tolerance Charge for the Daily Imbalance Tolerance applied for;
- (b) may be submitted at any time from the 7th Day before the Gas Flow Day until 15:00 hours on the Preceding Day;
- (c) may be amended or withdrawn until, but not after, 15:00 hours on the Preceding Day; and
- (d) may not, where submitted on or after 14:00 hours on the Preceding Day, be for an amount of Daily Imbalance Tolerance which exceeds the Available Daily Imbalance Tolerance.

9.4.3 A User may submit up to but not more than 20 daily tolerance bids (for each of surplus and deficit Daily Imbalance Tolerance for a Day (and a bid submitted and subsequently withdrawn will not be considered for the purposes of this paragraph 9.4.3)).

9.4.4 Transco will reject a daily tolerance bid where any requirement of paragraph 9.4.2 is not complied with and may reject such an application in accordance with Section V3.

9.4.5 For each calendar month in the Gas Year, both surplus and deficit Daily Imbalance Tolerance will be allocated pursuant to daily tolerance bids as follows (and the provisions of this paragraph 9.4.5 and paragraph 9.4.6 shall apply separately and independently as regards bids for surplus Daily Imbalance Tolerance and deficit Daily Imbalance Tolerance):

- (a) all daily tolerance bids (excluding any rejected pursuant to paragraph 9.4.4) will be ranked in order of price (the highest priced ranked first);

- (b) Daily Imbalance Tolerance will be allocated in respect of each bid, in descending order of price starting with the highest priced, subject to paragraph (c), in the amount applied for, until the amount of Daily Imbalance Tolerance in aggregate for which bids have been accepted for is equal to the Available Daily Imbalance Tolerance;
- (c) where the amount of Daily Imbalance Tolerance applied for under a daily tolerance bid submitted prior to 14:00 hours on the Preceding Day exceeds the Available Daily Imbalance Tolerance, the bid will be deemed (for the purposes of this paragraph 9.4.5) to have made for an amount equal to the Available Daily Imbalance Tolerance;
- (d) subject to paragraph (e), where the amount of Daily Imbalance Tolerance applied for exceeds the amount (the “**remaining unallocated amount**”) of the Available Daily Imbalance Tolerance remaining unallocated after allocation to higher priced bids, the User will be allocated Daily Imbalance Tolerance in an amount equal to:
 - (i) where the remaining unallocated amount is less than the minimum imbalance tolerance, the minimum imbalance tolerance;
 - (ii) where the remaining unallocated amount is greater than the minimum imbalance tolerance, the next following multiple of the minimum imbalance tolerance;
- (e) where each of two or more bids (“**equal priced bids**”) specifies the same bid price, and the amount of Daily Imbalance Tolerance applied for in aggregate exceeds the remaining unallocated amount, each User submitting an equal price bid will be allocated Daily Imbalance Tolerance pro rata to the amounts applied for in each such bid (the “**remaining eligible amount**”) provided that:
 - (i) where the remaining eligible amount is less than the minimum imbalance tolerance, the amount allocated will be equal to the minimum imbalance tolerance;
 - (ii) where the remaining eligible amount is greater than the minimum imbalance tolerance, the amount allocated will be equal to the next following multiple of the minimum imbalance tolerance.

9.4.6 Transco will accept bids in respect of which Daily Imbalance Tolerance is allocated in accordance with paragraph 9.4.5, and each User whose bid is so accepted will be registered as holding Daily Imbalance Tolerance (in the amount so allocated) for the relevant Day.

9.4.7 Transco will, not later than 15:30 hours on the Preceding Day, inform each User of those of its daily tolerance bids which have been accepted and the amount of surplus and/or deficit Daily Imbalance Tolerance which it is registered as holding pursuant to each such accepted bid.

9.4.8 For the purposes of this paragraph 9.4, the “**Available Daily Imbalance Tolerance**” in respect of any Day is the greater of zero and an amount calculated as:

$$(SMTF * FTSD) - AMIT$$

where:

SMTF is the System Monthly Tolerance Factor for the calendar month in which such Day falls;

FTSD is the Forecast Total System Demand at 13:00 hours on the Preceding Day; and

AMIT is the aggregate amount of Monthly Imbalance Tolerance allocated for each Day in the calendar month in which such Day falls pursuant to paragraph 9.3

and Transco will not later than 14:00 hours on the Preceding Day notify to Users the amount (if any) of Available Daily Imbalance Tolerance for the Gas Flow Day.

9.4.9 As soon as reasonably practicable after the time referred to in paragraph 9.4.7, Transco will notify all Users of:

- (a) the number of Users who submitted an application for surplus and/or deficit Daily Imbalance Tolerance and the number of Users who were allocated surplus and/or deficit Daily Imbalance Tolerance;
- (b) the Available Daily Imbalance Tolerance and the aggregate amount of both surplus and deficit Daily Imbalance Tolerance allocated to Users;
- (c) the highest and lowest bid price in respect of a bid for which Daily Imbalance Tolerance was allocated; and
- (d) the weighted average price in respect of bids for which surplus and/or deficit Daily Imbalance Tolerance was allocated (in pence/kWh) calculated as:

$$\frac{\sum_{i=1}^n Q_i * P_i}{\sum_{i=1}^n Q_i}$$

where (separately for surplus and deficit bids):

n is the number of successful bids;

Q is the amount of Daily Imbalance Tolerance allocated to each successful bid;

P is the bid price for each successful bid.

9.4.10 Tolerance Charges will be invoiced and payable in accordance with Section S.

10 IMBALANCE TOLERANCE TRANSFER

10.1 Basis of transfer

- 10.1.1 A User (the “**Transferor User**”) may transfer all or part of its Available Imbalance Tolerance to another User (the “**Transferee User**”) subject to and in accordance with this paragraph 10.
- 10.1.2 For the purposes of the Code an “**Imbalance Tolerance Transfer**” is a transfer of Imbalance Tolerance in accordance with this paragraph 10.
- 10.1.3 An Imbalance Tolerance Transfer may be for any Day or consecutive number of Days.
- 10.1.4 In respect of an Imbalance Tolerance Transfer or proposed Imbalance Tolerance Transfer:
- (a) the “**Transferred Imbalance Tolerance**” is the Imbalance Tolerance (whether surplus or deficit) which is (or is to be) transferred; and
 - (b) the “**Tolerance Transfer Period**” is the Day or Days (in accordance with paragraph 10.1.3) for which the Transferred Imbalance Tolerance is (or is to be) transferred.

10.2 Procedure

- 10.2.1 Where a User proposes to make an Imbalance Tolerance Transfer, the Transferor User must notify the Imbalance Tolerance Transfer to Transco specifying:
- (a) the identity of the Transferor User and the Transferee User;
 - (b) the amount of the Transferred Imbalance Tolerance;
 - (c) whether the Transferred Imbalance Tolerance is surplus or deficit; and
 - (d) the Tolerance Transfer Period.
- 10.2.2 Without prejudice to paragraph 10.2.4, an Imbalance Tolerance Transfer will be effective if the Transferee User confirms to Transco that the details notified by the Transferor User are correct by not later than 03:35 hours on the Day on which the Transferor User so notified Transco.
- 10.2.3 A proposed Imbalance Tolerance Transfer may not be notified later than 03:35 hours on the first Day of the Tolerance Transfer Period.
- 10.2.4 Transco may reject an Imbalance Tolerance Transfer:
- (a) where the Transferor User does not notify Transco in accordance with paragraph 10.2.1 or 10.2.3;

- (b) where the Transferee User does not notify Transco in accordance with paragraph 10.2.2.

10.2.5 Where an Imbalance Transfer is effective in accordance with this paragraph 10.2, the Transferee User shall be deemed to hold the Transferred Imbalance Tolerance with effect from the first Day of the Transfer Period.

10.3 Effect of Imbalance Tolerance Transfer

10.3.1 Except for the purposes of paragraph 10.3.3, and subject to paragraph 10.4, the Transferee User will be treated during the Tolerance Transfer Period as the holder of the Transferred Imbalance Tolerance.

10.3.2 A User's Available Imbalance Tolerance on a Day is its Registered Imbalance Tolerance, adjusted in respect of any Imbalance Tolerance Transfer (for which the Tolerance Transfer Period includes that Day) by adding the Transferred Imbalance Tolerance where the User was the Transferee User, and deducting the Transferred Imbalance Tolerance where the User was the Transferor User, subject to paragraph 10.5.

10.3.3 A User will remain liable for the Tolerance Charges in respect of its Registered Imbalance Tolerance irrespective of any Imbalance Tolerance Transfer.

10.4 Imbalance Tolerance Deficit

10.4.1 In respect of any Day where:

- (a) the sum of:
 - (i) the User's Available Imbalance Tolerance at the start of such Day; and
 - (ii) the Transferred Imbalance Tolerance under any Imbalance Transfers for where such Day falls within the Transfer Period and in respect of which the User was the Transferee User; is less than:
- (b) the Transferred Imbalance Tolerance under any Imbalance Transfers for such Day falls within the Transfer Period and in respect of which the User was the Transferor User

(the amount of any such shortfall being referred to as the “**Imbalance Tolerance Shortfall**”) then the User shall pay a charge (“**Tolerance Shortfall Charge**”).

10.4.2 Where and for so long as a User holds an Imbalance Tolerance Shortfall the User will be liable to pay a Tolerance Shortfall Charge calculated as:

$$TSC = (ITS * (SMP_r - SAP) * 1.1)$$

where:

TSC is the Tolerance Shortfall Charge;

ITS is the Imbalance Tolerance Shortfall;

SMP_r is, where the relevant Imbalance Tolerance Transfer was in respect of:

- (i) surplus Imbalance Tolerance, the System Marginal Sell Price; and
- (ii) deficit Imbalance Tolerance, the System Marginal Buy Price

for the relevant Day; and

SAP is the System Average Price for the relevant Day

(provided that where the product of such calculation is a negative it shall be deemed to be a positive of the same value).

10.4.3 In respect of any Day in relation to which a User holds an Imbalance Tolerance Shortfall, for the purpose of Section F2.2 the User shall be deemed to have a relevant Imbalance Tolerance of zero.

10.4.4 Tolerance Shortfall Charges will be invoiced and payable in accordance with Section S.

10.5 Effect of Termination

10.5.1 Where during the Tolerance Transfer Period in respect of an Imbalance Tolerance Transfer the Transferor User ceases to be a User in accordance with Section V4.3:

- (a) Transco will so notify the Transferee User as soon as reasonably practicable and in any event not more than 5 Business Days after giving Termination Notice to the Transferor User;
- (b) with effect from the User Discontinuance Date the Imbalance Tolerance Transfer will lapse and the Transferee User will cease to be treated as holding the Transferred Imbalance Tolerance;
- (c) the Transferee User may elect to be registered in accordance with paragraph 10.5.2 as holding Imbalance Tolerance (in addition to any such Imbalance Tolerance held other than by virtue of the Imbalance Tolerance Transfer):
 - (i) in an amount not exceeding the Transferred Imbalance Tolerance; and

- (ii) for any Day or consecutive Days (before or after the date of such election, but not before the User Discontinuance Date) within the Tolerance Transfer Period.

10.5.2 Where under paragraph 10.5.1 the Transferee User elects to be registered as holding Imbalance Tolerance:

- (a) the Transferee User shall notify Transco, as soon as reasonably practicable and in any event not more than 5 Business Days after Transco's notice under paragraph 10.5.1(a), of such election, specifying the Imbalance Tolerance and the date or period in accordance with paragraphs 10.5.1(c)(i) and (ii);
- (b) the Transferee User will be registered as holding Imbalance Tolerance in the amount and for the period elected (notwithstanding any other requirement of the Code as to the prior notice required for or the period of registration);
- (c) the Transferee User will accordingly be liable for Tolerance Charges, (calculated in accordance with paragraph 10.5.4) in respect of the elected amount of Imbalance Tolerance for the elected period.

10.5.3 Where during the Transfer Period in respect of a Imbalance Tolerance Transfer the Transferee User ceases to be a User in accordance with Section V4.3:

- (a) Transco will so notify the Transferor User as soon as reasonably practicable and in any event not more than 5 Business Days after giving Termination Notice to the Transferee User;
- (b) with effect from the User Discontinuance Date, the Imbalance Tolerance Transfer will lapse and the Transferee User will cease to be treated as holding the Transferred Imbalance Tolerance which will revert to (and be treated as held by) the Transferor User.

10.5.4 Where paragraph 10.5.3 applies the Tolerance Charge to be applied in respect of the Transferred Imbalance Tolerance for the elected period will be the weighted average price (calculated in accordance with paragraph 9.3.13) in respect of bids for which surplus or (as the case may be) deficit Monthly Imbalance Tolerance was allocated in relation to the relevant calendar month.”.

SECTION F: SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY

Amend paragraph 1.3.1 to read as follows:

“....for the purposes of paragraph 3.2.2....”;

Amend paragraph 1.3.2 to read as follows:

“....for the purposes of paragraph 3.2.2....”;

Amend paragraph 2.2.1 to read as follows:

“The Imbalance Tolerance Quantity for a User for a Day shall be determined as the sum of:

- (a) the User’s relevant Available Imbalance Tolerance (if any); and
- (b) the magnitude of the User’s NDM Forecast Deviation (if any) for the Gas Flow Day in accordance with paragraph 2.2.3.”

Delete text at paragraph 2.2.2 as insert text to read as follows:

“For the purposes of paragraph 2.2.1, on a Day the User’s “**relevant**” Available Imbalance Tolerance” is, where the User’s Daily Imbalance is,

- (a) positive, its surplus Available Imbalance Tolerance; and
- (b) negative, its deficit Available Imbalance Tolerance

for such Day.

SECTION V: GENERAL

Delete text at paragraph 3.3.2(iv) and insert text to read as follows:

“an application for an Imbalance Tolerance.”

Yours sincerely

Julian Majdanski
Modification Panel Secretary