

**Draft Modification Report**  
**Modification Reference Number 0307**

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

**1. The Modification Proposal:**

Further to discussions of this Proposal at the Capacity Workstream in January and the Modifications Panel, the proposal has been amended and now reads as follows;

This Proposal would apply the principles of Modifications 0265a, 0277 and 0271 on days where demand at D-1 (estimated for the purposes of the Daily Capacity Services) exceeds the Available Physical Capacity.

Where estimated demand exceeds Available Physical Capacity at a Terminal, Transco would issue a Restricted Capacity Factor to scale back Users Available Capacity. On days where capacity is restricted, overrun charges would apply to entry allocations in excess of Restricted Capacity entitlements and not Available Capacity entitlements.

This Proposal would allow Secondary Capacity to be made available at terminals where a Restricted Capacity Factor has been issued (as Modification 0308 for St. Fergus), which was not offered under Modification 0271.

This Proposal would supersede Modification 0308 and would be expected to apply until a BC99 solution is introduced.

The Proposal would introduce measures to control capacity rights on days where demand exceeds Available Physical Capacity but would not affect the present Network Code regime on other days.

**2. Transco's opinion:**

Transco supports this Proposal as it would apply a mechanism which would allocate capacity entitlements on days where demand for Entry Capacity exceeds physical availability. This should restrain neutrality costs on these days.

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

Implementation of this proposal would be expected to reduce the neutrality costs to the industry associated with constraints. This will help maintain effective competition between Shippers by reducing the financial impact of neutrality costs. This should also lead to a more economic and efficient operation of the system.

The measures will provide a continued incentive for Shippers to nominate within the available physical capacity and will maximise availability of secondary capacity, therefore promoting an efficient and economic use of all available capacity.

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

**a) implications for the operation of the System:**

Implementation of this proposal should result in delivery nominations at terminals being kept within physical NTS Capacity on a day, and therefore there will be a reduction in the requirement for flexibility system sells at terminals.

**b) development and capital cost and operating cost implications:**

There are no development, capital cost or operating cost implications known.

**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:**

Not applicable.

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

No consequences known.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal:**

The Network Code contains different rules for the treatment of entry capacity at St. Fergus than applies at other terminals. This Modification will ensure consistency in contractual risk.

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

As the Proposal is largely to extend current Network Code provisions, no further development implications for the computer systems of Transco are expected.

Transco is not aware of any development implications for Users.

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

The Proposal is largely an extension of the Network Code provisions introduced by Modification 0308. This Proposal would extend these provisions to all terminals if capacity restrictions occur, and also alter the day ahead trigger of a Restricted Capacity day to ensure that capacity rights are not unduly scaled back.

Users may need to modify their nomination processes to monitor whether a terminal has been defined as restricted or not. However, implementation of the proposal should continue to prevent excessive levels of neutrality charges and provide a mechanism for allocating capacity rights on days of restrictions.

As requested by the Capacity Workstream, to aid analysis, a list of flexibility sells taken as a result of terminal constraints is provided :

Constraint sell actions have been taken at both St. Fergus and Barrow since 1 October 1998 on seven occasions.

Action Gas Day	Energy (kWh)	Volume (mcm)	Reason
15.11.98	11,876,362	1.14	Pressure
21.11.98	23,178,650	2.22	Pressure
22.11.98	98,348,022	9.4	Pressure
23.11.98	9,008,264	0.86	Pressure
29.11.98	27,772,616	2.66	Pressure
02.12.98	11,205,005	1.07	Pressure
03.12.98	35,969,466	3.44	Pressure

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

As the Proposal is largely to extend current Network Code provisions to other terminals on days of capacity restrictions, no additional implications are anticipated for terminal operators, suppliers, producers or any Non-Network Code Party.

**9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal:**

Transco is not aware of any consequences.

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

Advantages

- Provides a mechanism, consistent across terminals, for sharing out capacity rights on days where demand is higher than available capacity and should reduce neutrality costs on these days.
- The proposal will only restrict Entry Capacity when anticipated delivery nominations are more than physical capacity availability. This will avoid an issue inherent in Modification 0308, whereby scaling back of Entry Capacity occurs on all days where booked Entry Capacity is more than capacity availability, which can result in unnecessary scaling back, with potential adverse implications on Shippers who wish to flow up to their booked Capacity levels.
- The risk of negative priced flexibility prices will be removed.
- Cash out prices should not be unduly influenced.
- Provides greater certainty of gas flows and capacity rights.
- Disincentivises nominations above Available Restricted Capacity.
- Maximises the availability of capacity on days of restrictions by allowing Secondary Capacity to be made available on days where capacity is restricted.

Disadvantages

- Artificially restricts market prices for flexibility bids.
- Administrative method of allocating capacity rights.
- Potentially causes Shipper issues with take or pay contracts above Available Restricted Capacity.

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

To be included once Representations have been received and the Final Modification Report is being drafted.

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

Transco does not believe this proposal is necessary to facilitate compliance with either safety or other legislation.

13. **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:**

Transco does not believe that implementation is required as a result of a methodology change.

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

Implementation of this proposal will be done manually. A Programme of works is not required.

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

Transco recommends that this proposal is implemented with effect from [1st March 1999] (to be confirmed in Final Modification Report).

16. **Recommendation concerning the implementation of the Modification Proposal:**

Transco recommends that, pending a BC99 solution, this Proposal is implemented as soon as possible in order to provide a mechanism for allocating capacity rights on days where shipper requirements for entering gas exceed physical capabilities and to ensure that the neutrality costs associated with such days are limited.

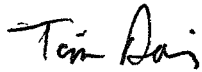
17. **Text :**

To be provided with the Final Modification Report.

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

Signed for and on behalf of Transco.

Signature:



**Tim Davis**  
**Manager, Network Code**

Date: 11/2/99