

URGENT Modification Report
Delay to January 2002 MSEC Allocation
Modification Reference Number 0505
Version 5.0

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

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 because this proposal will provide shippers and Transco with certainty on the timing of the next series of MSEC auctions. In particular, this certainty should assist Transco and shippers in both planning and prioritising work for the establishment of the long term entry capacity regime from April 2002.

Procedures Followed:

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

Issued to Ofgem for decision on urgency	16 November 2001
Proposal agreed as urgent	19 November 2001
Proposed issued for consultation	20 November 2001
Close out for representations	03 December 2001
Final Report to Ofgem	06 December 2001
Ofgem decision expected	10 December 2001

1. The Modification Proposal

It is proposed that consideration is given to the desirability of delaying the next MSEC auctions by 4 weeks such that the allocation process would be completed not later than 28 February 2002. Transco believes that there is considerable uncertainty arising from discussions about Ofgem's proposals for changes to Transco's System Operator incentives which might apply from 1 April 2002. Users may wish to consider a more substantial delay than the suggested 4-weeks, but will also need to consider the appropriateness of a reduced period between completion of auctions and the start of the relevant capacity period.

2. Transco's Opinion

Transco supports this Modification Proposal because if implemented it would provide Users with more time to understand the implications of changes that may arise from the Periodic Review of Transco's transportation business.

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

By delaying the MSEC auctions for 4-weeks, Users would have an opportunity to assimilate the additional information that will be available at that time. This could be considered to improve the efficiency of the auctions, and, in turn, further the economic and efficient use of the pipeline system and promote effective competition between Users.

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

a) implications for the operation of the System:

Transco is not aware of any implications for the operation of the System.

b) development and capital cost and operating cost implications:

The changes to the Monthly System Entry Capacity auction timetable could be accommodated within the existing system and no additional costs are envisaged.

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

Transco does not anticipate that implementation of this Modification Proposal would create significant additional costs which it would seek to recover.

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

Implementation of this Modification Proposal would not impact on price regulation.

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

It is not envisaged that implementation of this Modification Proposal would increase the level of contractual risk to Transco under the Network Code.

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

The changes to the dates of the Entry Capacity auctions could be accommodated by the existing computer systems and no development work would be required.

Transco is not aware of any implications for computer systems of Users.

7. The implications of implementing the Modification Proposal for Users

Users would benefit from having better information available to them at a time they are next invited to bid for Entry Capacity. By implication the provision of more complete information about the forthcoming commercial regime should tend towards more economic and efficient decision making.

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

Transco does not envisage any implications of implementing the Modification Proposal for the above parties.

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

No consequences are envisaged on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party as a result of implementing the Modification Proposal.

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

Advantages:

- delaying the auctions until after the industry has had an opportunity to examine proposals for changes to Transco's System Operator incentives which might apply from 1 April 2002 will allow Users to formulate a considered bidding strategy for Entry Capacity.

Disadvantages:

- delays to the auction timetable may give rise to uncertainty.

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

Transco received a total of 14 representations to this proposal in which most raised no issues beyond indicating their support.

The respondents were:

Scottish & Southern Energy (SSE)

Marathon Oil

British Gas Trading

BP Gas Marketing Ltd

ExxonMobil Gas Marketing

Norsk Hydro (UK) Ltd

TXU Energy UK Gas Trading

TotalFinaElf Exploration UK
Association of Electricity Producers
PowerGen
TotalFinaElf Gas & Power Ltd (TFEG & P)
Dynegy
Shell Gas Direct
Statoil

For: 12
Against: 2
Neutral: 0

Issues raised:

TotalFinaElf Exploration UK noted that it is very unclear as to the allocation process that would apply as of 1 April 2002 as there a number of issues that need to be resolved before the allocation process can commence.

Shell Gas Direct, Dynegy and TotalFinaElf Gas and Power Ltd (TFEG & P) stated that they do not consider the date should be delayed further than 28 February 2002. TFEG & P commented additionally that if this proved necessary as a consequence of complications arising out of the ongoing developments, a further modification extending the delay could be raised to accomodate this.

AEP expressed concern that further Network Code modifications and pricing methodology changes will be needed in advance of April 2002, particularly arising from the final proposals for the SO incentives and to amend the pricing methodology arising from PC65 & 66. Transco are urged to bring forward these proposals for consideration as soon as possible.

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

Implementation is not required to enable Transco to facilitate compliance with 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 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Implementation is not required as a consequence of 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.

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

No modifications are required to the Uk-Link Systems and therefore a programme of works would not be required as a result of implementing the Modification Proposal.

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

Transco proposes that this Modification Proposal is implemented on 1 January 2002.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of the Modification Proposal.

17. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

TRANSITION DOCUMENT PART II

Delete paragraph 8.1.3. B.2.3.(4) and replace with:-

“8.1.3. B.2.3.(4) by not later than 28 February 2002 Transco will invite applications for the Determined System Entry Capacity in respect of each Aggregate System Entry Point for the calendar months April 2002 to September 2002 (inclusive); and”

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0505**, version **5.0** dated **05/12/2001**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **5.0**.

Signature:

Process Manager - Network Code
Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
 - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
 - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriateprovided that if the Authority does not so approve the Agreement then Clause 3 shall apply.
2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.