

**Modification Report**  
**Bring forward AMSEC auctions to January to allow for two months notice of any changes in charges**  
**Modification Reference Number 0646**  
Version 1.0

This 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**

Annual MSEC auctions would be held in January each year to cover the period from 1 April to 31 March each year to allow two months notice of any consequential changes in charges to take effect from April. In addition, Transco would be required to publish an indicative maintenance schedule at least one week prior to the Annual MSEC auctions in January, although preferably in December.

**2. Transco's Opinion**

Transco supports implementation of the Proposal because it agrees with the proposer that it enables any potential transportation charge adjustment arising from entry capacity auctions to be implemented in a timely manner and in accordance with Network Code rules governing revision to the Transportation Statement. Specifically, Section B1.8 of the Network Code requires that 2 months notice is provided before implementing any changes to transportation charges.

Transco recognises that auction participants attach value to the draft April Maintenance Programme. Although this proposal did not propose a specific date by which the draft Maintenance Programme should be published Transco suggested that it should be issued by 1st January rather than the current Network Code defined draft publication by 1st February. It is recognised by shippers that earlier publication of the draft April Maintenance Programme introduces a level of additional uncertainty to the programme content and this is commented upon in shipper responses.

Transco notes representations expressing concern about the level of certainty contained within the proposed earlier publication of the draft April Maintenance Programme. Transco will continue to deliver a draft Maintenance Programme that reflects information gathered by Transco and submitted by Users in accordance with the Network Code.

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

The Proposer states that the Proposal furthers relevant objectives by securing the effective competition between relevant shippers and relevant suppliers by increasing the certainty in costs and charges during the tendering process.

**4. The implications for Transco of implementing the Modification Proposal , including  
a) implications for the operation of the System:**

Transco considers there to be no such implication.

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

Transco considers the Proposal to have no cost implications.

**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:**

No additional costs are expected.

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

Transco considers there to be no such consequence.

**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**

Transco anticipates that implementation of the Modification Proposal would have no such consequence.

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

Transco is unaware of any such implications.

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

Implications are documented within the Summary of Representations.

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

Transco has received no representations in this respect and is consequently not aware of any such implications.

**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 such consequences are envisaged.

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

### Advantages:

1. Avoidance of further Modification Proposals to implement short notice transportation charge rate revision resulting from possible entry capacity auction revenue over or under recovery;
2. Alignment where necessary of charge adjustments to match the capacity year April to March.

### Disadvantages:

1. Earlier publication of the draft April Maintenance Programme introduces additional uncertainty over the programme content.

## **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 10 responses to this Modification Proposal:

Powergen UK plc (POW)  
ConocoPhillips UK (CON)  
Scottish & Southern Energy (SSE)  
Innogy (INN)  
EDF Energy (EDF)  
Shell Gas Direct (SGD)  
British Gas Trading Ltd (BGT)  
Statoil UK (STA)  
TotalFinaElf Gas & Power (TFE)  
Association of Electricity Producers (AEP)

Of these, four respondents (POW, INN, EDF, AEP) express support for the implementation of the Proposal, and six respondents (CON, SSE, SGD, BGT, STA, TFE) do not support implementation.

### Transportation Charge Stability

Four respondents (EDF, INN, POW, AEP) support the move to an AMSEC auction within January because this would allow a timely revision to Transportation Charges, should this be required, with such revision being within the current Network Code timescale and aligned to the Capacity Year being auctioned. POW and AEP considered this approach would deliver

certainty of transportation charging and cost which would therefore be consistent with relevant objectives relating to the facilitation of competition between shippers and suppliers.

#### Transco Response

Transco agrees with respondents that auction processes should provide for revision, if any, of Transportation Charges such that a two month notification of any transportation price change can be maintained and aligned with the Capacity Year. Transco is of the view that implementation of the Modification Proposal may deliver benefits in terms of transportation charge stability for Shippers and gas consumers across a Capacity Year.

#### Impacts on the Draft April Maintenance Programme

Six respondents (EDF, AEP, TFE, SSE, BGT, SGD) expressed concern that the proposed earlier publication of the Draft April Maintenance Programme would lead to additional uncertainty surrounding the Programme content.

BGT stated that in their view, earlier publication of Summer maintenance information would increase uncertainty and may introduce greater volatility into the auction process and thereby increasing the likelihood of a price adjustment. BGT added that in raising Modification Proposal 0616, it had considered that February presented an optimum AMSEC auction date taking due regard of the reliability of the Summer Maintenance Programme and the potential need to adjust transportation prices.

SGD re-iterated its responses made to Modification Proposals 0616 and 0617, it does not consider that an auction several months before the commencement of the Capacity Year is likely to result in an efficient outcome due to the deterioration in information about likely flows that such a change could introduce.

#### Transco Response

Transco considers that implementation of the Proposal would inevitably lead to additional uncertainty within the draft April Maintenance Programme since earlier publication may exclude maintenance information that could potentially come to light between the proposed publication (by 1st January) and current publication (by 1st February). Transco believes the materiality of this issue is difficult to assess given that potential new information is by its nature unpredictable.

Transco is not well placed to comment on any price volatility implications and its sensitivity to maintenance information.

#### Timing of the Proposed AMSEC Auction

Three respondents (INN, POW, AEP) considered that any proposed auction within January should be held at least one week after the release of the Draft April Maintenance Programme proposed to be not later than 1st January. POW stated that the proposed legal text be amended such that B2.2.1 (b) should read "(b) not earlier than 7 January and not later than 31 January in a Capacity Year ....." rather than not earlier than 1 January.

#### Transco Response

Transco agrees with respondents that practical application of the current proposed legal text would be difficult in the very early part of January due to resource issues over this holiday period for both Transco and shippers. Transco agrees with Powergen that its proposed change to the legal text better reflects the Modification Proposal intent and consequently Transco has amended the legal text in line with Powergen's suggestion.

#### AMSEC Impact on Revenue Recovery post Long Term System Entry Capacity (LTSEC)

Two respondents (CON, SGD) did not consider that the Modification Proposal would deliver benefits in terms of a reduction to the level or frequency of Transportation Charge revision given that the quantity of capacity being auctioned through AMSEC will be significantly reduced as a consequence of the introduction of LTSEC.

#### Transco Response

Transco agrees that as a result of LTSEC auctions the amount offered in AMSEC auctions may well reduce when compared to past experience. The Network Code provides for the quantity to be 20% of baseline entry capacity held back from LTSEC plus any unsold LTSEC capacity. Transco considers that prices arising from AMSEC auctions will continue to be uncertain and that the need for a charge adjustment resulting from AMSEC processes can not be ruled out.

#### Christmas Resource Issues

CON stated that implementation of the Proposal would result in any preparatory work to determine its capacity requirement and construct its bidding strategy would have to take place over the Christmas holiday period, CON considered this could create difficulties in terms of personnel issues and the management of other business demands. SSE stated that the proposed publication of the Draft April Maintenance Programme at the end of an holiday period would contribute to the level of uncertainty within the Programme.

#### Transco Response

Transco agrees that the availability of key personnel is an issue for all parties to be mindful of when planning activities around holiday periods.

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

No such requirement exists in respect of the Modification Proposal.

**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**

No such requirement exists in respect of the Modification Proposal.

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

Transco does not anticipate any system development as a consequence of implementing this Modification Proposal.

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

Final Modification Report issued - 17th October

Ofgem decision expected - late October

Effective date for implementation of Proposal - 1st November 2003

**16. Recommendation concerning the 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

### SECTION B: SYSTEM USE AND CAPACITY

*Amend paragraph 2.2.1 (b) to read as follows:*

2.2.1

...

(b) not earlier than 7 January and not later than 31 January in a Capacity Year, Transco will invite, and Users may make, applications for Monthly System Entry Capacity in respect of each Aggregate System Entry Point for the period specified in paragraph 2.2.2 (a);

### SECTION L: MAINTENANCE AND OPERATIONAL PLANNING

*Amend paragraph 1.5 (a) (ii) to read as follows:*

1.5

(a) ...

(ii) by 1st January, Transco will publish a draft of the Maintenance Programme in accordance with paragraph 3.3.1 (i);

Signed for and on behalf of Transco.

Signature:

**Mike Calviou**  
**Commercial Frameworks Manager**  
**NT & T**

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 **0646**, version **1.0** dated **16/10/2003**) 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 **1.0**.

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.