Modification Report
Removal of 1/15th capacity charge credit when interruption is for supply and demand balancing purposes.
Modification Reference Number 0696

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

This Modification Proposal seeks to remove the payment of the 1/15th credit to Users of Interruptible Supply Points when Transco is required to call for Interruption to resolve a supply deficit once it considers the market will no longer provide a physical response in an appropriate time period.

2. Transco's Opinion

The introduction in 2002 of the NTS SO incentive scheme brought about an incentive on Transco to minimise the level of Interruption that it calls as System Operator. This incentive is contained within the NTS Exit Capacity Investment Incentive (ECII) where Transco is exposed to a level of additional cost should a Supply Point be subject to Interruption on more than 15 days in a formula year. Under the existing ECII Transco makes payments to Users based on 1/15th of the relevant annual NTS Exit and LDZ capacity charges.

It is Transco's opinion that primary supply and demand balancing is the responsibility of Users and that Transco's role is as the residual system balancer. Transco's primary use of Interruption is, and should continue to be, as a capacity management tool and it is our opinion that the original intent of the ECII is consistent with this position. Transco considers that the original intention of Modification 0555 - 'Interruptible Transportation Charges', that proposed the introduction of this 1/15th payment, was that it would only apply when Interruption was required for capacity management purposes and testing. In essence, Transco is incentivised to call Interruption to relieve capacity constraints in an efficient and economic manner and, where Interruption costs could be efficiently and economic avoided, provide additional system exit capacity to reduce the likelihood of such Interruption being called, i.e., invest to relieve capacity constraints where appropriate. Under this interpretation of the basis of the incentive Transco can mitigate the risk of incurring ECII costs, as a result of excessive capacity management Interruption costs, by investing in additional system capacity.

Since the introduction of the current ECII arrangements the tightening supply and demand position has generated a scenario where, in a severe winter, the volume of interruption required to maintain security of supply could be in excess of the volume of Interruption required for capacity management purposes. Transco might, therefore, be required to initiate Interruption purely for supply and demand management purposes i.e. sufficient system capacity exists to meet the demand but there are insufficient available supplies. Transco cannot mitigate the risk of excessive supply and demand management Interruption costs by investing in additional capacity,

therefore Transco considers that this aspect of the ECII is inappropriate and should be removed thereby bringing the incentive in-line with its original intent.

The Business Rules which were included in the final report for Modification Proposal 0555 were explicit in respect of what types of Interruption that should be subject to the ECII credit payment. Interruption for supply and demand management purposes did not feature in these provisions.

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

Transco's primary use of Interruption is, and in Transco's opinion should continue to be, as a capacity management tool. Transco believes that the original intent of the ECII is consistent with this position. NT&T Workstream discussions held on the 4th April 2004 recognised that it is inappropriate to apply exit capacity investment incentives, when Interruption is for supply and demand management purposes, as Transco is unable to mitigate such exposure through developments in exit capacity. Therefore applying such a credit for Interruption for supply and demand management purposes does not better facilitate the efficient and economic operation of the pipe-line system.

At the NT&T Workstream both Transco and User representatives expressed concern that the present Interruption incentive arrangements may represent a disincentive for Users and gas consumers to enter into non-Transco called interruption arrangements. Where the right to call for "commercial" interruption is not available to Users as part of their gas supply contract with the end consumer this could lead, under certain circumstances, to Transco having to call for such "commercial" supply and demand management Interruption on behalf of the User. In such circumstances Transco considers it would be acting in a primary balancing role.

By removing an incentive for Users and End Consumers to wait for Transco to initiate supply and demand Interruption this Modification Proposal seeks to minimise any primary balancing role for Transco and facilitate greater competition between Users thereby encouraging greater utilisation of market mechanisms to respond to supply and demand mismatches. If implemented, this Proposal may also better facilitate the efficient and economic operation of the pipe-line system, in that greater utilisation, by Users, of the market to balance supply and demand may reduce Transco’s requirement in this area.

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

a) implications for the operation of the System:

Transco does not anticipate that the implementation of the Modification Proposal will result in any operational implications.

b) development and capital cost and operating cost implications:

Transco does not anticipate that any additional capital or operating cost implications will result from the implementation of this Proposal.

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 is not proposing to recover any development or capital costs arising from implementation of this Proposal.

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

Transco recognises that this Proposal, if implemented, requires a change to the Transportation Statement in respect of the proposed removal of the 1/15th Exit Capacity Investment Incentive Charge Credit, when Interruption is for supply and demand management purposes. Transco has raised a Pricing Consultation - PC81 - 'Interruptible Transportation Charging', the timetable of which is aligned to this Proposal's timetable. It is anticipated that the alignment of both consultations will facilitate more efficient and complete responses to the changes proposed.

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 is not aware of any such consequences.

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

If implemented, estimated costs for system changes to support the Modification Proposal will be approximately £11k.
Discussions within the relevant Network Code Workstream during the development of this Proposal and representations received in response to this Proposal have not identified any development or other implications for computer systems of Users.

7. The implications of implementing the Modification Proposal for Users

Users will no longer receive an Exit Capacity Investment Incentive Charge Credit when Interruption is for supply and demand management purposes.

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

End consumers, registered as interruptible under section G6.1 of the Network Code , may no longer expect to receive an Exit Capacity Investment Incentive credit charge, via their Relevant User, when Interruption is for supply and demand management purposes. The credit is currently settled with the End Consumer through the User in accordance with relevant contractual arrangements.

Transco recognises that contractual arrangements between the User and End Consumer may require further discussions, should this Proposal be implemented.

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 does not anticipate any such consequences.

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

Advantages:-
Align's Transco's incentives to its ability to respond to such incentives.
Removes an incentive for Users and end consumers to wait for Transco to Interrupt in the event of supply and demand balance deficit thereby encouraging Users to address this Primary Balancing role.

Disadvantages:-
Users will no longer receive an Exit Capacity Investment Incentive charge credit when Interruption is for supply and demand management purposes.

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

Nine representations to the Proposal were received from the following respondents:-

Powergen	POW
N Power	NPO
Shell Gas Direct	SGD
Association of Electricity Producers	AEP
EDF Energy Plc	EDF
British Gas Trading	BGT
Scottish & Southern Energy Ltd	SSE
Total Gas and Power Limited	TGP
Corus	COR

Five respondents were not in support of the Modification Proposal (POW, EDF, TGP, SSE, COR).
Two respondents expressed support for the Modification Proposal (NPO, BGT).
Two respondents offered qualified support (SGD, AEP).

11.1 Operation of the NTS Exit Capacity Investment

Six respondents (TGP, SSE, BGT, NPO, SGD and AEP) agreed with the Proposal that, in principle, the obligation on Transco to effect a 1/15th exit capacity credit payment when Interruption relates to supply and demand management was inconsistent with the intent of the Exit Capacity Investment Incentive (ECII). BGT stated that, "This modification proposal corrects and clarifies the interpretation of Transco's obligation under their NTS Exit capacity incentive and how this is reflected within Network Code".

NPO noted that, "The Exit Capacity Incentive was clearly introduced to provide Transco with an incentive to efficiently trade off the cost of interruption with network investment". NPO recalled that both Modification Proposal 0555 - 'Interruptible Transportation Charges' and the associated Pricing Consultation PC74, which introduced the current charging arrangements, did not distinguish between the Interruption types. NPO recognised that both Modification Proposal 0555 and PC 74, "assume that Users will call commercial interruption for supply demand balancing and do not envisage Transco taking these decisions by default".

Transco Response
Transco notes that the majority of respondents agree with the principle that Interruption for supply and demand management purposes is inconsistent with the original intent of the ECII.

Transco acknowledges NPO comments in respect of Modification Proposal 0555 and PC74 in that the development of the ECII did not envisage its application in regard to supply and demand management Interruption. Transco notes that, as previously stated in section 2 (Transco's Opinion) of this document although the Final Modification Report and legal text for Modification Proposal 0555 and PC74 were not explicit in respect of the exclusion of Interruption, during the development of the business rules for Modification Proposal 0555 the intent of the relevant Network Code Workstreams was that Interruption for supply and demand would not feature in the ECII credit payment provisions. Interruption for supply and demand is notable by its absence from the business rules. An extract for which is set out below.

> Section 4 of the Business rules included in the Final Modification report for Modification Proposal 0555:-
>
> **4. <u>Qualifying Interruption</u>**
> 4.1. The count of qualifying interruptible days under section 3 will increment, but subject to 4.3, where curtailment of gas supply was due to:
> 4.1.1. Interruption arising from an NTS or LDZ constraint within Transco's transportation system.
> 4.1.2. Interruption arising for Test purposes as described within Network Code G 6.7.3 (ii)
> 4.2. The count of qualifying interruptible days under section 3 will not increment where curtailment of gas supply was due to:
> 4.2.1. Emergency interruption [emergency cessation of gas].
> 4.2.2. Any form of commercial interruption instigated by a shipper.

11.2 Compensating End Users
EDF agreed that, "Interruption for supply and demand reasons is an energy-balancing tool and is different from interruption for testing or capacity constraints purposes". As such EDF suggested that on occasions where Interruption is for supply and demand management purposes rather than removing the payment, "any monies associated with this service should feed into Balancing Neutrality under the NTS SO Incentives scheme". SSE and SGD asserted that on occasions where Transco uses Interruption for supply and demand management purposes the end user should be appropriately compensated. SSE suggested that the cost of such compensation be fed

through the energy balancing SO Incentives. SGD expressed the view that whilst it supported the removal of the credit payment from the ECII it considered that, "A replacement for it needs to be introduced at the same time to ensure that customers are appropriately compensated when Transco Interrupts as part of its residual balancing role". SGD noted that as part of the Top-Up consultation paper Ofgem suggested that such a change would require amendments to Transco's GT Licence in respect of SO incentives. SGD considered that there should be ways to have this feed into its balancing incentive without requiring a change to the incentives.

NPO and BGT suggested that Transco should notify Users of the reason for Interruption at the time the Interruption is called. This should satisfy Users that they have been appropriately informed.

COR “feared” that the current Proposal may accelerate the trend for end users to move from interruptible gas to firm gas supply status which, it suggested, may have an impact on security of supply. Incentives on end users to remain as interruptible are already low and may explain the increase in supply type changes.

NPO expressed concern in respect of how the Proposal would be received by end users as they are unlikely to make a distinction between the reasons for Interruption. NPO stated that, "The end users will view this Proposal as one which reduces the risk of Transco making interruption payments and will argue that it changes the basis of existing commercial arrangements they have entered into in good faith". NPO concluded that, "It would be appropriate to consider implementing this Proposal in April 2005 so as to allow customers time to factor this into their future gas purchasing decisions".

Transco response

In response to comments that the credit payments should be retained with costs channeled through the Energy Balancing SO balancing incentive;- As stated in the Proposal, Transco has advised of it's intent to fully utilise the OCM upto the point at which it considers the market will no longer provide a physical response in an appropriate time period. This commitment will ensure, as far as the market allows, that costs will feed into Balancing Neutrality, and be taken into account in respect of Transco residual balancing incentives. Only when this option has been fully exhausted will Transco contemplate issuing separate Interruption notices for supply and demand management.

Transco acknowledges NPO's and BGT's suggestion that the provision of an Interruption reason code at the time of Interruption would help facilitate greater clarity to end users. Transco agrees that the notice of Interruption should clearly state the reason for which that Interruption is being called. Transco notes that this IT functionality change was discussed with the industry through the NT&T Workstream. Accordingly, as part of the IT functionality change required to implement this Proposal Transco will amend the format of such notices in order to clearly identify the reason for Interruption being called.

Transco notes the concerns expressed by COR regarding the issue that incentives on end users to remain as interruptible are very low and contends that this Proposal seeks to ensure that appropriate incentives are in place to encourage Users to develop commercial contracts which

offer benefits to both end users and Users. Transco considers that this should encourage Shippers to interrupt rather than wait for Transco.

Transco notes NPO concerns expressed in respect of extending the implementation date to allow time for the renegotiation of contracts between end users and Users to reflect the removal of ECII payments. However given Transco's stated intent to utilise the market where possible Transco believes it would still be possible for end users to be compensated for its inconvenience through the price offered, by its Relevant User, into the OCM.

In regard to NPO's suggestion of delaying the implementation date Transco considers that since the nature of this Proposal was first raised at the March 2004 relevant Network Code Workstream meeting, the industry has had sufficient notice to amend contracts.

11.3 Removing Transco obligation to Interrupt for supply and demand management purposes

Three respondents (POW, SGD, COR) considered that Transco's ability to Interrupt for supply and demand management purposes may need to be removed, amended or further considered.

POW expressed the view that although it did not support the Proposal it supported the underlying principle that it might help promote Users' ability to balance through the use of commercial interruption. POW contended that incentivising greater User responsibility to manage primary balancing could be achieved if the "obligation" on Transco to interrupt for supply and demand management reasons were removed. Additionally it believed that such removal would restore Interruptible consumers willingness to enter into commercial contracts with Users. POW believed that this approach would be consistent with Transco's aspiration to Interrupt as a capacity management tool only.

COR stated that, "Transco interruption should only be used for managing capacity constraints and not for the purposes of Supply / Demand balancing (except in cases bordering on a gas emergency)".

SGD asserted that, " The issue is whether Transco should interrupt for supply and demand balancing purposes at all and under what conditions".

Transco Response

Transco notes the views expressed by some respondents that the ability for Transco to Interrupt for supply and demand purposes needs to be explored further, indeed SGD has already raised a Modification Proposal, 0699 - 'Amendment to Transco Interruption rights for supply/demand purposes', in this area. Transco notes that, although debate on whether it is appropriate for Transco to have the right to Interrupt is not relevant to this Proposal, discussion of this option may merit further exploration as part of Modification Proposal 0699. Transco, to an extent, agrees with statements provided as part of the responses on this issue, however Transco believes that it still needs to ensure that Interruption for supply and demand is available to it as the last resort. Transco notes that its obligation, in respect of ensuring the security of the system, is not one that requires it to manage purely the daily balancing deficits, but also requires it to be mindful of the requirement to provide the appropriate incentives to User to meet the longer term

1 in 50 security conditions. Transco is also required through safety legislation to minimise the risk of entering a gas emergency, if it is unable to Interrupt until Emergency Interruption is required it may have no means by which to ensure this over the longer term. Transco notes that any change to, or removal, of its ability to Interrupt for supply and demand management purposes is likely to require an amendment to its safety case.

As part of the ongoing NT&T Workstream discussions relating to Topic 91 - 'Supply and Demand Interruption', and Modification Proposal 0699, Transco recognises that further development of alternative means by which it may have access to supply and demand management Interruption in a form that may prove satisfactory to both Transco, Users and end users merits further consideration. Transco, however is of the opinion that the removal of potential disincentives that could be hindering Users from exercising their role as Primary Balancers, through placing demand side bids on the market, should be implemented at the earliest opportunity.

11.4 Primary Balancing Role

Five respondents (SSE, EDF, POW, SGD and COR) were not convinced that this Proposal, which advocates the removal of the ECII credit payment for supply and demand management Interruption would incentivise end consumers to enter into commercial interruption contracts with Users.

SGD noted that end consumers were unlikely to be aware that there are different types of interruption.

Three respondents (AEP, SGD and SSE) noted that Transco had not provided any evidence to supported the assumption that the ECII credit payment for supply and demand Interruption incentivised the User and end consumer to wait for Transco Interruption.

In respect of Transco's “obligation” to Interrupt for supply and demand purposes SGD suggested that, "If the current 85% level were set higher, this would reduce the potential for Users to rely on this and so encourage them to make their own commercial arrangements".

COR stated that it did not agree that, "current arrangements contributed to inertia in creation of demand-side interruptible contracts.", it noted that commercial contracts were, "unpopular with end-users primarily because of the low pay-back for additional business disruption and the desire for the simplicity of Transco's administered scheme."

Transco Response

A number of respondents commented that they were not convinced that the Proposal would incentivise end users to enter into commercial contracts. Transco contends that the removal of a payment which is received only when Transco Interrupts discourages any propensity to wait for such an occurrence and also removes a barrier to Users negotiating their own balancing arrangements.

Transco further notes that no respondent has provided evidence to the contrary, indeed, NPO suggest that end consumers may take a view that this Modification Proposal changes the

commercial arrangements and suggests an implementation delay to April 2005 in order to factor it within their gas purchase decisions. Consequently, Transco remain of the view that current arrangements may be acting as an incentive against securing commercially contracted interruption arrangements.

Transco notes the concerns expressed by COR regarding the lack of end user appetite to enter into commercial contracts with Users and CORs desire to retain some form of Transco administered scheme. Transco contends that any unpopularity of such schemes may be due to the absence of sufficient incentives on Users to place appropriate value on commercial contracts that allow them to balance their portfolio and or place demand side bids on to the market. Given that Transco has highlighted its desire to fully utilise the market it could be assumed that the end user would benefit from this Proposal, and indeed respond to it by setting a value for its interruption that it believes reflects appropriate 'pay-back' for any additional business disruption.

In response to CORs desire for a Transco administered scheme for the purpose of supply and demand management Interruption, Transco asserts that it is generally accepted that this Primary Balancing role is the responsibility of Users and therefore Transco would considers that it would be inappropriate for it to expand its role into this area.

11.5 Transco 'free option'

Six respondents (EDF, SSE, SGD, POW, AEP and COR) recognised that Interruption for the management of a supply and demand deficit provides a useful energy balancing tool and as such one of their primary concerns was that the proposed removal of the ECII credit payment may provide Transco with a 'free option' to Interrupt rather than fully utilising the market .

AEP considered that any supply and demand deficit should be resolved through a market based solution. POW recognised that the Proposal, "might benefit the consumers through greater use of the market to manage supply and demand", however it considered that this was at the expense of potentially increased costs to the community by, "giving Transco the ability to use interruption as a free ticket when there is still gas on the OCM", and may cause "dampening pricing signals" as a result.

AEP responded that its support for the Proposal was qualified on the basis that it was unclear that Transco would utilise gas on the OCM in advance of Interruption for supply and demand. It suggested that the Proposal should not be implemented until such time as the System Management Principles had been appropriately amended to reflect the intent of the Proposal.

SSE expressed the view that it was unclear whether Transco would utilise gas on the OCM in advance of Interruption for supply and demand purposes, under all circumstances. It noted that, " Transco’s energy balancing incentive encourages it to trade close to the market price", on days of high supply/demand deficit SSE considered that Transco would have the 'free option' of using Interruption as it may prove more efficient and economic than purchasing the gas on the OCM.

Three respondents (SSE, AEP, SGD) noted that the only restriction on Transco taking Interruption as the Energy balancing tool was the 45 day limit on Interruption.

SGD asserted that, "Without parallel changes, Transco could have interruptions available to it as a 'free option' in its role as residual balancer".

Transco Response

A key feature of the Proposal is that Transco would only initiate Interruption for supply and demand management purposes once it was satisfied that the market would no longer provide an appropriate physical response in an acceptable time period. Transco has, on several occasions, notified the industry of its intent to fully utilise the market prior to requesting Interruption for supply and demand management purposes. During Workstream development of this Proposal Transco felt that its statements regarding its primary intent, to use the market, had provided sufficient comfort to Users. Transco recognises, however, that upon reviewing responses to the Proposal there remains some concern that Transco may use Interruption as a balancing tool before taking the high priced bids on the OCM. In order to further reassure these concerns Transco proposes to amend the System Management Principles Statement, such that it reflects the statement made to the relevant Network Code Workstream during the development of this Proposal. It is anticipated that this will provide the additional assurance requested by Users that Transco will not utilise any 'free option' unless it has no other alternative at which point Transco will instigate supply and demand Interruption in order to avoid entering into a gas supply emergency.

Transco does not consider however that the implementation of this Proposal is dependent on this further assurance given the previous public statements made both to the relevant Network Code Workstream and within this report.

In complying with its licence conditions in relation to operating in an efficient, economic and coordinated manner Transco does not look just at the single market action or the effect on that Gas Day. Transco also considers the reaction on the following day, month and even year. It is with this longer time horizon in mind that it would not want to use the so called "free option" of supply and demand Interruption. Using this "free option", or for that matter the current arrangements, does not send the necessary commercial signal for Users to contract for supply and demand Interruption. Looking at the longer term, supply and demand Interruption is a primary balancing tool which should be completed by Users not the Residual System Balancer. As such regime incentives should look to promote this situation. Rewarding a User for waiting until Transco calls on this primary tool is at odds with this fundamental aspect of the energy balancing regime.

In addition, Interruption though the "free option" contract route will not be reflected in User incentives and could indeed release gas being delivered by that User for onward sale in the OCM, probably at higher prices than that contracted with the interrupted party. Again this does not provide any incentive for the User to address its Primary Balancing role.

In Transco's opinion taking the "free option" before fully utilising the market (to the extent that it is capable of delivering an appropriate response in an acceptable time period) could be considered to be inefficient and uneconomic as it inevitably leads to the market becoming reliant on the Residual System Balancer undertaking a Primary Balancing role.

Transco also notes that the extent to which it is required to take the ‘free option’ is wholly determined by User participation in the market in respect of placing demand side bids.

Transco is mindful of the three month lead-time required for the implementation of PC81 and therefore requests that in order that the Proposal may be implemented by 1 October 2004 Ofgem considers its decision in respect of the Proposal and the Pricing Consultation prior to the completion of the SMPS consultation which requires a one month lead-time.

11.6 Option Contracts

Three respondents (EDF, SSE and SGD) expressed the view that the development of Transco option contracts for supply and demand Interruption requirements may merit further consideration.

SSE noted that, "There is no impediment to Transco entering into such contracts, other than introducing a means of recovering any cost via balancing neutrality". SGD concurred with Ofgem’s view set out in its recent review of arrangements for winter 2004/5 that, "While it was not appropriate for Transco to use its interruptible contracts for supply and demand balancing purposes, Transco could separately contract for these services”.

EDF requested that, "Transco considers buying option contracts with Users for energy interruption at all supply points both firm and interruptible". It suggested that these contracts could be analogous to those used within Electricity market arrangements. EDF believed that, "The market is ready to offer products to Transco for energy interruption, and that before any amendments to the Network Code there should be contracts in place which feed through into balancing neutrality and cashout prices".

Transco Response

A fundamental basis of the gas balancing regime is that the primary balancing role is the responsibility of the User. Transco does not consider it appropriate to procure option contracts for supply and demand management Interruption which seek to manage primary balancing requirements. Additionally Transco does not believe that it is necessary for it to procure option contracts in order to stimulate the market to offer new products. It contends that the proposed changes in how it utilises the market and the removal of the ECII credit payment for supply and demand Interruption should provide sufficient incentives to simulate the market in respect of increasing the level of demand side bids. If such Interruption contracts are required then Transco contends that the most appropriate route is for the User to secure access to them in order to enable it to balance its own supply and demand portfolio. To the extent that the User is unable or unwilling to do so it is also appropriate for it to be fully exposed to the Cashout arrangements. Transco’s primary role as residual balancer is to secure the close to, and real time balance of the system. This is different to its role as transportation capacity provider where it is responsible for the primary provision. Transco agree that in this later role the application of option and forward contracts may be appropriate but this is not the case in regard to its residual role in energy balancing.

11.7 Ofgem Consultation

TGP expressed the view that it may be premature to make changes to the Interruption regime

prior to the completion of the Distribution Network changes and Ofgem's Top-Up & Cashout consultations.

Transco Response
Transco acknowledges TGPs views and agrees that any Interruption regime development must be mindful of the DN changes and the current Ofgem consultations. Transco notes that at the NT&T Workstream on the 6th June 2004 Ofgem presented its Top-Up and Cashout consultation review. As part of the presentation they highlighted that changes to the Gas Cashout regime were unlikely to be required for winter '04-'05 similarly the DN changes are not due to be introduced until April 2005. On a number of occasions Transco has highlighted the need to have an appropriate supply and demand Interruption regime in place, that encourages Users to address their primary balancing responsibilities for this winter ’04-‘05. Hence we do not see any reason not to introduce this Proposal.

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 comply with any 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

Transco does not anticipate any such requirement

14. Programme of works required as a consequence of implementing the ModificationProposal

Finalise system design requirements,
Evaluate systems changes,
Design and build systems,
Test new system
Introduce to 'live' environment.

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

Draft Modification Report circulated	- 24 May
Consultation period ends	- 15 June
Final Modification Report issued	- 6 July
UK Link committee advised of File format and fax format change	- 15 July
Ofgem decision expected	- Late August
Network Code implementation	- 1 October
Systems implementation	- 1 October

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends the implementation of this 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

Draft Legal Text

SECTION G

Amend paragraph 6.1.9 as follows:

"In respect of an Interruptible Supply Point the Registered User (or Sharing Registered Users) shall:

(a) not be required to pay NTS Exit Capacity Charges and LDZ Capacity Charges;

(b) be entitled to a payment, where in respect of an Interruptible Supply Point Transco requires Interruption in accordance with either:

(i) paragraph 6.7.3(a) (save where the relevant Transportation Constraint is or is anticipated to be in relation to the extent or distribution of supply or demand in any part of the System); or

(ii) paragraph 6.7.3(b),

in aggregate on more than 15 Days in any Formula Year, calculated in the manner provided in the Transportation Statement."

Signed for and on behalf of Transco.

Signature:

Richard Court
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 **0696**, version **1.0** dated **02/07/2004**) 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 appropriate

   provided 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.