

Modification Report
Revision to the Standard Year for purposes of acquiring and holding Long Term
System Entry Capacity
Modification Reference Number 0617
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

The Proposer stated that :

"It is proposed that the LTSEC allocation process is held in September of each year and at this time would offer capacity for the period April (Y+2) to March (Y+16). This affords eighteen months between the conduct of the allocation process, with Transco's publication of the IECR scrutiny by the following November, making capacity available in the April (Y+2).

This would also provide a separation of the processes for Annual MSEC and LTSEC and allow consideration of the outcome of each process and its evaluation under the Incremental Entry Capacity Release methodology. Users would be in possession of the confirmed outcome of each process when participating in the other."

2. Transco's Opinion

Transco recognises that alignment of Capacity Year with the Formula Year might deliver a number of the benefits described in the Proposal, such as providing Shippers more time to consider the outcome of the annual MSEC auctions, and removing the step change in baseline quantities that currently might occur during each twelve month period given current arrangements. Transco also acknowledges that the Proposal would meet the preference expressed at industry meetings for the LTSEC auction to be held outside of the July/August period.

Transco IT systems could accommodate the proposed change in the LTSEC auction date from August to September and the proposed capacity period of April (Y+2) – March (Y+16).

Transco envisages no interaction with the electricity regime.

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

The Proposer states implementation would provide auction participants additional time to take into account the outcome of the MSEC auction. This might allow participants to make better informed decisions in their bid valuations thus improving the efficiency of the auctions which might better facilitate competition between Users.

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

a) implications for the operation of the System:

Transco envisages no implications for the operation of the System.

b) development and capital cost and operating cost implications:

Transco would not anticipate any material development, capital or operating 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:

Not applicable

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

No such consequences are envisaged.

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

No such consequences are envisaged.

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

The proposed delay to the timing of the LTSEC auction to September each year would require only minor changes to the RGTA Capacity System. However, there may be an interaction with the timing of the allocation process, to be completed two months after the auction, and the planned introduction of the Gemini System. Transco would propose that in the event that the Gemini System is introduced after the start of the LTSEC bidding process but prior to the completion of the allocation process, the auction and allocation process is completed on the RGTA Capacity System, with the data associated with the results of the LTSEC allocation made within the RGTA Capacity System being subsequently transferred to the Gemini System.

7. The implications of implementing the Modification Proposal for Users

The planned date for the LTSEC auction would be changed from August to September each year. The annual capacity period for LTSEC would no longer coincide with the Gas Year.

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

No such implications are envisaged.

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 :

More up to date information available to auction participants.
Increase in time available to Users in considering bidding strategies between MSEC results and LTSEC auction.
Moves the timing of the LTSEC auction to outside of the July/August holiday period.

Disadvantages :

Minimises time available between the LTSEC auction results and the production of the Ten Year Statement.
Capacity Year no longer aligned with gas year.

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

Representations were received from the following ten parties :

Shell Gas Direct	(SGD)
London Electricity	(LE)
Chevron UK	(Ch)
Scottish & Southern Energy	(SSE)
British Gas Trading	(BGT)
ConocoPhillips	(CP)
Association of Electricity Producers	(AEP)
Powergen	(PG)
Scottish Power	(SP)
ExxonMobil	(EM)

Of these, eight respondents expressed full support, one (CP) expressed qualified, and one (SGD) did not support the Proposal.

Formula Year vs Gas Year

Of those respondents in support of the Proposal, seven (SP,PG,AEP,SSE,LE,EM,BGT) specifically expressed support for the proposed alignment of the Capacity Year with the Formula Year. Two of these respondents (AEP,PG) suggested that a further improvement would be the alignment of the Formula Year with the Gas Year, but recognised that this would involve amendments to the price control and licence. Chevron stated that it was relatively indifferent to whether the period offered was defined in Gas or Formula Years but supported the principle of shortening the period between the auction date and using the product. BGT acknowledged that the primary justification of the Modification was as a consequence of Modification 0616, although argued that there were advantages in alignment for the LTSEC process.

Two respondents (CP,SGD) did not express support for the proposed alignment, with CP suggesting that the allocation takes place sufficiently in advance of the relevant period and therefore, Transco would have a relatively good assessment of revenue from the process. Any adjustment to transportation charges, it further suggested, would more likely be affected by the shorter term sales of capacity.

SGD explained that their concern with the proposed alignment related to the fact that it would lead to a misalignment between the present Capacity Year, most consumer contracts and upstream contracts. Also, it suggested that as the LTSEC auctions take place two years before the actual use of capacity, then there was sufficient time for Transco to take account of any accounting issues arising from the misalignment between gas year and formula year.

Timing of Auction

Of those respondents in support of the Proposal, seven (PG,BGT,SSE,Ch,LE,EM,CP) specifically expressed support for the proposed timing of the LTSEC auction for September. The majority of these suggested that this would be beneficial by avoiding the July/August months when key personnel may be away, and that it provided sufficient time between the MSEC and LTSEC auctions to consider bidding strategies.

Other Issues

In response to Transco's comment that the time available between the LTSEC process and the production of the 10 year statement would be reduced, BGT argued that the primary source of information for the preparation of the Ten Year statement was the "Transporting Britain's Energy" planning cycle, supplemented by signals generated from the LTSEC bidding.

Transco's Response

Transco acknowledges the significant support expressed for the revision to the timing of the LTSEC allocation process in order to align the sale of capacity with Transco's Formula Year and Baseline capacity periods. Transco recognises that the perceived benefits in re-aligning the Capacity Year are more relevant with annual MSEC than LTSEC, but believes that it would be inappropriate to introduce a change in the

Capacity Year for one auction type while leaving the other unchanged which could lead to uncertainty in the contractual arrangements.

If implemented the phasing of forthcoming LTSEC auctions would be:

September 2003, capacity offered for April 2005 through to March 2019 (Y+2 to Y+16).

September 2004, capacity offered for April 2006 through to March 2020 (Y+2 to Y+16).

In light of the widespread support expressed as part of this consultation and at industry workstream meetings, and as Transco has identified no adverse impacts with the proposed change in the LTSEC auction date, Transco supports moving the time at which the auction is conducted from August to September.

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

No such requirement exists.

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.

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

No changes to UK Link are envisaged and therefore a Programme of Works is not required.

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

Transco proposes, if implementation is directed, that such implementation occurs no later than 1 July 2003 to allow sufficient time to arrange the auction invitation process prior to the proposed commencement of the LTSEC auction in September 2003.

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

SECTION B: SYSTEM USE AND CAPACITY

Amend paragraph 2.1.13 to read as follows:

- 2.1.13 For the purposes of this paragraph 2 and in particular in the context of applications for System Entry Capacity in accordance with the further provisions of this paragraph 2, a reference to a 'Capacity Year + *n*' is a reference to the Capacity Year commencing on the *n* anniversary of the first Day of the Capacity Year in which the applications are invited to be made.

Amend paragraph 2.2.1 to read as follows:

2.2.1 By:

- (a) not later than the Day falling twenty eight (28) Days before the annual AMSEC invitation date in any Capacity Year, Transco will notify Users of the reserve prices and the step prices that will apply in respect of each Aggregate System Entry Point for the purposes of the annual AMSEC invitation;
- (b) not earlier than 1 February and not later than 29 February 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);
- (c) not later than the Day falling twenty eight (28) Days before the first annual QSEC invitation date in any Capacity Year, Transco will notify Users of the reserve prices and the step prices that will apply in respect of each Aggregate System Entry Point for the purposes of the annual QSEC invitation; and
- (d) not earlier than 1 September and not later than 30 September in a Capacity Year, Transco will invite, and Users may make, applications for Quarterly System Entry Capacity in respect of each Aggregate System Entry Point for the periods specified in paragraph 2.2.2(b).

Amend paragraph 2.2.2 to read as follows:

2.2.2 Transco will invite applications [("**annual invitation**")]

- (a) for Monthly System Entry Capacity for each calendar month in Capacity Year + 1 and Capacity Year + 2
- (b) for Quarterly System Entry Capacity for each calendar quarter in Capacity Year + 2 to Capacity Year + 16 (inclusive),

in each case for such aggregate amounts of System Entry Capacity as is specified in the relevant annual invitation.

Amend paragraph 2.2.3 to read as follows:

2.2.3 Transco's annual invitations under paragraph 2.2.2 will specify:

- (a) the date(s) (on which applications pursuant to the annual invitation may be made), which for the purposes of:
 - (i) paragraph 2.2.2(a), shall be a Business Day; and
 - (ii) paragraph 2.2.2(b), shall be a period of ten (10) consecutive Business Days ("**annual invitation period**"),(each such date an "**annual**" invitation date);
- (b) for each Aggregate System Entry Point, and in respect of each of Capacity Year + 1 to Capacity Year + 16 (inclusive), the Available System Entry Capacity and the reserve price for Unsold System Entry Capacity (in accordance with the Transportation Statement) (the "**reserve price**");
- (c) for each Aggregate System Entry Point, and in respect of each of Capacity Year + 2 to Capacity Year + 16 (inclusive):
 - (i) the relevant number of incremental amounts (each being for a different amount) of Quarterly System Entry Capacity greater than the Baseline Entry Capacity (the maximum incremental amount being not less than an amount equal to 150% of Baseline Entry Capacity) (each amount an "**incremental capacity amount**"); and
 - (ii) the price payable by Users for each different incremental capacity amount (the "**step price**") were Transco to make such incremental capacity amount available,in each case (in accordance with the Transportation Statement); and
- (d) the relevant number for the purposes of paragraph (c) being twenty (20) except in the case of an Aggregate System Entry Point where the Baseline Entry Capacity is less than 300,000,000 kWh/Day where the relevant number (being not greater than twenty (20) and not less than five (5)) shall be set out in the Transportation Statement.

Amend paragraph 2.2.4 to read as follows:

2.2.4 Users may apply for Monthly System Entry Capacity for a calendar month in Capacity Year + 1 and/or (without prejudice to paragraph 2.2.14) for Quarterly System Entry Capacity for a calendar quarter in each of Capacity Year + 2 to Capacity Year + 16 (inclusive) in respect of an Aggregate System Entry Point on the relevant annual invitation dates.

Amend paragraph 2.2.5 to read as follows:

- 2.2.5 The "**Available System Entry Capacity**" for an Aggregate System Entry Point is, in respect of:
- (a) a calendar month in Capacity Year + 1 and Capacity Year + 2, not less than the sum of:
 - (i) Unsold System Entry Capacity (if any); and
 - (ii) Incremental System Entry Capacity (if any); and

- (b) a calendar quarter in Capacity Year + 2 to Capacity Year + 16 (inclusive), is not less than the sum of:
 - (i) Unsold System Entry Capacity (if any); and
 - (ii) Incremental System Entry Capacity (if any).

Amend paragraph 2.2.6 to read as follows:

2.2.6 An application (a "**quarterly**" capacity bid) for Quarterly System Entry Capacity in respect of Capacity Year + 2 to Capacity Year + 16 (inclusive) shall specify:

- (a) the identity of the User;
- (b) the Aggregate System Entry Point;
- (c) the calendar year and calendar quarter for which Quarterly System Entry Capacity is applied for;
- (d) the amount (not less than the minimum eligible amount) of Quarterly System Entry Capacity applied for (in kWh/Day);
- (e) the minimum amount (not less than the minimum eligible amount) of Quarterly System Entry Capacity which the User is willing to be allocated for the purposes of paragraph 2.6.4; and
- (f) the price (being either the reserve price or a step price as set out in the Transportation Statement) in respect of which the User is applying for the amount of Quarterly System Entry Capacity.

SECTION W: INTERPRETATION

Amend paragraph 2.2.1 to read as follows:

....

- (h) "**Capacity Year**" means the period from 1 April in any year until and including 31 March in the following year;

In respect of the additional paragraphs listed below, "Gas Year" to read "Capacity Year" :

2.2.7;

2.2.13 (a);

2.6.7 (a);

2.7.7 (a);

2.7.7 (b)

2.14.1

Signed for and on behalf of Transco.

Signature:

Nigel Sisman

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 **0617**, version **1.0** dated **01/05/2003**) 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.