

Final Modification Report
Modification Reference Number 0095
Entry Capacity Overruns from 1.10.96

This Modification Report is made pursuant to Rule 9 (**Urgent**) of the Modification Rules and follows the format required under Rule 8.12.4.

Foreword

The legal drafting in this Final Modification Report differs from that detailed in Urgent Modification Proposal in two respects. First, the threshold for the application of the ratchet tranche has been lowered at the request of Ofgas. The Ofgas cover letter, accompanying the Implementation Notice, includes an explanation of this change. Secondly, the application of the ratchet tranche has been made conditional on a shipper's credit limit not being exceeded, in accordance with Section V.

1 Circumstances Making this Modification Urgent

In accordance with Rule 9.2(a), Ofgas has agreed that this modification proposal should be treated a URGENT in recognition of the necessity to adjust entry overrun charges incurred after 1st October 1996

2 Procedure and Timetable

8th November	-	Modification Proposal submitted to Ofgas
22nd November	-	Written Representation close out
29th November	-	Final Modification Report to Ofgas.
	-	Implementation.

3 The Modification Proposal

The NTS entry multipliers, as detailed in B2.6.3, will be revised as follows to be applied on a seasonal basis:

<u>NTS Entry Points</u>		
<u>Month</u>	<u>Peak Storage</u>	<u>Other</u>
October to May	5.0	0.5
June to September	0.2	0.2

In the winter period, from October to March inclusive, TransCo will, in addition to levying the overrun charges above, book a quantity of capacity (a "ratchet" tranche) on the shippers behalf, to the same quantity as used to calculate the overrun charge. This booking will be for a period of 12 months, commencing on the first eligible booking date after the overrun charge has been determined.

If, in the period between the first of the month following the overrun month and the commencement date of the ratchet tranche, further overruns occur, they will be offset by the level of the overrun quantity in previous month(s).

Where there is small overrun, (less than 15,000kWh), the overrun charge will apply but the ratchet tranche of capacity will not be booked. Consequently, such overruns cannot be used to offset overruns in subsequent months.

In adopting this, overrun charges in winter are divided into two elements;

- 1) an overrun charge and,
- 2) a tranche of capacity recorded on AT_LINK that can be utilised or traded.

4 TransCo's opinion

TransCo supports implementation of this modification.

5 Extent to which the modification would better facilitate the relevant objectives

This modification better supports TransCo in the discharge of its license obligations by reducing overrun charges to levels which are as low as possible whilst ensuring that the charges reflect the high cost of peak day capacity and provide an effective incentive for shippers to book capacity in line with security standards.

6 The implications for TransCo of implementing the Modification Proposal, including

a) implications for the operation of System and any BG Storage Facility

TransCo is not aware of any such implications.

b) development and capital cost and operating cost implications

There are no development or capital costs implications. Overrun charges for October 1996 will be calculated manually and invoiced through the Ad-hoc invoice. The application of the "ratchet tranche" rules will be handled through TransCo internal procedures

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 intend to recover any costs other than those provided for in the Transportation Statement.

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

TransCo is not aware of any consequences.

7 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 proposes that reduced capacity multipliers (& overrun charges) will give rise to sustainable charges and reduce contract risk.

8 The development implications and other implications for computer systems of TransCo and related computer systems of Relevant Shippers

TransCo will be periodically required to input revised overrun charge rates to implement the revised multipliers. TransCo has not been made aware of any shipper system implications.

9 The implications of implementing the modification for Relevant Shippers

Shippers will receive lower capacity overrun charges.

10 The implications of implementing the modification for terminal operators, suppliers, producers and, any Non-Network Code Party

TransCo is not aware of any such implications.

11 Consequences on the legislative and regulatory obligations and contractual relationships of TransCo and each Relevant Shipper and Non-Network Code Party (if any), of the implementation of the Modification Proposal

TransCo has not been informed of any such consequences.

12 Analysis of any advantages or disadvantages of the implementation of the Modification Proposal

Advantages Shippers will be exposed to reduced entry overrun charges
 The introduction of the ratchet tranche rules will allow shippers to use
 overruns to offset overruns occurring in subsequent months.

13 Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the modification report)

Written representations have been received from **Accord Energy Ltd.**, **Alliance Gas Ltd.**, **Associated Gas Supplies Ltd.**, **British Gas Trading Ltd.**, **BP Gas Marketing Ltd.**, **Eastern Natural Gas Ltd.**, **Kinetica Ltd.**, **Mobil Gas Marketing (U.K.) Ltd.**, **Quadrant Gas Ltd.** and **Texaco Ltd.**

These are attached as Appendix 1.

The representations, with the exception of **Accord Energy Ltd.** and **British Gas Trading Ltd.** broadly support the implementation of this Modification.

Eastern Natural Gas Ltd. and **Kinetica Ltd.** make the point that the ratchet tranche should apply to all Entry overruns, however small.

In reply, TransCo would point out that overrun charges can range from millions of pounds to a few pence. Bearing in mind that the application of the ratchet tranche is not being systematised, the introduction of the 15,000kWh threshold is justified by balancing the material benefits of the ratchet to the potential operational complexity of several small repeated overruns. With regards supply contract tolerances, it is a shippers prerogative whether or not it books capacity to account for delivery variances.

BP Gas Marketing Ltd. are of the view that the ratchet tranche mechanism is "an unnecessary complication"

TransCo would like to point out that reasons for the inclusion of the ratchet tranche were twofold. First, it was included to prevent successive overruns occurring in consecutive months where the shipper may have been unaware and unable to remedy its capacity position. e.g. overruns occurring on 31st January and 1st February. Secondly, the application of ratchet tranche maintains the incentive to book while allowing the one off overrun charge to be reduced.

British Gas Trading Ltd. oppose the reduction of the overrun premiums to a level that provides "no incentive to book". The overrun regime should "maintain sufficient incentive for shippers to book prudently" to the extent that the multipliers should be "not less than one, whether linked to a ratchet mechanism or not".

TransCo do not believe that overrun premiums have been eroded to the extent that shippers will be encouraged to book short. The 0.5 winter multiplier plus the ratchet tranche provides a significant incentive (and charge) in the run up to the peak months. After the peak months, the prior application of the ratchet will ensure that all capacity used is paid for over the subsequent 12 month period. It will also ensure a healthy pool of tradable capacity during the shoulder and summer months. The lower Summer multipliers reflect the lower value of capacity during these months without undermining development of a daily market.

The issues raised in the representation received from **Accord Energy Ltd.** are generic to Modifications 094, 095 and 096 and are recorded in Section 13 of Modification 094

14 The extent to which the implementation is required to enable TransCo to facilitate compliance with safety or other legislation

This Modification is not required to facilitate compliance with Safety or other legislation.

15 Having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement; furnished by TransCo under Standard Condition 3(1) of the Licence

This Modification is not required to comply with this clause.

16 Programme of works required as a consequence of the implementation of the Modification Proposal

This modification does not require any works other than amendment to Network Code text and amendment to TransCo internal procedures.

17 Proposed implementation timetable

This modification will be implemented as soon as practicable after OFGAS approval.

18 Recommendation for the implementation of the modification

TransCo recommends that this modification is implemented as soon as practicable after Ofgas approval.

19 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.

20 TransCo Proposal

This Modification Report contains TransCo's proposal to modify the Network Code and TransCo now seeks a direction from the Director General in accordance with this report.

21 Text provided pursuant to Rule 9 (Urgent)

Principal Document, Section B

Amend paragraph 2.6.1 to read as follows:

"2.6.1 exceeds the User's Available System Entry Capacity:

- (a) the User shall pay a charge ("System Entry Overrun Charge") in respect of System Entry Capacity at that Aggregate System Entry Point in that month (and where paragraph 2.6.3 applies until the entry ratchet date); and
- (b) where the overrun month is a month from October to March (inclusive), and the amount of the overrun quantity is not less than:
 - (i) other than the case of a peak storage connection point 12,500kWh (420 therms);
 - (ii) in the case of a peak storage connection point 2,000kWh (67 therms), paragraph 2.6.3 shall apply."

Insert a new paragraph 2.6.3 as follows:

"2.6.3 Where this paragraph 2.6.3 applies:

- (a) the User shall be held to have applied and (subject to paragraph 2.2.4(ii)) have been automatically be registered, with effect from the first Eligible Capacity Registration Date which falls not less than 30 Days after the Entry Close-out Date in respect of the overrun month (the "entry ratchet date"), as holding additional System Entry Capacity at the Aggregate System Entry Point in an amount equal to the chargeable overrun quantity, which amount shall be a separate tranche (with a capacity period of 12 months) of System Entry Capacity for the purposes of paragraph 2.2;
- (b) in determining the overrun quantity in respect of any subsequent overrun day, from the 1st Day of the month following the original overrun month until the entry ratchet date, the amount of the User's Available System Entry Capacity shall be deemed to be increased by an amount equal to the chargeable overrun quantity (in respect of the original overrun month)."

Delete old paragraph 2.6.3 and replace with the following:

"2.6.4 The System Entry Overrun Charge shall be calculated as the amount of the chargeable overrun quantity multiplied by the relevant multiplier (determined as set out below by reference to the Aggregate System Entry Point and the overrun month) of the Applicable Annual Rate of the System Entry Capacity Charge:

Relevant multiplier

Overrun month

October to May

June to September

Aggregate System Entry Point

Peak Storage connection point

5.0

0.2

All other points

0.5

0.2"

Renumber paragraphs 2.6.4 and 2.6.5 as 2.6.5 and 2.6.6

Signed for and on behalf of British Gas TransCo.

Signature:

Date:

Name:

Position:

7-1-97
JOHN LOCKETT
COMMERCIAL MANAGER
NETWORK CODE

Director General of Gas Supply Response

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct British Gas TransCo that the above proposal be made as a modification to the network code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:

Date:

Name:

Position:

9-1-97
TAHIR MASUD
Network Operations/Regulation & Business Affairs

The network code is hereby modified, with effect from
above proposal.

, in accordance with the

Signature:

Secretary Modification Panel
British Gas TransCo

ANNEX

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause

- 1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:
- (i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") 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 Director 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 paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

- 1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.

APPENDIX 1

Representations from:

Accord Energy Ltd.

Alliance Gas Ltd.

Associated Gas Supplies Ltd.

British Gas Trading Ltd.

BP Gas Marketing Ltd.

Eastern Natural Gas Ltd.

Kinetica Ltd.

Mobil Gas Marketing (U.K.) Ltd.

Quadrant Gas Ltd.

Texaco Ltd.