

Modification Report
URGENT Modification Reference Number 260

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

1. Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.2(a) Ofgas has agreed that this Modification Proposal should be treated as Urgent because

2. Procedures Followed:

Transco agreed with Ofgas the following procedures for this Proposal;

| | |
|----------------|------------------------------|
| 20 August 1998 | Representations close out |
| 21 August 1998 | Modification report to Ofgas |
| 24 August 1998 | Ofgas decision required |

3. The Modification Proposal:

JUSTIFICATION:

The Network Code needs to be modified :

(a) To allow an Ancillary Agreement with condition 7(4) approval, at a System Entry Point. This is required for the UK-Continent interconnector since the CSEP Ancillary Agreement addresses the issue of Transco receiving and allocating gas to nominal gas entry and exit quantities, this is instead of the normal use of the metered measurement.

(b) To allow an Ancillary Agreement (rather than the Network Code itself) to provide for condition 7(4) approval. This is required to ensure that all shippers offtaking at the Interconnectors (Moffat and Bacton) enter in to the relevant agency agreements. Transco will designate an agency agreement only once we have condition 7(4) approval from Ofgas, thereby, ensuring that Transco is not exposed to risk of criticism for forcing shippers in to a third party agreement. Shippers have requested Transco designate these agency agreements.

The modification is required as URGENT, because of the requirement to finalise, receive Ofgas approval and sign the CSEP Ancillary Agreement on either 24th or 25th August 1998.

CONSEQUENCE OF NOT MAKING THIS CHANGE:

1. The CSEP Ancillary Agreement for the UK-Continent Interconnector would not be workable. The agreement could not be signed for 1 October 1998.

2. The shippers allocation agents at the UK-Continent and GB-Ireland Interconnectors could not be made mandatory by Transco. Without their mandatory nature, shippers would not sign the agency agreements and no nominations matching and allocations agents would exist.

In the absence of an agent, the impact of a nomination mistake by one party would affect all other shippers. In addition the shippers would be reliant upon the less sophisticated default allocation arrangements.

AREA OF NETWORK CODE CONCERNED:

Section I, new clauses 1.7.1 and 1.7.2. to be introduced on Page I-4 (Version 2.00).

Section W, new clause 2.8.6. To be introduced on page W-8 (Version 2.00).

NATURE OF PROPOSAL:

Section I

"1.7 Ancillary Agreement

- 1.7.1. Transco may require, as a condition of a User's holding System Entry Capacity at an Aggregate System Entry Point or making Input Nominations or submitting Entry Allocation Statements in respect of a System Entry Point, that the User enter into or accede to an Ancillary Agreement in a form designated by Transco with Condition 7(4) Approval of the Director setting out terms (in addition to or by way of variation of the terms of the Code) in relation to the use of the System for the purposes of delivery of gas at that System Entry Point.
- 1.7.2 An Ancillary Agreement designated pursuant to paragraph 1.7.1 shall be deemed to be a part of the Code for purposes of enabling such Agreement to be modified pursuant to the Modification Rules."

Section W

- "2.8.6 An Ancillary Agreement may, with Condition 7(4) Approval of the Director, provide for Transco to take a particular step or action with Condition 7(4) Approval, or in the absence of Condition 7(4) Disapproval, of the Director; and any such provision of an Ancillary Agreement is hereby deemed to be a provision of (and shall be treated as being incorporated in) the Code."

PURPOSE OF PROPOSAL:

The proposal allows the UK-Continent Interconnector to offtake gas from the Transco systems.

The proposal also allows the Code to support the competition in gas supply. By removing the risk of mistakes by one party impacting other shippers and users, and by ensuring accurate title to gas, the appointment of an agent will increase the number of parties willing to supply gas at these offtakes and hence reduce the gas cost to end consumers.

4. Transco's opinion:

Transco support the implementation of this modification.

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

The modification does better facilitate the relevant objectives, by ensuring effective competition between relevant shippers and ensuring the more efficient and economic operation of the Transco system.

6. **The implications for Transco of implementing the Modification Proposal, including:**

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

There are no implications

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

There are no 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:**

there are no implications

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:**

There are no consequences

8. **The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers:**

There are no consequences

9. **The implications of implementing the Modification Proposal for Relevant Shippers:**

Shippers wishing to input gas to the Transco at the UK-Continent Interconnector would be required to sign the CSEP Ancillary Agreement. Shippers wishing to offtake and input gas at the UK-Continent Interconnector may be required to enter in to an agency agreement, subject to Condition 7(4) approval of the Director.

10. **The implications of implementing the Modification Proposal for terminal operators, suppliers, producers and, any Non-Network Code Party:**

There are no consequences.

11. **Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant Shipper and Non-Network Code Party of implementing the Modification Proposal:**

There are no consequences.

12. **Analysis of any advantages or disadvantages of the implementation of the Modification Proposal:**

Enables the Network Code rules for the interconnectors to be signed and implemented.

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

Two representations were received.

BP Gas Marketing Ltd. supported the implementation of this proposal.

British Gas Trading agreed that the Code should be modified in accordance with this proposal.

Transco Response:

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

Not applicable

15. **The extent to which the implementation is required having regard to 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:**

Not applicable

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

None are required.

17. **Proposed implementation timetable (inc timetable for any necessary information systems changes):**

To be implemented on 24 August 1998

18. **Recommendation concerning implementation of the Modification Proposal:**

Transco recommends that this modification is implemented.

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's Proposal:**

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

21. **Text provided pursuant to Rule 9:**

Section I

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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.