

Modification Report
Modification Reference Number 268

This Modification Report is made pursuant to Rule 7.4 of the Modification Rules and follows the format required under Rule 8.12.4.

1. The Modification Proposal:

The proposal is to change the default allocation rules for days when Transco issue a Curtailment Notice for any of the reasons under Clause 5.6 of Annex B-4 of the Interconnection Agreement (Bacton Interconnector) or Clause 5.5 of the Connected Systems Agreement (Moffat Interconnector).

The contract currently allows for a different default allocation to be applied on days when an Interruption Notice is given compared to days when Transco issue a Curtailment Notice for reasons other than Interruption (as defined in the CSEP Ancillary Agreement).

The proposal is to amend the default allocation to make the allocation consistent for when a Curtailment Notice is or is not an Interruption Notice as defined under the CSEP Ancillary Agreement. The proposal would not provide hourly allocations but would provide a further variation on after the day methodologies which involves looking back into the gas flow day.

In addition the proposal is also to amend the default allocation to reflect the view expressed by Ofgas in the letter (dated 17/8/98) from Dr. Marshall to Nigel Shaw ("Default allocation rules at the Interconnectors"). The following extract from the letter is provided to outline the view expressed by Ofgas:

"Firm capacity at Interconnectors is booked on the basis of a shippers' peak daily requirements (known as the SOQ). At other NTS offtakes, shippers also have to declare an instantaneous peak offtake rate (SHQ) which, when expressed hourly, should not exceed 1/24th of the SOQ. However, at Interconnectors, the SHQ is generated in aggregate, and is not applied at an individual level to each shipper.

Ofgas believes that at Interconnectors each shipper booking an SOQ should also be constrained such that its 'deemed SHQ' is 1/24th of its SOQ. In such a situation, a firm shipper should be entitled to flow each hour up to its firm 'deemed SHQ'. To the extent that firm shippers are within their 'deemed SHQ', they should be allocated gas first. To the extent that firm shippers have nominated to flow above their 1/24th entitlement, they should be guaranteed only their firm entitlement; any allocation above that firm entitlement should be treated equivalent to other shippers without a firm entitlement - that is Interruptible shippers and firm shippers exceeding their deemed SHQ.

Ofgas believes that a default allocation procedure should ensure that firm shipper could guarantee, by flowing at a constant rate at or below 1/24th of their SOQ, to deliver their planned end of day quantity. To the extent that a firm shipper chose not to flow at its 'deemed SHQ' in any hour, its ability to deliver a firm end of day quantity would also

be reduced. Similarly, a firm shipper should also be constrained by the ramp rate and step change requirements in the appropriate NExA."

The proposal is to amend the default allocation rules in Clause 6.6 to 6.9 of the relevant CSEP Ancillary Agreements. The change would reflect that the default allocation prior to a Curtailment Notice being issued would be pro-rata to the sum of the Firm and Interruptible Nominated Quantities applicable at the time. After the time of the Curtailment Notice being issued, the default allocation would allocate the offtaken quantity for the remainder of the day by applying the principles enshrined in clause 6.6 (b). This clause (6.6 (b) would need to be amended to reflect that the CSEP Users' Firm Available Capacity is deemed to be 1/24th of the Firm Available Capacity times the number of hours left in the gas flow day. In the event that a Curtailment Notice was lifted during the day, then the firm first allocation would only apply for the period from the issue of the Curtailment Notice to the lifting of the curtailment.

It would also be necessary to amend clause 6.7 to reflect that clause 6.6 (b) applied to all instances when a Curtailment Notice is issued.

The implementation of this is currently being assessed. However, the actual implementation impacts can only be assessed once the modification is finalised. However, it is clear that the allocation process can not be automated at present and that a manual allocation is a very lengthy process. In recognition of this, and to prevent additional costs for Transco and the industry being incurred unnecessarily, it is proposed that the amended default would be applied by 19:00 on D+4. This ensures that significant resources are not diverted and costs incurred in calculating the default allocation when the agent may in fact be intending to provide an allocation for that day. The current rules require Transco to provide a default allocation on D+2 by 19:00, if the Bacton agent has not provided an allocation by 16:00 on D+2. However, in order to achieve the proposed default by 19:00 on D+2, it would be necessary for Transco to always start to calculate the default on D+1. Since all parties expect the agent to provide the allocations, this would be a waste of resources, since resources would have to be diverted away from other daily operations work or new resources employed. Therefore, it is proposed that on the days when a Curtailment Notice is issued, then the default of pro-rata to all nominations (firm and Interruptible) would be applied by 19:00 on D+2 if no allocation from the agent has been received. If no allocation from the agent has been received by 16:00 on D+4, then Transco would apply the proposed default allocation by 19:00 on D+4.

2. Transco's opinion:

Where Interruptible and Firm sites exist elsewhere on the NTS both sites would have restricted ramp rates and lead times (which may or may not result in an impact to the EODQ) and the firm site would only benefit from a preferential service on days of Network Code Interruption.

Additionally at a point where two systems connect a transporter using a default allocation mechanism which only looks at the Shippers and their Allocation rights in one system will never come up with a result which matches allocations for buyer and sellers in the two connecting systems.

It is Transco's opinion that where an authorised agent of the Shippers fails to produce an allocation statement (possibly at short notice) then the default allocation employed by the Transporter should be able to produce a result which;

- (a) is easy to implement at short notice
- (b) is as consistent as possible with the services at other points
- (c) reflects the rights acquired by the different users (firm and Interruptible)
- (d) does not introduce opportunity for one class of user to artificially create circumstances to create beneficial allocation rules.

It is Transco's opinion that the modification does not match all these principles. The service does not exist at other offtakes, nor would it be achievable (given the risk of manual processes) to deliver this type of Transco default allocation for Offtakes other than the Interconnectors. This service as drafted also creates opportunity for Firm users to cause firm first to be applied by requiring their counterparty to nominate outwith the Interconnection Agreement NExA limits.

Although this service may appear to provide an allocation which reflects the title to gas Shippers believe they have, this modification would not deliver this. The existence of two different default allocation regimes at a connecting system ensures the discontinuity of title, hence the role of an Agent. No default allocation mechanism looking only at the rights in one system will produce allocations which reflect rights across the offtake. The Bacton Agent recognises this, particularly since the offtake is controlled by downstream nominations and not those of NTS Shippers.

Given the fact that allocation at comingled streams is not managed by UK-Link (other than for pro-rata default at entry) this modification would not be easy to implement at short notice nor manage once implemented (Transco will not know in advance when the Agent will fail).

Recognising the deficiencies in the allocation proposal and the mixed views of the shipping community, if the Industry require this type of default arrangement Transco would be able to implement these rules given a suitable implementation timetable.

Referencing Eastern & Agas's representations Transco cannot support the treatment of curtailments for reasons that the flow rates are outwith the NExA limits within the 45 day Interruption period. This treatment would introduce a new definition for Network Code Interruption which the current regime does not facilitate or support. Such a change to the Interruption definition would require a more fundamental review.

It is Transco's opinion that this proposal (and legal text enclosed) does reflect the Ofgas position in the letter from Dr. Marshall to Nigel Shaw and also restated at the time of the CSEP Ancillary Agreement approvals.

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

This proposal effectively strengthens the rights of firm users at the CSEP therefore increasing the value of firm capacity and hence economic drivers for capacity release and transfer. This will enhance the efficient and economic operation of the system.

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

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

None

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

Amendments required to the current manual process.

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 will develop proposals to amend transportation charges as appropriate.

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

None

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 already have significant risk exposure through the requirement to manage the process outside of UK-Link systems. Implementation of this Modification proposal increases Transco's exposure to this type of risk and increases the likelihood of allocation discrepancies.

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

Default allocation is currently managed outside of UK-Link. The introduction of further complexity to these process increases the development lead time and hence the likelihood of developing more robust UK-Link systems solutions.

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

This modification provides for the firm first principle expressed in Dr. Marshall's letter to Nigel Shaw, and this will apply at periods of curtailment. Interruptible shippers may see a reduction in their service as a consequence.

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

IUK will be required to provide Transco with additional within day deemed flow information. Transco are pursuing an Interconnection Agreement change in parallel.

9. **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:**

Transco are not aware of any consequences.

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

Advantages

- default more consistent with principles laid down by Ofgas (letter from Dr. Marshall to Nigel Shaw)
- firm users will see a strengthening of their service under the default allocation methodology.

Disadvantages

- cost to Transco and Shippers, subject to revision of transportation charges.
- further exposure to Transco from ad-hoc manual implementation of an increasingly complex process.
- possible inconsistency with application of Firm / Interruptible definitions elsewhere on NTS.
- Firm users can cause firm first rules to apply by requiring their downstream counterparties to nominate outside of the basic NExA service.

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

Support	Against
BGT	Eastern
AGIP	Agas
Shell	Amerada
BP	
Mobil	
Powergen	

Transco Response:

Transco cannot support the treatment of curtailments for reasons that the flow rates are outwith the NExA limits within the 45 day Interruption period. This treatment would introduce gaming

opportunities and a new definition for Network Code Interruption which the current regime does not facilitate nor support, a change to the Interruption definition would require a more fundamental review.

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

Transco is not aware of any such requirements.

13. **The extent to which the implementation is required 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:**

Transco is not aware of any such requirements, however Transco will review whether it is necessary to revise transportation charges.

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

- Amendment to IUK Interconnection Agreement to require IUK to provide the Within Day Aggregate Quantity required by the CSEP Ancillary Agreement.
- Amendment, validation and testing of existing Transco manual processes.
- Revision of transportation charges.

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

Existing default mechanism to apply until Gas Flow Day 11th November.
Network Code to be changed with effect from 12th November 1998.
The first day the new default would be applied on D+4. Therefore the actual date for implementation will be 16th November 1998.

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

Transco recommend that the modification be implemented in accordance with the above timetable.

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 Director General in accordance with this report.

Under clause 5.2 of the Interconnection Agreement Transco also requests the approval of Ofgas to change the Interconnection Agreement to provide for Within Day Aggregate Quantities.

19. Text provided pursuant to Rule 7.3

**CSEP Ancillary Agreement
UK-Continent Interconnector**

Clause 6.6 - delete (b) and replace with:

(b) where this paragraph applies:

(i) as to the Non-Curtailed Amount, to CSEP Users in proportion to the sum (for each CSEP User) of its Within-Day Nomination Quantities for the Non-Curtailed Period under its Firm and Interruptible Nominations;

(ii) as to the Curtailed Amount:

(1) first to CSEP Users in proportion to the lesser (for each CSEP User) of:

(x) the Within-Day Nomination Quantity for the Curtailed Period under the User's Firm Nomination, and

(y) the User's Firm Within-Day Capacity Entitlement for the Curtailed Period;

up to a maximum of the aggregate for each CSEP User of the lesser of the amounts in paragraphs (x) or (y);

(2) secondly, to CSEP Users in proportion to the sum (for each CSEP User) of:

(x) the amount (if any) by which (for each CSEP User) the Within- Day Nomination Quantity for the Curtailed Period under the User's Firm Nomination exceeded the User's Firm Within-Day Capacity Entitlement for the Curtailed Period, and

(y) the Within-Day Nomination Quantity for the Curtailed Period under the User's Interruptible Nomination,

up to a maximum of the aggregate for each CSEP User of the sum of the

amounts in paragraphs (x) and (y);

- (3) lastly, as to any remaining amount, in proportion to the sum (for each CSEP User) of its Within-Day Nomination Quantities for the Curtailed Period under its Firm and Interruptible Nominations.

6.7 Paragraph (b) of clause 6.6 applies in relation to any Day for which Transco gave a Curtailment Notice.

6.8 (a) (b) and (c)(i) unchanged. Delete (c)(ii) and replace with:-

- (ii) if the CSEP User's Firm Available Capacity is equal to or exceeds its Firm Nominated Quantity (and the Firm Nominated Quantity is one or greater), in respect of the Firm CSEP up to but not exceeding the CSEP User's Firm Available Capacity and thereafter for any amounts exceeding the CSEP User's Firm Available Capacity, in respect of the Interruptible CSEP.

Add (c)(iii):-

- (iii) except where paragraphs (i) and (ii) apply, entirely in respect of the Interruptible CSEP.

6.9 In respect of a Day for which Transco gave an Interruption Notice, the quantity of gas allocated (pursuant to clause 6.8) in respect of the Firm CSEP shall not exceed its Firm Available Capacity, and all gas allocated to the CSEP User in excess of its Firm Available Capacity shall be allocated in respect of the Interruptible CSEP.

6.10 For the purposes of this clause 6:

- (a) a CSEP User's "**Firm**" and "**Interruptible**" Nominations are its Output Nominations and Renominations (made in compliance with the Code) respectively for the Firm and the Interruptible CSEP;
- (b) a CSEP User's "**Firm Available Capacity**" is its Available NTS Exit Capacity at the Firm CSEP;
- (c) "**Curtailed Period**" means any period(s) of the Day commencing from the next hour after a Curtailment Notice has been issued and ending at the earlier of the time when the Curtailment is lifted and the end of the Day;
- (d) "**Non-Curtailed Period**" means any period(s) of the Day other than Curtailed Period(s);
- (e) the "**Within-Day Nomination Quantity**" for a CSEP User in respect of any Period of the Day is:

For the first Period in the Day this shall be calculated by dividing the CSEP Users Output Nomination prevailing at the last hour in the Period by the number of hours in the Day and multiplying by the duration of such Period.

For the second and subsequent Periods this shall be calculated by:

Taking the CSEP Users Output Nomination prevailing at last hour in the Period minus the Within Day Nominated Quantity for any earlier Periods, divided by the number of hours remaining in the Day (from the beginning of the Period) and multiplied by the duration of such Period;

- (f) “**Curtailed Amount**” means the Within-Day Aggregate Quantity for any Curtailed Period in the Day;
- (g) “**Non-Curtailed Amount**” means the Within-Day Aggregate Quantity for any Non-Curtailed Period in the Day;
- (h) the “**Within-Day Aggregate Quantity**” for any period is the quantity determined by the CSEP NExA, except where, in accordance with the CSEP NExA, the information received from the CSO under the CSEP NExA is incomplete or invalid, in which case, the Within-Day Aggregate Quantity shall be determined by pro-rating the CSEP Daily Quantity Offtaken to the Within-Day Nomination Quantity prevailing for the relevant period;
- (i) a CSEP User’s “**Firm Within-Day Capacity Entitlement**” in respect of any period is a quantity determined as the CSEP User’s Firm Available Capacity, divided by 24, multiplied by the duration (in hours) of such period;
- (j) a CSEP User’s “**Firm**” and “**Interruptible**” Nominated Quantities are the Nominated Quantities under its Firm and Interruptible Nominations respectively;
- (k) a “**Period**” means either a Curtailed or a Non-Curtailed Period.

6.11 [unchanged]

6.12 Where clause 6.6(b) applies, the information under paragraph 6.6(b) will be determined, on the 4th Day after the Gas Flow Day, and on the Exit Close-out Date, in accordance with clause 6.6(b), and on preceding Days, as though clause 6.6(a) applied.

Annex A

Form of Accession Agreement

Recital A - delete and replace with:

“By the CSEP Ancillary Agreement dated 25 August 1998 and made between Transco and the persons named therein (as now in force pursuant to any Accession Agreement entered into by any other new Party before the date of this Accession Agreement and as from time to time amended or modified), the Parties agreed certain matters in relation to the CSEP”.

**CSEP Ancillary Agreement
GB-Ireland Interconnector**

Clause 6.6 - delete (b) and replace with:

- (b) where this paragraph applies:
- (i) as to the Non-Curtailed Amount, to CSEP Users in proportion to the sum (for each CSEP User) of its Within-Day Nomination Quantities for the Non-Curtailed Period under its Firm and Interruptible Nominations;
 - (ii) as to the Curtailed Amount:
 - (1) first to CSEP Users in proportion to the lesser (for each CSEP User) of:
 - (x) the Within-Day Nomination Quantity for the Curtailed Period under the User's Firm Nomination, and
 - (y) the User's Firm Within-Day Capacity Entitlement for the Curtailed Period;up to a maximum of the aggregate for each CSEP User of the lesser of the amounts in paragraphs (x) or (y);
 - (2) secondly, to CSEP Users in proportion to the sum (for each CSEP User) of:
 - (x) the amount (if any) by which (for each CSEP User) the Within- Day Nomination Quantity for the Curtailed Period under the User's Firm Nomination exceeded the User's Firm Within-Day Capacity Entitlement for the Curtailed Period, and
 - (y) the Within-Day Nomination Quantity for the Curtailed Period under the User's Interruptible Nomination,up to a maximum of the aggregate for each CSEP User of the sum of the amounts in paragraphs (x) and (y);
 - (3) lastly, as to any remaining amount, in proportion to the sum (for each CSEP User) of its Within-Day Nomination Quantities for the Curtailed Period under its Firm and Interruptible Nominations.

6.7 Paragraph (b) of clause 6.6 applies in relation to any Day for which Transco gave a Curtailment Notice.

6.8 (a) (b) and (c)(i) unchanged. Delete (c)(ii) and replace with:-

- (ii) if the CSEP User's Firm Available Capacity is equal to or exceeds its Firm Nominated Quantity (and the Firm Nominated Quantity is one or greater), in respect of the Firm CSEP up to but not exceeding the CSEP User's Firm Available Capacity and thereafter for any amounts exceeding the CSEP User's Firm Available Capacity, in respect of the Interruptible CSEP.

Add (c)(iii):-

- (iii) except where paragraphs (i) and (ii) apply, entirely in respect of the Interruptible CSEP.

6.9 In respect of a Day for which Transco gave an Interruption Notice, the quantity of gas allocated (pursuant to clause 6.8) in respect of the Firm CSEP shall not exceed its Firm Available Capacity, and all gas allocated to the CSEP User in excess of its Firm Available Capacity shall be allocated in respect of the Interruptible CSEP.

6.10 For the purposes of this clause 6:

- (a) a CSEP User's "**Firm**" and "**Interruptible**" Nominations are its Output Nominations and Renominations (made in compliance with the Code) respectively for the Firm and the Interruptible CSEP;
- (b) a CSEP User's "**Firm Available Capacity**" is its Available NTS Exit Capacity at the Firm CSEP;
- (c) "**Curtailed Period**" means any period(s) of the Day commencing from the next hour after a Curtailment Notice has been issued and ending at the earlier of the time when the Curtailment is lifted and the end of the Day;
- (d) "**Non-Curtailed Period**" means any period(s) of the Day other than Curtailed Period(s);
- (e) the "**Within-Day Nomination Quantity**" for a CSEP User in respect of any Period of the Day is:

For the first Period in the Day this shall be calculated by dividing the CSEP Users Output Nomination prevailing at the last hour in the Period by the number of hours in the Day and multiplying by the duration of such Period.

For the second and subsequent Periods this shall be calculated by:

Taking the CSEP Users Output Nomination prevailing at last hour in the Period minus the Within Day Nominated Quantity for any earlier Periods, divided by the number of hours remaining in the Day (from the beginning of the Period) and multiplied by the duration of such Period;

- (f) "**Curtailed Amount**" means the Within-Day Aggregate Quantity for any Curtailed Period in the Day;

- (g) “**Non-Curtailed Amount**” means the Within-Day Aggregate Quantity for any Non-Curtailed Period in the Day;
- (h) the “**Within-Day Aggregate Quantity**” for any period is the quantity determined by the CSEP NExA except where, in accordance with the CSEP NExA, the information received under the CSEP NExA is incomplete or invalid, in which case, the Within-Day Aggregate Quantity shall be determined by pro-rating the CSEP Daily Quantity offtaken to the Within-Day Nomination Quantity prevailing for the relevant period ;
- (i) a CSEP User’s “**Firm Within-Day Capacity Entitlement**” in respect of any period is a quantity determined as the CSEP User’s Firm Available Capacity, divided by 24, multiplied by the duration (in hours) of such period;
- (j) a CSEP User’s “**Firm**”and “**Interruptible**” Nominated Quantities are the Nominated Quantities under its Firm and Interruptible Nominations respectively.
- (k) a "**Period**" means either a Curtailed or a Non-Curtailed Period.

6.11 [unchanged]

6.12 Where clause 6.6(b) applies, the information under paragraph 6.6(b) will be determined, on the 4th Day after the Gas Flow Day, and on the Exit Close-out Date, in accordance with clause 6.6(b), and on preceding Days, as though clause 6.6(a) applied.

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.