

Modification Report
URGENT Modification Reference Number 0273

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. The justification is that agreement on the detail of capacity services was only recently reached and it is desirable for these services to be implemented as soon as is possible before the winter period.

2. Procedures Followed:

Transco agreed with Ofgas (and has followed) the following procedures for this Proposal;

01/10/98 - Ofgas agree proposal as urgent.
16/10/98 - Close out of Shipper representations.
28/10/98 - Modification report to Ofgas
02/11/98 - Ofgas decision expected.

3. The Modification Proposal:

Transco proposed modification 273 for additional Entry Capacity Services.

Modification 273 proposed two Daily Capacity Services

- Daily System Entry Capacity
- Secondary System Entry Capacity

These services will be made available at System Entry Points excluding LNG sites.

Daily System Entry Capacity

The service will provide access to Entry Capacity that is physically available but that has not been booked by shippers.

The maximum physical capability of the system to flow gas at each System Entry Point will be calculated during D-1 and this will be compared with the level of capacity bookings.

If the physical capability is greater than the aggregate of the shippers' bookings then the unbooked capacity will be made available through a competitive tender.

The capacity entitlement granted through acceptance of shippers' bids will have the same status as an annual booking but will be limited to one day duration.

The service will include a minimum bid price. This is to preserve the incentive for annual capacity bookings and to prevent a "flight from firm."

The level of the minimum bid price is subject to a pricing consultation (PC 36).

Secondary System Entry Capacity

This service will make available capacity which has been reserved under annual bookings but that is not being used by the shipper holding the entitlement. This service has otherwise been referred to as use it or lose it capacity.

Transco will calculate availability during D-1 by comparison of estimated input nominations at each entry point with the lesser of the physical capability and the aggregate annual capacity bookings.

The secondary capacity will be made available to shippers through a competitive tender and the capacity entitlement granted through acceptance of shippers bids may be decreased in the event that nominations for the entry point increase above the level estimated.

In the event that the entitlement is thus scaled back, the calculation of the charge for secondary capacity and the capacity considered in the calculation of any overrun quantity will take account of the effective time that the scaling back occurred.

A minimum bid price of 0 (zero) is proposed although this is subject to pricing consultation (PC36).

4. Transco's opinion:

Transco believe that the introduction of these services represents a significant improvement in the overall definition of capacity services and is a positive development of the capacity regime. The detail of the services has been discussed within the Capacity Workstream and the proposals represent the consensus view of that group. In particular the decision that the services would not initially be made available at LNG sites but that they would be available for Hornsea and Rough storage. Following implementation of this modification it may be possible to extend the availability of the service to include LNG sites. The consequences of such an extension will require further analysis and may require additional information provision from Shippers and/or BG Storage on the likely usage of LNG.

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

This modification will facilitate more efficient and economic utilization of the pipeline system. It will provide a mechanism for shippers to obtain Entry Capacity on a daily basis. This will facilitate gas trading between shippers and may lead to lower gas prices by reducing the risk of shippers incurring overrun charges.

The proposal will also secure more effective competition between relevant shippers and suppliers. Access to unutilised capacity will promote shippers' management of their capacity holdings and will diminish the incentives that may exist for capacity hoarding. This will allow a more efficient match between capacity availability and gas availability to meet shippers' own and system requirements.

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

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

This proposal may allow better alignment between availability of capacity and daily requirements. It also allows access to short duration capacity for storage users who may be reluctant to contract for annual capacity. To the extent that additional capacity is made available through the daily service the reliance on storage may be reduced if other more economic sources of gas are able to enter the system. Initially the services will not be made available at LNG storage points owing to the very infrequent and unpredictable requirements for gas flows from these sites.

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

The mechanisms to administer the services have been defined within parameters of limited resource to implement major system changes. Implementation of this proposal would rely on a manual work-round to be performed by Transco Commercial Operations. In order to minimise development and operating costs the proposal has been based around existing systems.

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:**

The cost of administration is bundled into shipper services on the basis that the services will be available to all shippers. If it is found that the services are used by only a small number of shippers then it may be appropriate to better target the costs.

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

The introduction of daily capacity services leads to the potential for under or over recovery against expected Entry Capacity revenue as there will be different commercial incentives for annual capacity bookings. Within the current formula period the differences will be managed through the price control formula 'K factor'. This may lead to a greater volatility in transportation charges year on year.

The charges made for the secondary capacity services will be collected with normal entry capacity bookings. To the extent that this leads to an over recovery of revenue this will be refunded to shippers through the 'K factor'.

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:**

Implementation of this proposal will introduce a significantly different mechanism for shippers to obtain capacity. Access to capacity for durations of less than 1 year will increase the level of risk for Transco. The pricing consultation PC36 considered the level of floor price that would deliver sufficient incentive to provide some stability to Transco's revenue stream for System Entry capacity. The conclusion of PC36 has led Transco to propose a floor price multiplier of 4 times the relevant daily entry charge for the terminal for the daily capacity service and a floor price of zero for the secondary capacity service.

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

The services have been structured to minimise development of new systems. Bid submissions will be made through the existing SIS system using new data input screens. Calculation of charges for use of the services will be made by Commercial Operations outside the ATLink system.

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

The implementation of this proposal will allow Shippers access to a wider range of options to acquire entry capacity. The nature of use it or lose it services is to diminish the likelihood of capacity hoarding by dominant market participants. Shippers will be better able to match their capacity holding to their physical gas flows. Shippers will have a choice whether to continue to acquire all of their peak capacity requirement on an annual basis, with the inherent simplicity of doing so, or they may procure all or part of that capacity on a daily basis by participating in the daily tender.

If capacity bookings and trades are end dated then it will be necessary for shippers to make new bookings for the capacity that they wish to hold annually from the day of implementation and it will also be necessary for shippers to re-enter their capacity trades.

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

This modification may enable a better short term match of capacity availability with gas supplies. If that capacity availability allows more economic gas to reach the market then the benefits may be reflected in lower gas prices to consumers.

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:

N/a

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

Advantages;

- makes all physical capability available to shippers on a daily basis
- provides a mechanism to prevent abuse of market dominance through use it or lose it service
- develops existing regime towards better capacity definition.
- provides platform for further developments

Disadvantages;

- additional administration of daily auctions
- daily capacity allocation will not be known until 15:00hrs D-1
- potential for over or under recovery of allowed transportation revenues

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

Transco received 17 written representations to the proposal. Of these there was general support for the introduction of the new services. 2 respondents were firmly against the implementation. There were several issues raised within the responses which are addressed below;

1) End dating of existing capacity bookings and trades;

End dating of all existing capacity bookings had been requested by shippers during development of the services in the Capacity Workstream as they would wish to hold a different level of booking in view of the availability of the new services. Some respondents were firmly in support of end dating all bookings so that a clean transition to the new regime could be achieved. However, a number of responses raised concerns regarding end dating of capacity trades and asked whether end dating could be optional for each shipper. Options were considered by Transco including selective end dating according to shipper request or with the possibility of creating a dummy account for shippers to trade unwanted capacity to Transco. The former is not achievable within a systems solution and would create too great a workload to achieve manually. The latter option raises difficulties as the shipper would remain as the primary capacity holder and would therefore still be liable for the capacity charge. It would then be necessary to raise a counter invoice from shipper to Transco to net off the transaction.

One shipper asked that capacity bookings made as a result of the application of the overrun ratchet be excluded from the end dating process. It is not possible to exclude these bookings from the end dating process as they are not uniquely identified in ATLink. However it is possible that for a small number of such ratchet bookings Transco could reinstate the ratchet quantity on behalf of the shipper with the same end date as had originally applied. This will only be performed on request from the Shipper to Transco and will only apply for capacity overrun ratchet quantities.

Some shippers indicated that the end dating of all entry capacity will lead to a situation where the shipper has to book annual entry capacity for storage sites with an end date of October against a storage year which ends in April. This mismatch may leave shippers with a capacity holding which they do not require and would not have booked if the Transco end dating had not occurred. To some extent this difficulty can be mitigated, shippers need not book annual capacity as daily services will be available. The end dating process will exclude LNG sites (where the daily and secondary capacity services are not available). The end dating could also exclude Hornsea storage site so that existing bookings remain. It is not possible to exclude Rough storage specifically as it is bundled with Easington Entry.

Transco propose to run the end dating process for all entry points where these services are to be made available with the exception of Hornsea storage entry point. The end dating will be carried out on 5 November in order that shippers may make new bookings on 6 November that will become effective on 10 November. The process will delete all capacity bookings and trades.

If end dating is to be performed then there is a minimum 7 day period between approval of this modification and implementation of the service.

2) Interaction with St Fergus constraints

Some clarification of the interaction of this modification and other modifications relating to constrained terminals was requested. It is envisaged that the daily and secondary capacity services described in this modification proposal will not be available at an entry point which is constrained. This can be determined because a constraint arises when the physical capability of the terminal on a day is less than the flow that shippers wish to deliver. The daily services will only be available if the level of capacity bookings are less than the physical capability and the secondary services will only be available if the expected nominations are less than the lower of the capacity bookings or the physical capability.

Some of the proposals for dealing with capacity allocation at constrained terminals suggest an auction process. For clarity the text specifies that daily and secondary capacity services will not be made available at a restricted entry point. Other proposals for managing capacity entitlements at restricted entry points can then be applied.

An additional concern was raised with regard to capacity bookings at St. Fergus which have been influenced by the implementation of modification 271. Some shippers may have increased their capacity bookings to increase their share of any scaled capacity, in the expectation that the annual booking will be end dated and that they would not be faced with the full consequence of that annual booking. For this reason some argue that St Fergus capacity should not be end-dated. There is a counter argument that the end dating should go ahead to remove this opportunity as soon as possible.

Transco propose that the end dating process will be carried out for all beach entry points. However while St Fergus is still designated as a restricted entry point the daily and secondary capacity services will not be available.

There is a minimum notice period of 7 days required to schedule and perform the end dating process and allow shippers to submit new capacity bookings.

3) Timing of bid submission and allocation notification;

Two shippers responded regarding changing the times that the bidding process will be operated. One requested that the bidding window be extended until after 13:30hrs. The other referred to the time between notification of allocation and the nomination close out at 16:00hrs.

The replication process to copy bids from shippers to Transco will take up to 30 minutes. Similarly, the replication of the database showing allocations will take up to 30 minutes. Therefore Transco will have around 1 hour to complete the assessment of physical availability, validate all bids, perform the allocation process and create the notifications for shippers.

The timetable for the tender process will be;

11:00hrs D-1 System available for bid submission.

13:00hrs D-1 Bidding closes - database replication commences.

13:30-14:30hrs Transco perform allocation

15:00hrs D-1 Shippers notified of allocation of services.

One respondent queried whether the quantities allocated to shippers with equally prices bids would be scaled down pro-rata in the event that bids exceed the available quantity. In the allocation process account will be taken of the maximum and minimum quantities specified by shippers as acceptable. Transco do not consider that it is appropriate to scale down the initial allocations made to shippers to a level below that indicated as acceptable by the shipper.

4) Pricing of services

The floor prices to be applied to tender bids were consulted on in PC36. Some shippers also commented on these prices in their response to this Modification. Enron proposed a lower price of 2.5 times the daily rate for the Daily Capacity service while others supported 4 times. All respondents agreed on a floor of zero for the secondary service. Southern Electric, who do not support the modification, suggest that the new low level of overrun charge will undermine the daily capacity services.

Transco has proposed that the floor price for the daily service be set at 4 times the applicable daily entry price. The floor price for the secondary will be set at zero. These will be included in the Transportation Statement.

The charges for the daily and secondary services will be made on the basis of the clearing price for the relevant tender processes for each entry point.

5) Entitlements of primary capacity holders

One respondent requested clarification that the introduction of the Secondary System Entry Capacity service would not lead to a reduction in the capacity entitlement of the primary holder and that holders of annual capacity would not incur overrun charges if their gas allocation was less than their booked (annual) capacity entitlement on any day. Transco confirm that the daily and secondary capacity services do not lead to any reduction in the entitlement of primary capacity holders. Overrun charges will be assessed by comparing the shipper's gas allocation with the sum of a shipper's Available System Entry Capacity and any capacity acquired through the daily and secondary services. Account will be taken of any scaling back of secondary capacity that has occurred.

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

N/A

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:

Transco has consulted on the level of charges that should apply as a floor price in the tender for these services. Shippers' responses to PC36 support a floor price of 4 times the daily entry rate for the daily service and zero for the secondary service

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

N/A

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

9 November - Information packs sent out to shippers
12 November - Last date for shippers to book entry capacity for dates up to and including 16 November.
- End dating process activated to terminate capacity bookings and trades effective after 16 November (except LNG and Hornsea).
13 November - Shippers book capacity effective from 17 November.
16 November - Shippers submit bids for Daily and Secondary services.
17 November - Daily services available. New annual bookings effective.

18. Recommendation concerning implementation of the Modification Proposal:

Transco support the implementation of the new daily capacity services and termination of existing capacity bookings as described above.

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 B

B1.2.2 The classes of System Capacity are System Entry Capacity, Daily System Entry Capacity, Secondary System Entry Capacity, NTS Exit Capacity, LDZ Capacity and Supply Point Capacity.

B1.2.3(e) "Daily System Entry Capacity" at an Aggregate System Entry Point is the available capacity which a User has applied for on a Day and been allocated in accordance with paragraphs 2.2.12 to 2.2.18.

B1.2.3 (f) " Secondary System Entry Capacity" at an Aggregate System Entry Point is the available capacity which a User has applied for on a Day and has been allocated in accordance with paragraphs 2.2.19 to 2.2.25.

B1.6other than 29th February in any Gas Year except that applications for Daily System Entry Capacity and Secondary System Entry Capacity may be made on or in respect of 29th February.

B2 SYSTEM ENTRY CAPACITY

B2.2.1 A User may apply for System Entry Capacity, and except in respect of LNG Facilities, Daily System Entry Capacity and Secondary System Entry Capacity at an Aggregate System Entry Point subject to and in accordance with this paragraph 2.2.

2.2.2 - 2.2.11 Unchanged

Daily System Entry Capacity

2.2.12 Each User may make a maximum of 5 applications for Daily System Entry Capacity in respect of each Aggregate System Entry Point and any such application for Daily System Entry Capacity:

(a) shall specify:

- (i) the identity of the User;
- (ii) the Aggregate System Entry Point;
- (iii) the amount of Daily System Entry Capacity applied for, giving a maximum and minimum requirement where applicable in any number of multiples of 150,000 kWh (5000 therms);
- (iv) the offer price (up to four decimal places) for such Daily System Entry Capacity;
- (v) the proposed date of registration;

(b) shall be submitted between 11.00 hours and 13.00 hours on the Day before the proposed date of registration.

2.2.13 Transco will reject an application for Daily System Entry Capacity:

- (i) where the requirements of paragraph 2.2.12 are not complied with,
or
- (ii) in accordance with Section V3;
- (iii) in accordance with paragraph 2.2.15.
- (iv) where the offer price is less than the minimum price specified in the prevailing Transportation Statement.

2.2.14 A User shall not be permitted to withdraw an application for Daily System Entry Capacity once the time for applications has closed at 13.00 hours on the Day before the proposed date of registration.

2.2.15 In respect of each Day at each Aggregate System Entry Point, Transco will make allocations in accordance with the following procedure:

- (i) Transco will allocate Daily System Entry Capacity up to a maximum of Transco's assessment of the physical capability of the Aggregate System Entry Point less the aggregate System Entry Capacity for all Users at the Aggregate System Entry Point;
- (ii) Where applications for Daily System Entry Capacity from two or more Users in respect of the same Aggregate System Entry Point are identically priced and Transco is not able to allocate all such applications, because the aggregate of the Daily System Entry Capacity applied for exceeds that which is available for allocation, then all such identically priced applications shall be rejected by Transco;
- (iii) allocations will be made in descending order of offer price;
- (iv) Transco will only allocate to a User, Daily System Entry Capacity in respect of the Aggregate System Entry Point, where the whole amount (on a non divisible basis) of such Daily System Entry Capacity applied for (having regard to the maximum and minimum requirement referred to in paragraph 2.2.12 (a) (iii)) is no greater than the Daily System Entry Capacity which is available for allocation in accordance with this procedure. Where Transco is not able to so allocate any amounts of Daily System Entry Capacity due to the requirements of this paragraph 2.2.15(iv) such Daily System Entry Capacity will remain available for allocation to the next User in accordance with this procedure;

(v) Transco shall continue to repeat this procedure until all such Daily System Entry Capacity has been allocated unless Transco is not so able to allocate using this procedure in which case it shall remain unallocated.

2.2.16 The User (if its application is approved) will be registered as holding Daily System Entry Capacity at the Aggregate System Entry Point ("**Registered Daily System Entry Capacity**") for a fixed period ("**the capacity period**") of one Day.

2.2.17 A User may not apply for Daily System Entry Capacity at an Aggregate System Entry Point other than as set out in paragraph 2.2.12.

2.2.18 On the expiry of the capacity period the User shall cease to be registered as holding Registered Daily System Entry Capacity at the relevant Aggregate System Entry Point, but without prejudice to any new application under paragraph 2.2.12 in respect of another Day.

Secondary System Entry Capacity

2.2.19 Each User may make a maximum of 5 applications for Secondary System Entry Capacity in respect of an Aggregate System Entry Point and any such application for Secondary System Entry Capacity:

(a) shall specify:

- (i) the identity of the User;
- (ii) the Aggregate System Entry Point;
- (iii) the amount of Secondary System Entry Capacity applied for (in kWh), giving a maximum and minimum requirement where applicable in any number of multiples of 150,000 kWh (5000 therms);

- (iv) the offer price (up to four decimal places) for such
Secondary System Entry Capacity;
- (v) the proposed date of registration;

(b) shall be submitted between 11.00 hours and 13.00 hours on the
Day before the proposed date of registration.

2.2.20 Transco will reject an application for Secondary System Entry Capacity:

- (i) where the requirements of paragraph 2.2.19 are not complied with,
or
- (ii) in accordance with Section V3;
- (iii) in accordance with paragraph 2.2.22.
- (iv) where the offer price is less than the minimum price specified in
the prevailing Transportation statement.

2.2.21 A User shall not be permitted to withdraw an application for Secondary
System Entry Capacity once the time for application has closed at 13.00
hours on the Day before the proposed date of registration.

2.2.22 In respect of each Day at each Aggregate System Entry Point, Transco will
make allocations in accordance with the following procedure:

- (i) Transco will allocate Secondary System Entry Capacity up to a
maximum of the difference between Transco's assessment of the
likely Input Nominations at 16.00 hours on the Preceding Day and
the lesser of the aggregate System Entry Capacity for all Users at
the Aggregate System Entry Point and Transco's assessment of the
physical capability of the Aggregate System Entry Point.
- (ii) Where applications for Secondary System Entry Capacity from two
or more Users in respect of the same Aggregate System Entry Point

are identically priced and Transco is not able to allocate all such allocations, because the aggregate of the Secondary System Entry Capacity applied for exceeds that which is available for allocation, then all such identically priced applications shall be rejected by Transco.

- (iii) allocations will be made in descending order of offer price.
- (iv) Transco will only allocate to a User, Secondary System Entry Capacity, in respect of the Aggregate System Entry Point, where the whole amount (on a non divisible basis) of such Secondary System Entry Capacity applied for (having regard to the maximum and minimum requirement referred to in paragraph 2.2.19 (a) (iii) is no greater than the Secondary System Entry Capacity which is available for allocation in accordance with this procedure. Where Transco is not able to so allocate any amounts of Secondary System Entry Capacity due to the requirements of this paragraph 2.2.22 (iv) such Secondary System Entry Capacity will remain available for allocation to the next User in accordance with this procedure;
- (v) Transco shall continue to repeat this procedure until either all such Secondary System Entry Capacity has been allocated unless Transco is not able to so allocate using this procedure in which case it shall remain unallocated:

2.2.23 The User (if its application is approved) will be registered as holding Secondary System Entry Capacity at the Aggregate System Entry Point ("Registered Secondary System Entry Capacity") for a fixed period ("the capacity period") of one Day. During the capacity period a User's Registered Secondary System Entry Capacity shall (subject to Section V 4.3) only be reduced or cancelled in accordance with paragraph 2.7.

2.2.24 A User may not apply for additional Secondary System Entry Capacity at an Aggregate System Entry Point other than as set out in paragraph 2.2.19.

2.2.25 On the expiry of the capacity period the User shall cease to be registered as holding Registered Secondary System Entry Capacity at the relevant Aggregate System Entry Point, but without prejudice to any new application under paragraph 2.2.19 in respect of another Day.

2.3 **ENTRY CHARGES**

2.3.3 A User shall pay charges ("**Daily System Entry Charges**") in respect of Registered Daily System Entry Capacity at Aggregate System Entry Points.

2.3.4 The Daily System Entry Charge payable by a User in respect of each Day will be determined for each Aggregate System Entry Point as such administration charge (if any) as is set out in the Transportation Statement and the amount of its Registered Daily System Entry Capacity multiplied by the lowest offer price accepted by Transco for that Day, of the relevant bids comprised in the Registered Daily System Entry Capacity at that Aggregate System Entry Point.

2.3.5 A User shall pay charges ("**Secondary System Entry Charges**") in respect of Registered Secondary System Entry Capacity at Aggregate System Entry Points *less any amount scaled back in accordance with paragraph 2.7.*

2.3.6 The Secondary System Entry Charge payable by a User in respect of each Day will be determined for each Aggregate System Entry Point as such administration charge (if any) as is set out in the Transportation Statement and the amount of its Registered Secondary System Entry Capacity

multiplied by the lowest offer price, accepted by Transco for that Day, of the relevant bids comprised in the Registered Secondary System Entry Capacity at that Aggregate System Entry Point.

2.3.7 System Entry Capacity Charges, Daily System Entry Charges and Secondary System Entry Charges will be invoiced and payable in accordance with Section S.

2.5 FLEXIBILITY OVERRUNS

2.5.1(ii) for any reason the quantity of gas delivered by the User to the System at the Bid Aggregate System Entry Point exceeds the sum of the User's Available System Entry Capacity, the User's Registered Daily System Entry Capacity and the User's Registered Secondary System Entry Capacity (reduced by any amount scaled back in accordance with paragraph 2.7)

2.5.2(b)(i)exceeds the sum of the User's Available System Entry Capacity, the User's Registered Daily System Entry Capacity and the User's Registered Secondary System Entry Capacity (reduced by any amount scaled back in accordance with paragraph 2.7) in respect of such Bid Aggregate System Entry Point, and

2.6 OVERRUN CHARGES

2.6.1 If for any reason.....exceeds the sum of the User's Available System Entry Capacity, the User's Registered Daily System Entry Capacity and the User's Registered Secondary System Entry Capacity (reduced by any amount scaled back in accordance with paragraph 2.7)

2.6.2(a) the " **overrun quantity**" in respect of an overrun day is the amount by which theexceeds the sum of the User's Available System Entry Capacity, the User's Registered Daily System Entry Capacity and the User's Registered Secondary System Entry Capacity (reduced by any amount scaled back in accordance with paragraph 2.7).

2.7 SCALING BACK

2.7.1 Transco will periodically monitor, before and during Day, the prevailing level of User Input Nominations at each Aggregate System Entry Point. Where such Input Nominations increase to the extent that the available Secondary System Entry Capacity (calculated in accordance with paragraph 2.2.22(i)) is less than the aggregate Registered Secondary System Entry Capacity for all Users at the Aggregate System Entry Point then scaling back will take place in accordance with the further provisions of this paragraph 2.7.

2.7.2 Transco will cancel all or part of a User's Registered Secondary System Entry Capacity ("**scaling back**") in reverse order of offer price (cheapest first) to the point where Registered Secondary System Entry Capacity is less than or equal to the available Secondary System Entry Capacity (calculated in accordance with paragraph 2.2.22(i)) by scaling back whole bids (no part bids) and where allocations have been made pursuant to identically priced bids by scaling back all such allocations.

2.7.3 Scaling back will take place before or during the Day and will take effect on the hour at least 60 minutes following notification by Transco to a User of the scaling back.

2.7.4 Secondary System Entry Capacity will not be scaled back to an extent where the User's Registered Secondary System Entry Capacity is less than 1/24 of the User's Registered Secondary System Entry Capacity at the

beginning of the Day for each hour of the Day which has expired prior to effective time of the scaling back in paragraph 2.7.3. For the purposes of paragraphs 2.5 and 2.6 where scaling back occurs within Day a Users Registered Secondary System Entry Capacity will be:-

$$\frac{x}{24} * C$$

where x = the number of whole elapsed hours in the Day prior to the effective scaling time calculated in paragraph 2.7.3

C = the Users Registered Secondary System Entry Capacity notified in accordance with paragraph 2.2.22(i)

2.7.5 Transco will not undertake scaling back after 00.00 on the Day.

2.7.6 Where scaling back happens

- (a) before the Day (in accordance with paragraph 2.7) no charge shall be made in respect of such Registered Secondary Entry Capacity;
- (b) within the Day (in accordance with paragraph 2.7) Transco shall charge each User on the basis of the amount of Registered Secondary Entry Capacity available to such User after scaling back has taken place.

B5 CAPACITY TRANSFER

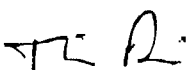
B5.1.6 Daily System Entry Capacity and Secondary System Entry Capacity cannot be transferred.

TRANSITION DOCUMENT PART II

For the purposes of Paragraph B.2.2.20, Transco will reject an application for Secondary System Entry Capacity, where the Aggregate System Entry Point is a Restricted System Capacity Point."

Signed for and on behalf of Transco.

Signature:



Tim Davis
Manager, Network Code

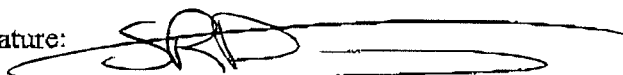
Date: 5/11/98

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 Transco that the above proposal (as contained in Modification Report Reference 0273, version 2.0 dated 04/11/98) be made as a modification to the Network Code.

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

Signature:



SHAUN DAY
HEAD OF TRANSPORTATION PRICING

Date: 9/11/98.

The Network Code is hereby modified, with effect from 10th November 1998, in accordance with the proposal as set out in this Modification Report, version 2.0.

Signature:



Process Manager - Network Code
Transco

Date: 09/11/98

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.