Modification Report
URGENT Modification Reference Number 0382
Revision to Capacity Incentive Arrangements

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent.

Following the implementation of Modification Proposal 0378, the Network Code requires Transco to commence the auction of System Entry Capacity for use in April to September 2000 by 6 March 2000. Transco has proposed through Modification Proposal 0380 to increase the aggregate quantity of Monthly System Entry Capacity (MSEC) which Transco makes available. This would represent a change to one of the parameters which was considered in the design of Transco's incentive scheme and, if implemented, is likely to result in a significant change in the financial outcome of the operation of this scheme during the period from April to October 2000 and beyond.

This proposal seeks to alter the basis of the incentive to take account of the proposed increase in MSEC availability. In view of the revenue share within the incentive, it is important that Users are aware of the incentive package which will apply from 1st April 2000 before the next round of auctions. In order to meet this timetable urgent procedures have been agreed.

2. Procedures Followed:

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

Issued to Ofgem for decision on urgency	8 February 2000
Proposal agreed as Urgent	11 February 2000
Proposal issued for consultation	11 February 2000
Close out for Representations	18 February 2000
Final Report to Ofgem	23 February 2000
Ofgem decision expected	28 February 2000

3. The Modification Proposal:

The proposal is that Transco should not be unduly disadvantaged by a change to the risk/reward profile of the incentive mechanism that would result from making available additional MSEC for the period April to September 2000. An increase in MSEC sold in the primary auction would, if implemented, result in a significant deviation above the median entry capacity requirement as determined by the Seasonal

Normal Demand profile. The likelihood of Transco having to "buy back" capacity will increase and, given that the volume of daily capacity required will probably reduce, the income Transco is able to earn will also be affected. The proposal is that the detrimental financial effect upon the incentive mechanism of increasing MSEC quantities should be offset by means of a monthly sum being made available to Transco to mitigate the changed risk/ reward balance. It is proposed that this monthly sum be drawn from the balance of monies received from the sale of Daily System Entry Capacity (DSEC) and Interruptible System Entry Capacity (ISEC).

In each month Transco's aggregate position with regard to the incentive mechanism will be determined as the sum of the monthly sum, minus 20% of buy back charges, plus 20% of daily capacity charges.

In any month where the monthly sum is less that the aggregate amount of money which Transco would ordinarily have redistributed to the holders of MSEC at each ASEP (80% of all revenue), Transco would deduct the sum and redistribute the remaining amount to the holders of MSEC at each ASEP in proportion to the revenue received for Daily Capacity services at each ASEP. If in any month the monthly sum were greater than the aggregate amount of money which would ordinarily be redistributed, Transco would retain all available revenue and the uncollected monthly sum would be carried over to the end of the relevant six month period.

Where the recovery of this monthly sum would cause Transco to breach its incentive cap, the breach amount would be returned to the holders of MSEC in accordance with existing Network Code procedures. Where all or part of an uncollected monthly sum would cause a breach of the cap, the breach amount would be disregarded and not carried forward to the end of the six month period.

If at the end of the six month period, Transco had been unable to collect the sum of the monthly sums, an "ad hoc" invoice would be issued to capacity holders to facilitate the collection of outstanding amounts. This invoice would be targeted to each ASEP in proportion to the level of revenue received for daily capacity services at each ASEP over the period in question. This ASEP sum would then be recovered from the holders of MSEC at that ASEP in proportion to their MSEC holdings.

As a transitional measure, to allow time for the completion of suitable functionality, the revenue share component in respect of April 2000 would be issued without adjustment in to recover the monthly sum in June 2000. An adjustment would then be made to the May invoices, issued, in July to recover the fixed sum in respect of April.

Calculation of Monthly Sum

Transco has proposed making available an additional 10% of MSEC for the period of April to September 2000. Therefore 9.1% (10/110) of the revenue received for each month in the primary auction and from the sale of Unsold Long Term Firm (ULTF) could be viewed as revenue which would otherwise have been received from daily capacity services, of which Transco would retain 20%. For each month the fixed sum Transco receive would be calculated as follows:

$$\text{Monthly Sum} = R * 0.2 * \frac{x}{(100 + x)}$$

Where R = Revenue in Primary Auction for the month + Revenue from the subsequent sale of MSEC (unsold in Primary Auction)

Where x = Percentage of MSEC availability above SND.

4. Transco's opinion:

During the development of the New Gas Trading Arrangements (NGTA) it was stated, on a number of occasions, that the basis for capacity availability for the first year would be the mean Seasonal Normal Demand level for each month. It is in this context that the parameters of the incentive regime were agreed to provide Transco with an incentive to both make additional capacity available and to ensure that previously sold capacity was available to the extent that shippers wish to use it.

The sale of an additional 10% of Monthly System Entry Capacity, as suggested in Modification Proposal 0380, would increase the risk of buy back. This potentially increases the level of buy back costs Transco could be exposed to. It may also discourage Transco from making additional capacity available as this incremental capacity could also be subject to a greater buy back risk.

Transco believes that this proposal would maintain the balance of the incentive and ensure that Transco would not be financially disadvantaged from the release of additional capacity. It would also help to maintain the original principle of the incentive mechanism whereby Transco’s financial position is optimised by the provision of additional capacity and ensuring that previously sold capacity is available to the extent that Users wish to use it.

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

Based on the assumption that Modification Proposal 0380 is implemented, this proposal would ensure that Transco retains the risk/reward profile as was originally envisaged for the NGTA capacity incentive mechanism. This should ensure that Transco continues to make available additional capacity on a daily basis which should increase shipper flexibility in the delivery of gas to the NTS. This flexibility could be viewed as beneficial in the promotion of competition between shippers and ensuring the efficient and economic operation of the pipeline system in that System Entry Capacity rights are available to those that value them most.

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

a) implications for the operation of the System:

Transco will remain incentivised to make additional System Entry Capacity available and will continue to operate the system in a manner which matches the requirements of Users to deliver gas to the NTS.

b) development and capital cost and operating cost implications:

This proposal would, if implemented, require changes to the billing procedures for System Entry Capacity. This would be achieved by the use of "ad hoc" and manual procedures. No development and capital costs are envisaged but some additional operating cost is likely.

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:

Not applicable

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:

Based on the assumption that Modification Proposal 0380 is approved, this proposal would, if implemented, reduce the level of financial risk Transco is exposed to under the operation the Network Code. This reduction would, however, only reduce the level of risk to the level prior to any increase in the availability of MSEC.

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

This proposal would require changes to Transco's billing procedures. This would be achieved by the use of "ad hoc" and manual procedures. No significant implications for the computer systems of Users have been brought to Transco's attention.

9. The implications of implementing the Modification Proposal for Users:

Holders of MSEC would potentially receive less revenue share from the sale of DSEC and ISEC as a result of Transco retaining the monthly sum. However, Transco's financial position under the present incentive scheme would not be affected by the increased availability of MSEC, and Transco expects to continue to make available DSEC to provide shippers with flexibility in delivery of gas to the NTS.

10. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Storage Operators suppliers, producers and, any Non-Network Code Party:

If implemented, Transco's financial position would not be adversely affected by an increased availability of MSEC and Transco would be likely to continue to make available DSEC to provide shippers with flexibility in delivery of gas to the NTS. This may be of benefit to Terminal Operators and Producers as shippers would continue to have the opportunity to obtain System Entry Capacity to match changing upstream requirements.

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

No significant consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party are anticipated as a result of the implementation of this proposal.

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

Advantages :

- Transco's incentive to make additional capacity available would not be reduced as a result of the provision of additional MSEC.

- Transco's risk/reward profile associated with the operation of the System Entry Capacity incentive scheme would remain as originally intended for the 1999- 2000 gas year.

Disadvantages :

- Holders of MSEC would be likely to receive less money through the revenue share provisions than has been the case for the period from October - March.

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

Transco received seventeen representations on the Modification Proposal.

Yorkshire Energy Ltd (YE) gave support for the principle of the proposal and Agip (UK) Limited (AGIP) supported the principle of an efficient incentive.

The following fourteen respondents did not support the proposal :

Alliance Gas Limited	(AGL)
Amerada Hess	(AH)
Association of Electricity Producers	(AEP)
Aquila Energy	(Aq)
British Gas Trading	(BGT)
BP Amoco	(BP)
Conoco	(Co)
Enron	(En)
Elf Gas and Power Ltd	(ELF)
Powergen	(PG)
Quantum Gas Management	(QGM)
Shell Gas Direct	(SGD)
Shell UK Ltd	(SUK)
UK Offshore Operators Association	(UKOOA)

One respondent National Power (NP) did not indicate support or otherwise.

A number of specific issues were discussed which for clarity have been summarised below under the following headings.

(i) Consultation Period
(ii) Role of Incentive
(iii) Capacity availability and probability of “buy back”
(iv) Transco revenue expectation
(v) Incentive linkage to MSEC availability

Consultation period

Five respondents (AGIP, AEP, NP, PG, QGM) state that insufficient time had been allowed for consultation on this modification proposal. In addition, eight respondents (AGL, AEP, BGT, Co, NP, PG, QGM, UKOOA,) suggest that the appropriate time to review the capacity incentive would be after one years operation.

Role of Incentive

AGIP and YE support the need for an incentive and YE supports the principle of this proposal. AGL suggests that the proposal would discourage the release of incremental daily capacity as Transco would view the monthly sum as sufficient financial return. AGL also suggests that reductions in income resulting from increased MSEC availability would be offset by the use of a “pay your bid” daily capacity price (proposed by Modification Proposal 0365). AGL goes on to state that there is potential for a fifth auction round (proposed by Modification Proposal 0371) to increase the reserve price for daily capacity by forcing shippers to “outbid” the St. Fergus reserve price in round five. Aq believes that a similar offsetting effect would be achieved by the increased prices shippers are likely to pay for daily firm capacity if ISEC availability is reduced. UKOOA states that the incentive should be for the maximisation of additional capacity and for the minimisation of buy back costs and SUK suggests that the minimsation of the impact on Transco should not be the objective of change.

Capacity Availability and probability of “buy back”

A number of respondents refer to the use of Seasonal Normal Demand (SND) as the basis for capacity availability. Of these, three respondents (BGT, En, UKOOA) expect that Transco would have needed to buy back capacity on approximately the same number of days as it has sold additional daily capacity. PG and ELF suggest that the lack of buy backs to date was neither anticipated or desirable. Aq states that the use of SND was never agreed as optimal and AGL suggests that an increase in MSEC by 10% will not lead to a significant increase in the risk of buy back. AH requests that an independent audit be made of capacity availability.

Transco revenue expectation

BGT states that Transco should not be entitled to incentive money and object to the fact that this proposal provides Transco with a guaranteed monthly sum. BGT also suggests that, in the absence of a decision on the implementation of other proposals under consideration, there is no evidence that Transco’s position under the existing incentive will be disadvantaged. This view is shared by SGD which claims that this proposal is based on an assumption that the incentive provides a revenue entitlement. Three respondents (Co, SUK, UKOOA) suggest that Transco currently enjoys low, or risk free, income under the existing regime with both Aq and ELF stating that the balance of risk under the existing incentive is in Transco’s favour. SGD states that the current incentive has made Transco “millions of pounds” and both Co and UKOOA say that an increase in the provision of MSEC would have the effect of creating the risk/reward balance for Transco that was originally intended in the NGTA.

Incentive linkage to MSEC availability

A number of respondents express reservations over the proposed linkage between MSEC availability and the incentive. AGL questions why the increase in the availability of MSEC should lead to a revision of the incentive and BP does not believe that there is a strong correlation between an increase in MSEC and the incentive mechanism. En suggests that the use of SND as the basis for MSEC availability was too low and that Transco should not continue to benefit from this situation. En also questions the use of revenue received in the primary auction as a basis for the setting of incentive parameters and suggest that if this is to be the case the value associated with the incremental 10% of MSEC should be used as the basis for the fixed sum calculation. SGD suggests that the incentive should be for the provision of additional capacity and therefore independent of the MSEC quantity and also suggests that shippers were unaware of the proposed MSEC availability when the incentive parameters were discussed during the development of the capacity regime. AH suggests that the proposed increase in the availability of MSEC should result in a reduction in the reserve price for this product and that Transco revenue enjoys sufficient protection through the use of such reserve prices.

Transco Response:

Consultation period

Transco is sympathetic to shipper concerns over the amount of time that has been made available to formulate views on this and related Modification Proposals. However, in industry meetings where changes to the entry capacity regime have been discussed, a number of shippers have expressed the view that it is essential to know the outcome of all related Modification Proposals prior to forthcoming auctions for MSEC. The consultation period for this proposal was agreed with Ofgem to meet this requirement. Transco agrees that it was originally intended that the incentive mechanism be reviewed after a full year of operation. However, this would also have included a review of the use of SND as the basis for capacity availability. Given that Transco has proposed the use of SND plus 10% as the basis for MSEC availability in advance of this date, it is appropriate that the parameters of the incentive regime be reconsidered at the same time. The implementation, or otherwise, of this proposal would not preclude a full review of the operation of the incentive regime after a full year of operation.

Role of Incentive

Transco does not believe that the implementation of this proposal would discourage the release of additional daily capacity. If Modification Proposal 0380 is implemented, the risk of Transco having to buy back capacity which it has sold as daily capacity would not be affected by the existence of the fixed monthly sum as proposed. Transco's decision on the sale of additional daily capacity would continue to be based on its assessment of the ability of the NTS to accommodate gas delivered at an ASEP and the likelihood of shippers wishing to use existing capacity rights.

Transco acknowledges that the adoption of a "pay your bid" approach for the sale of daily capacity could lead to an increase in the average price paid for such capacity. However, the change in clearing mechanism is also likely to alter bidding behaviour, and this could lead to a reduction in the average price paid. Further it is acknowledged that a reduction in the availability of ISEC could create a greater demand for DSEC and apply upward pressure on the price. However, the principal reason for this proposal is the potential increase in the availability of MSEC. This is likely to reduce shippers aggregate need to buy DSEC, and this reduced demand may exert downward pressure on prices. It is also possible that the increased availability of MSEC could reduce any supply/demand imbalance in the primary auction and lead to a reduction in the average price paid for MSEC. The proposed reduction in the availability of ISEC is dependent on the availability of a within day mechanism for the release and buy back of capacity. Shippers should therefore be able to achieve a closer within day match between their capacity holdings and delivery requirements. This, in conjunction with Transco's proposal to reduce the reserve price for DSEC, should offset upward pressure on prices resulting from reduced availability of ISEC. It should also be noted that the analysis provided by Caminus takes account of the proposed reduction in ISEC and the proposed reduction in reserve price.

Transco concurs with the view that one of the objectives of the incentive is to maximise the availability of daily capacity and minimise the cost of buy back. Transco does not believe that this proposal undermines this principle as Transco would still gain the greatest benefit from the incentive by meeting these objectives.

<u>Capacity availability and probability of "buy back"</u>

Transco does not support the view that Transco should have needed to buy back on approximately the same number of days as it sold additional capacity. Transco consistently stated during the development of the existing regime that the use of SND would mean that, for any given date, on 50% of days additional capacity would be available due to above average demand, and on 50% of days there would be the <u>potential</u> for buy back due to reduced demand. The need to buy back would also require the shipper to utilise, or wish to utilise, the unavailable capacity. Transco notes that one respondent claimed that the lack of buy backs was undesirable, but would suggest that the intention of the incentive regime is to incentivise Transco to ensure that capacity is available. In this respect the absence of buy back could be viewed as a beneficial outcome of the use of incentives.

Transco agrees that the use of SND as the basis for MSEC availability was not agreed as optimal. However, it was generally agreed as a pragmatic interim basis for the first year during which the capacity regime could be reviewed and further developments considered. In the light of Transco's proposal to increase the availability of MSEC (in response to shipper requests) before one year of operation has been completed, Transco believes it is appropriate that the parameters of the incentive should be amended. The extent to which Transco has to buy back during the summer is difficult to predict. However, the release of additional MSEC means that the likelihood of buy back will increase and the extent to which shippers will need to buy daily capacity should decrease. This proposal has been made to take account of both of these outcomes.

With regard to the requirement for an independent audit of capacity availability, Transco believes that, to a large extent, the use of SND as the basis of capacity availability negates the need for such an audit. Transco calculates SND for a number of activities, such as demand forecasting, and manipulation in one area is likely to have adverse effects in other areas of the Network Code.

<u>Transco Revenue expectation</u>

Transco does not agree that the proposal would provide Transco with a revenue entitlement and a guaranteed monthly sum. This proposal provides Transco with an offset incentive baseline. If the incentive value of additional sells and buy backs is equal, Transco would recover the fixed sum. This readjustment reflects the fact that the sale of an additional 10% of MSEC is likely to reduce the volumes of daily capacity sold and increase the likelihood of buy back compared to when the incentive was designed. The amount of income Transco receives in respect of each month would be the fixed sum plus incentive revenue minus incentive costs. The extent to which Transco is able to benefit under the incentive remains intrinsically linked to the provision of additional daily capacity and maintaining the availability of MSEC to the extent that shippers wish to use it.

A stated requirement of the NGTA regime was the provision of firm capacity rights. To date Transco has been able to make all MSEC capacity available to the extent that shippers have wished to use it and this could be viewed as a desirable outcome of the use of incentives. Transco has also been able to earn some additional income from the sale of both DSEC and ISEC at locations based on shippers' valuation of entry capacity. However, the actual income received from October to January was £842,738, some way short of the "millions" referred to in the summary of representations. Transco believes that the maintenance of MSEC as a firm service and the release of additional daily capacity were primary objectives of the incentive regime for the first year and that the view that the risk reward profile has been skewed in Transco's favour may suggest that some shippers had an expectation of a liability regime, as opposed to an incentive mechanism.

Incentive Linkage to MSEC availability

To date shippers have purchased quantities of both DSEC and ISEC in excess of the SND figure. It would appear reasonable to assume that if shippers are able to purchase a greater amount of capacity as MSEC, their requirements for DSEC will reduce by an approximately equal amount. Given that it was anticipated that both the incentive and the MSEC availability would be reviewed after a full year of operation, it is, in Transco's view, appropriate that the incentive is re-balanced if other parameters are changed. The use of a percentage of income received for MSEC as an approximation for income which would have been received for the sale of daily capacity provides a direct linkage to shippers' valuations and is potentially indicative of the prices which would have been paid had the capacity been purchased as DSEC. Transco does not support the use of revenue associated with any increased quantity of available MSEC as the basis for the revenue adjustment. Transco believes that this would provide a reduced valuation to that which would be realised for the equivalent sale of DSEC due to the slightly lower reserve price for MSEC. A further consideration is the fact that shippers that fail to secure MSEC retain the opportunity to meet their needs through the purchase of DSEC. This further opportunity could lead to a lower valuation of MSEC. The use of a proportion of MSEC revenue as opposed to revenue associated with the increase quantity may offset these factors and provide a closer approximation of the lost revenue opportunity.

Transco is surprised that one shipper suggests it was unaware of the SND quantities whilst discussing the incentive. The concept of using SND was identified in late 1998 and indicative figures were provided at an RGTA meeting in the Spring of 1999. Modification Proposal 0350, which finalised the availability of MSEC was consulted upon at the same time as Modification Proposal 0314, which set out the incentive parameters. Transco therefore believes that the necessary information was provided to enable shippers to be aware of the factors which contributed to the outcome of the incentive regime at the time the incentive was debated.

Transco does not believe that an increase in MSEC should precipitate a reduction in the reserve price for MSEC on the assumption that Transco revenues will increase. The release of additional capacity should, other things being equal, lead to a reduction in the average price paid. The net effect on revenue could be either positive or negative. In any event, the extent to which Transco is allowed to retain revenue from the primary auction should not be considered in isolation since it is one of a number of revenue streams which contribute to Transco's allowed revenue under the price control.

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

Implementation is not required to facilitate compliance with safety or other legislation.

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:

No such change to the methodology is anticipated in respect of the Modification Proposal.

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

This proposal would utilise existing systems and ad hoc billing processes and no programme of woks is required.

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

This proposal would be implemented with effect from 1 April 2000. The existing invoice cycle would be maintained with an adjustment to the revenue share component to recover Transco's fixed sum. However, as a transitional measure the revenue share component in respect of April 2000 will be issued without adjustment in June 2000 and an adjustment will be made to the May invoices, issued, in July to recover the fixed sum in respect of April.

In November 2000 a "Ad Hoc" invoice will be issued to recover outstanding sums which were not recovered during the period.

18. Recommendation concerning implementation of the Modification Proposal:

Transco recommends that this Modification Proposal 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:

The draft legal text for this Modification Proposal is attached.

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' License dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0382**, version **2.0** dated **28/02/2000**) be made as a modification to the Network Code.

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

Signature:

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

Signature:

Process Manager - Network Code
Transco

Date:

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.

Draft 1.3: 23 February 2000

MODIFICATION 0382

REVISION TO CAPACITY INCENTIVE ARRANGEMENTS

Proposed legal text

SECTION B: SYSTEM USE AND CAPACITY

Amend paragraph 2.11.3 (a) to read as follows:

"….

$$(ARCC - ACIC) - (ARCR - ACIR + TMA)$$

….

TMA is the Transco Monthly Amount

….".

Add new paragraph 2.11.3(e), (f),(g) and (h) to read as follows:

"(e) the "**Transco Monthly Amount**" is:

$$((A + B * 0.2) * (X / 100 + X))$$

where:

A is the aggregate amount of System Entry Capacity Charges payable by Users in respect of Monthly System Entry Capacity allocated for the calendar month in accordance with paragraph 2.3;

B is the aggregate amount of System Entry Capacity Charges payable by Users in respect of Monthly System Entry Capacity allocated for the calendar month in accordance with paragraph 2.4; and

X is, in respect of all Aggregate System Entry Points, that percentage, by which the aggregate Determined System Entry Capacity for all Aggregate System Entry Points exceeds the System Normal Demand;

(f) the "**Capacity Under-recovery Amount**" is the amount (if any) by which the Transco Monthly Amount exceeds the Aggregate Capacity Incentive Revenues;

(g) the "**Capacity Recovery Amount**" is the amount (if any) by which the Aggregate Capacity Incentive Revenues exceeds the Transco Monthly Amount; and

(h) the "**Aggregate Capacity Incentive Revenues**" is the sum of the Capacity Incentive Revenues for all Aggregate System Entry Points.".

Amend paragraph 2.11.5(a)(i) and (ii) to read as follows:

"….each Aggregate System Entry Point and each calendar month in respect of which there is a Capacity Recovery Amount, Transco shall pay to each relevant User….

(i)….

$$ACRA * URC / ARC$$

where:

ACRA is the ASEP Capacity Recovery Amount

….

(ii)….

$$ACRA * AURC / AARC$$

where:

ACRA is the ASEP Capacity Recovery Amount;

….”.

Add new paragraph 2.11.5(c) to read as follows:

“(c) an Aggregate System Entry Point and a calendar month the “**ASEP Capacity Recovery Amount**” is;

$$CRA * CIR / ACIR$$

where:

CRA is the Capacity Recovery Amount;

CIR are the Capacity Incentive Revenues in relation to the Aggregate System Entry Point; and

ACIR are the Aggregate Capacity Incentive Revenues.”.

Amend paragraph 2.11.7 to read as follows:

“….Capacity Cost Neutrality Charges, Capacity Neutrality Adjustment Charges and Annual ASEP Capacity Under-recovery Charges shall be invoiced and payable in accordance with Section S.”.

Add a new paragraph 2.11.10 to read as follows:

“In respect of a calender month for which there is a Capacity Under-recovery Amount, each relevant User shall pay Transco, in respect of each Aggregate System Entry Point at the User held Registered Monthly System Entry Capacity for the calender month, an amount (“**Annual ASEP Capacity Under-recovery Charge**”) determined as:

$$ACURA * URC / ARC$$

where:

ACURA is the ASEP Capacity Under-recovery Amount;

and ‘URC’ and ‘ARC’ have the meanings in paragraph 2.11.5(a)(i) in relation to the calender month”

Add new paragraph 2.11.11 to read as follows:

"For the purposes of paragraph 2.11.10, in relation to an Aggregate System Entry Point in respect of a Gas Year the "**ASEP Capacity Under-recovery Amount**" is:

CURA * CIR / ACIR

where:

CURA is the Capacity Under-recovery Amount for the calender month,

and 'CIR' and 'ACIR' have the meanings in paragraph 2.11.5(c)"

SECTION S: INVOICING

Add new paragraph 2.4.7 to read as follows:

"Transco will by not later than 31st December in a Gas Year submit (as an Ad-hoc Invoice) an Invoice Document in relation to each month in the Preceding Year in respect of which amounts are payable to Transco pursuant to Section B2.11.10"

TRANSITION DOCUMENT PART II, PARAGRAPH 8

Add new paragraph 8.10.4 to read as follows:

"B2.11 (1) For the purposes of April 2000 and the calculation of amounts to be retained or borne by Transco pursuant to Section B2.11, the provisions of Section B2.11 that applied immediately prior to the time the modification giving effect to this paragraph was effective shall be held to continue to apply, subject to the provisions of paragraphs (2), (3) and (5).

(2) For the purposes of this paragraph 8.10.4 of this Part II:

(a) the "**Transco Interim Amount**" is the sum of the Transco Monthly Amount for April 2000;

(b) the "**Interim Relevant Capacity Incentive Revenues**" are

IRCR * 0.2

where IRCR is the Relevant Capacity Revenues for April 2000;

(c) the "**Interim Amount**" is an amount equal to the lesser of:

(i) the sum of Transco Interim Amount and the Interim Relevant Capacity Incentive Revenues; and

(ii) £416,666

less the Interim Relevant Capacity Incentive Revenues.

(3) Each relevant User shall pay Transco an amount ("**Interim Charge**") calculated as:

$$AIA * HAURC / HAARC$$

where:

AIA is the ASEP Interim Amount;

IAURC is, in respect of the Aggregate System Entry Point for April 2000, the aggregate of the User's Registered Monthly System Entry Capacity; and

HAARC is, in respect of the Aggregate System Entry Point for April 2000, the aggregate of all User's Registered Monthly System Entry Capacity.

(4) For the purposes of paragraph (3), in relation to an Aggregate System Entry Point the "**ASEP Interim Amount**" is:

$$IA * ICIR / IACIR$$

where:

IA is the Interim Amount;

ICIR is the sum of the Capacity Incentive Revenues for the Aggregate System Entry Point; and

IACIR is the sum of the Capacity Incentive Revenues for all Aggregate System Entry Points

for April 2000.

(5) The Interim Charge shall be invoiced and payable in accordance with Section S.".