URGENT Modification Report
Revision to NTS Entry Capacity Auction timetable 2001
Modification Reference Number 0489

Version 1.0

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

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 because the next series of NTS Entry Capacity auctions are due to commence on 29 August 2001.Urgent procedures were considered necessary to allow consideration of this proposal in the short period of time prior to this date.

Procedures Followed:

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

Issued to Ofgem for decision on urgency	21 August 2001
Proposal agreed as urgent	22 August 2001
Proposal issued for consultation	22 August 2001
Close out for Representations	23 August 2001
Final Report to Ofgem	24 August 2001
Ofgem decision expected	24 August 2001

1. The Modification Proposal

The NTS Entry Capacity Auctions for capacity made available from October 2001 should have the start date deferred from Wednesday 29 August 2001 to Tuesday 4 September 2001. The MSEC auctions will then take place every other working day, namely 4, 6, 10, 12 and 14 September 2001. Given the accepted Modifications, it is acceptable to maintain the MISEC auction dates on the 12 and 14 September 2001, as decisions between MSEC and MISEC holdings have to a certain extent become independent. However, the MISEC auctions could be held on the 17 and 19 September 2001 if Code changes make this easier than keeping two different auction types on the same days.

2. Transco’s Opinion

It is Transco's view that the rationale for implementing this Proposal would have been stronger had it preceded Modification Proposal 0490 through the Modification procedures as it could have permitted a longer consultation period for the latter Proposal. However, as both Proposals have progressed on the same timetable the benefits of implementation are less clear.

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

The proposer argues that implementing this Proposal would facilitate the development of more efficient and economic rules relating to entry capacity release and buy back.

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

a) implications for the operation of the System:

Transco does not believe that this Proposal would have any operational implications if implemented.

b) development and capital cost and operating cost implications:

There would be no cost implications arising from implementing this Proposal.

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:

No additional cost recovery would be appropriate.

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

Transco does not believe this Proposal has any consequences for price regulation.

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's level of contractual risk is unaffected by this Proposal.

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

Transco is not aware of any such implications for it's own or Users' systems.

7. The implications of implementing the Modification Proposal for Users

Users have expressed concerns that this Proposal would serve to increase the level of uncertainty and risk.

8. The implications of implementing the Modification Proposal for Terminal Operators,Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

Transco has not been made aware of any such implications.

9. 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

This Proposal has no effect upon the legislative, regulatory and contractual relationships described.

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

Advantages:

This Proposal would allow more time for Users to conclude bidding strategies following decisions on potential regime changes.

Disadvantages:

Continuing uncertainty.

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

Representations were received from thirteen shippers (one of which is confidential), the remainder were from - Amerada, Alliance Gas Limited (AGL), BP Gas Marketing Limited (BP), BG Group (BG), British Gas Trading (BGT), Chevron U.K. Limited, Cinergy Global Trading, Conoco (U.K.) Limited, ExxonMobil Gas Marketing, Northern Electric & Gas Limited (NEAGL), Scottish and Southern Energy Limited (SSE) and Shell Gas Direct Limited (SGD).

Eleven of these representations (including that marked as confidential) oppose implementation with two (BG and NEAGL) in favour.

The majority of the respondents expressed concern at the possibility that further delay would give rise to greater uncertainty and some argued that it would also be undesirable as it may allow time for further Urgent Modification Proposals to be brought forward.

Whilst opposing implementation BP believes that the linkage between MSEC and MISEC remains and strongly recommends that, if the Proposal were to be implemented, MISEC auctions should be held on the 17th and 19th September following completion of the MSEC auctions. On this point NEAGL, whilst endorsing the Proposal and not mentioning specific dates states its belief that there should be separate bidding windows. BGT also believe that the MSEC and MISEC auctions should be held on separate days. SSE also supports this view and states that conducting both auctions on the same days would not enable shippers

to fine tune their position in the knowledge of their success or otherwise in the MSEC auctions.

In relation to this point BG (the original proposer) offers the view that the MISEC auctions could slip to 17th and 19th September in the event of systems constraints or if the community believed it preferable to keep the auctions separate.

BGT is of the view that the proposed delay would serve no purpose as it would not permit a full review of the process and Transco's incentive and argues that no further changes should be implemented before the auctions with a thorough review being conducted before the next capacity allocation in April 2002.

SSE, supported by BGT, also advances the view that further changes or delays are likely to lead to inefficient bids, price volatility and impose additional resourcing requirements on shippers. SGD expresses concern that previous delays have not fully delivered the expected benefits in removing uncertainty and is concerned that further delay will simply compound the situation.

In favour of the need for delay BG argues, supported by NEAGL, that the outcome of PC65, PC66 and Modification Proposal 0488 remain unknown and, more importantly, that delay is necessary to properly consider Modification Proposals 0490 & 0490a. BG further argues that whilst late Urgent Modification Proposals with short leadtimes are unwelcome they have been raised to "improve the operation of this imperfect regime.". BG also states that in its' view the Relevant Objectives would be further facilitated by a more efficient and equitable outcome of the auctions which would be achieved either through a greater notice period or preferably by the implementation of more robust and efficient capacity neutrality rules.

Transco Response:

Transco acknowledges the majority view that the auctions should proceed in line with the present timetable and understands the concerns put forward regarding continuing uncertainty. Transco is, however, not convinced that the arguments put forward demonstrate that implementation of this Modification Proposal would better facilitate achievement of the relevant objectives.

Should this Modification Proposal be implemented then Transco would agree with Users views that to avoid confusion and lower risk the MSEC and MISEC auctions should continue to be held on separate days and would therefore agree that MISEC auctions should be deferred to 17th and 19th September.

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

This Proposal has no bearing upon safety or other legislation.

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

Implementation is not required as a result of any such proposed change.

14. Programme of works required as a consequence of implementing the ModificationProposal

No programme of works would be required.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Transco does not recommend implementation hence no timetable is proposed.

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend implementation.

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 not to modify the Network Code and Transco now seeks agreement from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0489**, version **1.0** dated **24/08/2001**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code

Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:

   (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") 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 Authority 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 paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

   provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.

3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.

4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.