

**Modification Report**  
**Revision to the Standard Year for purposes of acquiring and holding Annual**  
**Monthly System Entry Capacity**  
**Modification Reference Number 0616**  
Version 1.0

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

**1. The Modification Proposal**

The Proposer stated that :

"It is proposed that the AMSEC auctions are held in February of each year, from 2004, and at this time to auction capacity for the following April (Y) to March (Y+1).

This would require some interim arrangements, including the holding of a further 6 monthly MSEC auction in August 2003 in order to offer capacity for the period October 2003 to March 2004.

There would also be a transition issue of the nature of capacity offered. In order to align the processes:-

the first AMSEC (held in Feb 04) auction would make available,

- i) Baseline not previously offered, from April 04 to Sept 04
- ii) Capacity held back (20%) from the LTSEC allocation held in Jan 03 for October 04 to Sept 05
- iii) Unsold capacity from October 05 to Mar 06

the second AMSEC (held in Feb 05) auction would make available

- i) Unsold capacity from April 05 to Sept 05
- ii) Capacity held back (20%) from the LTSEC allocation held in Sept 03 for October 05 to Mar 06
- iii) Unsold capacity from Apr 06 to Mar 07

Thereafter the processes align to offer 12 months of capacity held back from the previous LTSEC allocation and capacity unsold for 24 months  
A proposed programme of the timings is attached.

This would also provide a separation of the processes for Annual MSEC and LTSEC and allow consideration of the outcome of each process and its evaluation under the Incremental Entry Capacity Release methodology. Users would be in possession of the confirmed outcome of each process when participating in the other.

It is recognised that this Modification may have some impact upon the LTSEC Allocation process. In order to ensure continuity of the processes, consideration of the timing of the LTSEC process may be required, but is addressed by a separate proposal."

## **2. Transco's Opinion**

Transco recognises that alignment of the Capacity Year with the Formula Year might deliver some of the benefits described in the Proposal, such as better forecasting of any under/over-recovery and removing the step change in the baseline quantities that presently exists over the 12 month period. The proposed alignment might reduce the likelihood of mid-term price changes if prices were set to take effect from 1 April following the results of the annual MSEC auction held in February as suggested in the Proposal. To facilitate this, a Network Code Modification would be required to reduce the notice period for changes to transportation charges from two to one month.

Transco's current IT systems would be able to accommodate the proposed change in the timing of the annual MSEC auction from July to February. The Proposal could be facilitated by an additional interim auction for six month MSEC capacity held in August 2003 for the capacity period October 2003 to March 2004 before the start of annual MSEC capacity auctions for 12 month capacity periods. Transco notes that participants in the MSEC auctions would have the most up to date information available on the NTS Maintenance Programme for the following summer period, although the annual maintenance plan at that point in time would be indicative only.

Transco envisages no interaction with the electricity regime.

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

The Proposer does not state how implementation would better facilitate the relevant objectives.

The proposed alignment of the MSEC capacity period to the formula year could improve the accuracy of forecasting revenue and hence may reduce the likelihood of mid-year price changes. This might better facilitate competition between shippers/suppliers. However, any improvement in facilitating competition could be offset by shippers being required to acquire entry capacity at intervals that would be out of step with the timing of end-user annual contract renewal dates or annual gas supply contracts, many of which feature a 1 October start date.

Implementation might also provide auction participants with more up to date information in respect of the NTS Maintenance Programme and afford additional time to consider the outcome of the earlier LTSEC auctions. This might allow participants to make better informed decisions in respect of their bid valuations of entry capacity thus improving the efficiency of the auctions which, in turn, might better facilitate competition between Users.

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

### **a) implications for the operation of the System:**

Transco envisages no implications for the operation of the System.

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

No additional development and capital costs are envisaged. It is not envisaged that any operating costs will change although implementation might influence the timing in which operating costs are incurred in running the auctions.

**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:**

The proposed alignment of the MSEC Capacity Period with the Formula Year could improve revenue forecasting accuracy thus lessening the need for mid-year changes in transportation prices. However, the setting of transportation prices from 1 April each year taking account of the most recent MSEC auction results would require a Network Code Modification reducing the notice period for changes to transportation charges from two months to one month.

**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**

No such consequences are anticipated.

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

Implementation would require only minor changes to the RGTA Capacity System to reduce the MSEC capacity period from twelve to six months for the forthcoming annual MSEC auction to be conducted in August 2003 as put forward in the Proposal. The proposed changes to future annual MSEC auctions would be expected to be incorporated in the development of Project Gemini, subject to implementation of the capacity phase of Gemini.

Transco has not been made aware of any implications for Users' computer systems.

**7. The implications of implementing the Modification Proposal for Users**

The planned date for the annual MSEC auction would be changed from July to February each year, with an additional MSEC auction held in August 2003 for six months capacity relating to the October 2003 - March 2004 period. From 2004 onwards, the dates on which shippers would decide on their capacity requirements would no longer coincide with the start of the Gas Year.

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

No such implications are envisaged.

**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**

No such consequences are anticipated.

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

Advantages:

- More up to date information available to auction participants.
- Increase in time available to Users in considering bidding strategies between LTSEC results and MSEC auction.
- Improve likelihood of transportation prices being set no more frequently than once per year.

Disadvantages:

- Capacity Year no longer aligned with Gas Year.

**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 the following ten parties :

Scottish and Southern Energy	(SSE)
British Gas Trading	(BGT)
Association of Electricity Producers	(AEP)
Conoco Phillips	(CP)
Powergen	(PG)
Scottish Power	(SP)
ExxonMobil	(Ex)
London Electricity	(LE)
Statoil (UK)	(Stat)
Shell Gas Direct	(SGD)
Chevron UK	(Ch)

Of these, five respondents (BGT,Ch,Exx,SP,CP) expressed full support for the Proposal, four respondents (SSE,LE,PG,AEP) expressed qualified support, and two respondent (SGD,Stat) did not support the Proposal.

**General**

The five respondents in full support for the Proposal agreed with both the proposed date of February for the MSEC auction and the change in the Capacity Year. Of those expressing qualified support, the principle concern given was the reduction in the notice period for changes to transportation charges from two to one month.

### **Formula Year vs Gas Year**

Four respondents (SSE,BGT,SP,AEP) specifically expressed support for the proposed alignment of MSEC auctions to the formula year. BGT noted that there was some advantage in the sale of capacity aligned to the “standard Gas Year” (October to September) in relation to end-user contracts, but that this dependence was less than it was in the past with an increasing number of gas sales agreements being based at NBP. SP recognised that most of the long term contracts are set to run on a Gas Year basis, and that capacity would be sought to cover periods that would end in September. However, it argued that this was partially offset by the availability of Long Term capacity, which meant that it should not be a problem to secure capacity for the length of the contracts. SP noted that changing the Capacity Year would bring it into line with the electricity regime.

While stating that there would be benefits in the proposed alignment, AEP suggested that aligning the Gas Year and Formula Year would have even more advantages.

While recognising that the proposed alignment would provide limited benefits through better forecasting of revenues, SGD suggested this would be offset by the increased risk it would introduce. It argued that there would be value in maintaining consistency between the auction periods and the gas years which align with both shippers' contracts with offshore producers and the majority of renewals in respect of consumer contracts. SGD did not agree that more accurate views of expected flows could be achieved by moving the auction year since Upstream estimates of gas flows were focussed on gas years. It further added that it was difficult to forecast expected flows in the next gas year (ie starting October) as early as February.

### **Timing of Auction and Maintenance Programme**

Of those respondents in support of the Proposal, the majority agreed with the change in MSEC auction date to February, with many stating that Shippers would have more up to date information available on the maintenance schedule. Chevron supported the change, since holding MSEC auctions for the following Gas Year (Oct - Sept) during the summer was inefficient as producers generally had not defined their shutdown dates for the following summer. Holding auctions during February it argued, was advantageous since by then producers' summer shutdown plans would be more mature.

Two respondents (SSE,AEP) suggested that the proposed timing of the MSEC auction is brought forward to January, in order to avoid the need to reduce the notice period for any changes in transportation charges from two months to one month, a concern also expressed by a further two respondents (LE,SP). SSE &

AEP further suggested that Transco be required to bring forward its publication of the draft maintenance programme to the end of December or to publish an indicative maintenance schedule during December. Both respondents also make reference to Modification 0560 (Publication of Indicative Maintenance Programme) and the fact that the principle that the modification has established could be extended to a January MSEC auction.

Two respondents (SGD,PG) suggested that MSEC auctions be held on a six monthly basis rather than a single MSEC auction each year. PG suggested that this would alleviate concerns about contract volumes, forecasting risk and regime uncertainties across Gas Years. SGD argued that shippers could refine their entry capacity requirements via six monthly auctions, as long term requirements would be confirmed through the LTSEC process.

### **Transportation Charges**

Four respondents (SSE,BGT,LE,AEP) commented on the fact that implementation should reduce the likelihood of mid-year price changes thus reducing volatility in transportation charges.

Four respondents (SSE,LE,SP,AEP) expressed concern with the anticipated reduction in the notice period for changes to transportation charges from two months to one month.

Statoil argued that, while recognising the Proposal may improve Transco's initial forecast of transportation costs, the true impact of the various auctions that will take place up to the day capacity is used could create volatility in Transco revenue recovery and may require further changes to transportation charges.

### **Volumes of Capacity Availability**

SSE questioned the explanation of the capacity quantities to be released in the Proposal, and provided its understanding of the capacity that would be auctioned in the Formula Years commencing April 2004 and April 2005.

Statoil considered the interim arrangements to be inappropriate as they created a step change in capacity volumes available across a capacity year, an outcome that the proposer was trying to avoid. It further argued that the change (in volumes) in the next auction year would be more pronounced than if the timeframe remained the same as there would be six months of 100% baseline capacity available, moving to 20% plus unsold capacity in the following six months.

### **Transco's response**

Transco agrees with respondents comments that the timing of both long term auctions and monthly auctions for system entry capacity should allow Users a better opportunity to satisfy their entry capacity requirements taking account of the contractual arrangements associated with beach gas purchase contracts and gas supply contracts.

Although Transco is relatively unaffected by a change in the Capacity Year, as stated in Section 2 of the Draft and Final Modification Reports it recognises some of the perceived benefits in the re-alignment, and in light of the majority support expressed, it supports the proposal. However, the benefits of such a change would be dependant upon Ofgem directing implementation of Modification 0617 (Revisions to Standard Year for the purposes of Long Term System Entry Capacity) which proposes a matching change to the standard year for long term capacity.

If this proposal is implemented then for the purposes of Entry Capacity the standard year for annual MSEC capacity would become April to March. The timing of future annual MSEC auctions would be:

August 2003 (transitional arrangement) for six months October 2003 to March 2004.

February 2004 for 24 months from April 2004 to March 2006 (Y and Y+1). Thereafter every February an auction for 24 months (Y and Y+1) will be held.

The quantities to be offered will be consistent with the present arrangements as set out and determined in accordance with Special Condition 28B of Transco's GT Licence.

The quantity offered in August 2003 will be 100% of SO baseline capacity minus previously released SO baseline capacity.

The quantity offered in capacity year Y will be 100% of SO baseline minus previously released SO baseline capacity (and any remaining unsold obligated incremental in respect of previous releases of obligated incremental capacity).

The quantity offered in capacity year Y+1 will be 80% of SO baseline minus previously released SO baseline capacity (and any remaining unsold obligated incremental in respect of previous releases of obligated incremental capacity).

In respect of the proposed timing of the Annual MSEC auctions, Transco has noted the concerns about the consequential reduction in notice period for any changes in transportation charge from two months to one month. However, the Proposal seeks to have the Annual MSEC auction held in February, and Transco notes that many consider it desirable for Transco to have the outcome of the Annual MSEC auctions known before the setting of transportation charges for the next Formula Year. Should Annual MSEC auctions be conducted in February it would be necessary for a Network Code change to reduce the notice period for changes to transportation charges if any charge revisions were required from 1 April. Alternatively any price change might be implemented after the start of the Formula Year. This issue could be decided via a consideration of a subsequent Network Code Proposal.

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

No such requirement exists in respect of the Modification Proposal.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence**

No such requirement exists in respect of the Modification Proposal.

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

No changes to UK Link are envisaged and therefore a Programme of Works is not required.

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

Should the Proposal be implemented, the proposed implementation date would need to be no later than 1 June 2003 to allow sufficient time to prepare and conduct the auction invitation process prior to the MSEC auction proposed for August 2003.

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

Transco supports implementation of the Proposal.

**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 Gas & Electricity Markets Authority in accordance with this report.



## 19. Text

### SECTION B: SYSTEM USE AND CAPACITY

*Amend paragraph 2.1.13 to read as follows:*

- 2.1.13 For the purposes of this paragraph 2 and in particular in the context of applications for System Entry Capacity in accordance with the further provisions of this paragraph 2, a reference to a 'Capacity Year + *n*' is a reference to the Capacity Year commencing on the *n* anniversary of the first Day of the Capacity Year in which the applications are invited to be made.

*Amend paragraph 2.2.1 to read as follows:*

2.2.1 By:

- (a) not later than the Day falling twenty eight (28) Days before the annual AMSEC invitation date in any Capacity Year, Transco will notify Users of the reserve prices and the step prices that will apply in respect of each Aggregate System Entry Point for the purposes of the annual AMSEC invitation;
- (b) not earlier than 1 February and not later than 29 February in a Capacity Year, Transco will invite, and Users may make, applications for Monthly System Entry Capacity in respect of each Aggregate System Entry Point for the period specified in paragraph 2.2.2(a);
- (c) not later than the Day falling twenty eight (28) Days before the first annual QSEC invitation date in any Capacity Year, Transco will notify Users of the reserve prices and the step prices that will apply in respect of each Aggregate System Entry Point for the purposes of the annual QSEC invitation; and
- (d) not earlier than 1 August and not later than 31 August in a Capacity Year, Transco will invite, and Users may make, applications for Quarterly System Entry Capacity in respect of each Aggregate System Entry Point for the periods specified in paragraph 2.2.2(b).

*Amend paragraph 2.2.2 to read as follows:*

2.2.2 Transco will invite applications [("**annual invitation**")]

- (a) for Monthly System Entry Capacity for each calendar month in Capacity Year + 1 and Capacity Year + 2;
- (b) for Quarterly System Entry Capacity for each calendar quarter in Capacity Year + 2 to Capacity Year + 16 (inclusive),

in each case for such aggregate amounts of System Entry Capacity as is specified in the [relevant] annual invitation.

*Amend paragraph 2.2.3 to read as follows:*

2.2.3 Transco's annual invitations under paragraph 2.2.2 will specify:

- (a) the date(s) (on which applications pursuant to the annual invitation may be made), which for the purposes of:
  - (i) paragraph 2.2.2(a), shall be a Business Day; and
  - (ii) paragraph 2.2.2(b), shall be a period of ten (10) consecutive Business Days ("**annual invitation period**"),(each such date an "**annual**" invitation date);
- (b) for each Aggregate System Entry Point, and in respect of each of Capacity Year + 1 to Capacity Year + 16 (inclusive), the Available System Entry Capacity and the reserve price for Unsold System Entry Capacity (in accordance with the Transportation Statement) (the "**reserve price**");
- (c) for each Aggregate System Entry Point, and in respect of each of Capacity Year + 2 to Capacity Year + 16 (inclusive):
  - (i) the relevant number of incremental amounts (each being for a different amount) of Quarterly System Entry Capacity greater than the Baseline Entry Capacity (the maximum incremental amount being not less than an amount equal to 150% of Baseline Entry Capacity) (each amount an "**incremental capacity amount**"); and
  - (ii) the price payable by Users for each different incremental capacity amount (the "**step price**") were Transco to make such incremental capacity amount available,in each case (in accordance with the Transportation Statement); and
- (d) the relevant number for the purposes of paragraph (c) being twenty (20) except in the case of an Aggregate System Entry Point where the Baseline Entry Capacity is less than 300,000,000 kWh/Day where the relevant number (being not greater than twenty (20) and not less than five (5)) shall be set out in the Transportation Statement.

*Amend paragraph 2.2.4 to read as follows:*

2.2.4 Users may apply for Monthly System Entry Capacity for a calendar month in Capacity Year + 1 and/or (without prejudice to paragraph 2.2.14) for Quarterly System Entry Capacity for a calendar quarter in each of Capacity Year + 2 to Capacity Year + 16 (inclusive) in respect of an Aggregate System Entry Point on the relevant annual invitation dates.

*Amend paragraph 2.2.5 to read as follows:*

- 2.2.5 The "**Available System Entry Capacity**" for an Aggregate System Entry Point is, in respect of:
- (a) a calendar month in Capacity Year +1 and Capacity Year + 2, not less than the sum of:
    - (i) Unsold System Entry Capacity (if any); and
    - (ii) Incremental System Entry Capacity (if any); and

- (b) a calendar quarter in Capacity Year + 2 to Capacity Year + 16 (inclusive), is not less than the sum of:
  - (i) Unsold System Entry Capacity (if any); and
  - (ii) Incremental System Entry Capacity (if any).

*Amend paragraph 2.2.6 to read as follows:*

2.2.6 An application (a "**quarterly**" capacity bid) for Quarterly System Entry Capacity in respect of Capacity Year + 2 to Capacity Year + 16 (inclusive) shall specify:

- (a) the identity of the User;
- (b) the Aggregate System Entry Point;
- (c) the calendar year and calendar quarter for which Quarterly System Entry Capacity is applied for;
- (d) the amount (not less than the minimum eligible amount) of Quarterly System Entry Capacity applied for (in kWh/Day);
- (e) the minimum amount (not less than the minimum eligible amount) of Quarterly System Entry Capacity which the User is willing to be allocated for the purposes of paragraph 2.6.4; and
- (f) the price (being either the reserve price or a step price as set out in the Transportation Statement) in respect of which the User is applying for the amount of Quarterly System Entry Capacity.

## SECTION W: INTERPRETATION

*Amend paragraph 2.2.1 to read as follows:*

....

- (h) "**Capacity Year**" means the period from 1 April in any year until and including 31 March in the following year;

## TRANSITION DOCUMENT, PART II

*Delete 'Not Used' at paragraph 8.1.3A and insert new text to read as follows:*

- 8.1.3(A) B2.2 Users may make applications for Monthly System Entry Capacity for each calendar month in respect of the calendar months October 2003 to March 2004 pursuant to an invitation to be held by Transco, for which purposes:
- (a) the provisions of Section B2 ("**Old Section B2**") which applied immediately prior to the date on which the Modification 0500 gave effect shall continue to apply (except as provided for otherwise in paragraph (b));
  - (b) the provisions of paragraph 8.1.3 of this Part II in respect of Old Section B2 shall apply for which purposes Transco's invitation shall:

- (i) be in respect of each of the calendar months October 2003 to March 2004 (inclusive); and
- (ii) shall specify four dates, the last of which shall be not later than 31 August 2003,

and the System Entry Capacity which Users may be registered as holding following such invitation in respect of a calendar month shall be Monthly System Entry Capacity.

*Add new paragraph 8.1.3B to read as follows:*

8.1.3B For the purposes of the annual invitation to be held pursuant to Transition Document Part II 8.1.3A in respect of calendar months October 2003 to March 2004 the Available System Entry Capacity for an Aggregate System Entry Point shall be not less than the sum of :

- (i) Unsold System Entry Capacity (if any); and
- (ii) Incremental System Entry Capacity (if any).

*In respect of the additional paragraphs listed below, “Gas Year” to read “Capacity Year” :*

2.2.7;

2.2.13 (a);

2.6.7 (a);

2.7.7 (a);

2.7.7 (b)

2.14.1

Signed for and on behalf of Transco.

Signature:

**Nigel Sisman**

**NT & T**

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 **0616**, version **1.0** dated **01/05/2003**) 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.