Modification Report
Entry Capacity Allocation where Demand Equals Supply
Modification Reference Number 0695

Version 1.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

To amend Network Code Section B2.6 to allow allocation of System Entry Capacity at the point where demand equals supply at the relevant step group that reflects the demand for capacity.

2. Transco's Opinion

Transco, as proposer, supports implementation of the proposal.

Transco believes that capacity should be allocated consistently with the other relevant provisions of the Network Code and the IECR. The IECR is being clarified such that the applicable quantity of capacity for release should be considered at the highest price step where demand exceeds **or is equal to** supply. The modification proposal would bring the rules in the IECR and the Network Code into line and would ensure that capacity would be allocated precisely at the price step where demand equals supply. Thus capacity would be allocated efficiently and the proposal would enable Transco to discharge its primary duty as a Gas Transporter as specified in its GT licence such that it operates its pipeline system in an economical and efficient manner.

The amendment has not had any material consequences to date because in the LTSEC auctions that have taken place so far the situation has not yet arisen where demand is inelastic and equals supply. The modification proposal is intended to cover any future situation where such a supply-demand scenario were to arise.

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

Transco believes that implementation of the modification proposal better facilitates Transco's relevant objectives particularly in terms of the economic and efficient operation of its pipeline system. The proposal would allow allocation of capacity at the price step where demand precisely equals supply i.e. where Transco has received the perfect price signal. Therefore the proposal would allow capacity allocation to take place at the cost reflective price of making that particular incremental volume of capacity available. This would enable economic investment decisions to be made thus achieving economic and efficient operation of its pipeline system.

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

a) implications for the operation of the System:

There are no implications for the physical operation of the System.

b) development and capital cost and operating cost implications:

No additional operating or capital costs are envisaged.

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 significant costs are anticipated

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

It is not anticipated that there would be any impact on 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

There are no such consequences

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

Minimal systems development will be required to enable Entry Capacity to be allocated and released on the basis proposed. No implications are anticipated for the related computer systems of Users

7. The implications of implementing the Modification Proposal for Users

Transco believes that there should not be significant implications of implementing the Modification Proposal for Users.

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

Non-Network parties would not be affected.

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

None

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

Advantages:

The proposal should enable capacity allocation to take place in an efficient manner at the appropriate price step where demand equals supply

Disadvantages

Transco is not aware of any disadvantages

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

There was one response from EdF, which supported the proposal.

EDF Energy stated that there is an inconsistency between the methodologies for efficiently allocating Entry Capacity under the Incremental Entry Capacity Release statement (IECR) and the Network Code. It believed that the most efficient and economic methodology for releasing capacity should be at the highest price step where demand exceeds supply in order to maximise the capacity to be released.

EdF noted that the Network Code does not reflect this methodology where demand is inelastic, (i.e. where demand does not change over a number of price steps) and will therefore not release capacity at the most efficient price in order to incentivise Transco to release and build extra capacity. EdF believed that the methodology stated in the IECR is the most efficient and economic arrangement. EdF added that by changing the Network Code so that capacity is allocated at the higher price step where demand equals supply, regardless of whether demand is constant or responsive to price, both methodologies will be consistent. It will also ensure that capacity would be allocated precisely at the price step where demand equals supply, particularly at terminals where there is only one bidder.

Transco Response

Transco welcomes the support of the respondent and agrees with EdF's argument.

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

Implementation is not required for this purpose.

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

Implementation is not required having regard to any such proposed change.

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

There would not be a significant programme of works.

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

Circulate to Users requesting representations	1 July 2004
Representations close out	15 July2004
Final report issued to OFGEM	29 July2004
OFGEM decision	Early August

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of this 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

Draft Legal Text

Section B

Amend paragraph 2.6.5(b) to read as follows:-

"(b) the "**relevant step price group**" is:

(i) where a step price group quantity is exactly equal to the Actual Available System Entry Capacity, the step price group in respect of which the step price group quantity is exactly equal to the Actual Available System Entry Capacity at the step price in respect of the Actual Available System Entry Capacity; and

(ii) where paragraph (i) above is not applicable and paragraph 2.2.10(a) applies, the step price group, when considering the incremental quantities specified in the annual invitation in ascending order, in respect of which the step price group quantity is first equal to or less than the Actual Available System Entry Capacity; and

(iii) where paragraph (i) above is not applicable and paragraph 2.2.10(b) applies, the step price group, when considering the incremental quantities specified in the annual invitation in ascending order, in respect of which the step price group quantity is last equal to or less than the Actual Available System Entry Capacity;"

Signed for and on behalf of Transco.

Signature:

Richard Court
Commercial Frameworks Manager
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 **0695**, version **1.0** dated **21/07/2004**) 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.