

Draft Modification Report
Long Term Capacity Allocation
Modification Reference Number 0500

Version 1.0

This Draft 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

Transco proposes that an Entry Capacity allocation procedure is implemented to enable Users to obtain Entry Capacity for periods greater than 12-months. Discussion on this topic has been conducted in the Workstream process. Details of the workstream discussions are provided in the Modification 0500 workgroup report dated 11 January 2002. Draft legal text will be published on 11 February to accompany this report which may be refined during legal drafting sessions that are planned to take place during February. Final legal text will accompany the Final Modification Report. The following text provides a summary of the Proposal, detailed business rules have been discussed in the Workstream and are attached to this document (version 0.3 published 21 January 2002).

Transco will offer entry capacity for a period up to [13] years in advance of the time of use. Entry Capacity will be offered in segments of differing granularity the further ahead of a gas day that entry capacity is offered. The purpose of this is to reduce complexity for longer term allocation and to offer Users an increasing opportunity to fine tune their capacity requirements as a relevant gas day is approached. It is therefore proposed that capacity is offered in the following bundles:

Quarterly System Entry Capacity (QSEC) offered from year [4] to year [13].

Monthly System Entry Capacity (MSEC) offered from a month in advance of the relevant month up to and including year [3].

Daily System Entry Capacity (DSEC) offered from the day before through to 02:00am on a relevant gas day.

Daily Interruptible System Entry Capacity (DISEC) offered on the day ahead of a relevant gas day.

All capacity will be offered on the basis of an end of day quantity from which is derived an equal hourly flow rate against which Users have purchased a right to flow gas. Payment, as now, will continue to be due the month after the month of potential use and will be charged on a pence per kWh basis. The payment liability will remain with the primary purchaser regardless of secondary market trading. However, any User liabilities associated with entry capacity management will take into account net capacity holdings and shall reflect the effect of capacity trades. All categories of firm entry capacity will be taken into account when considering Users buy-back liabilities.

QSEC will be bundled into calendar months (Starting with January to March) and capacity will be offered on the basis of an equal daily quantity for each day of the period. QSEC will be offered in an annual allocation which will take place in [July] of each year.

MSEC will also be offered on the basis of an equal daily quantity for each day of the monthly block. 12-monthly blocks of capacity, for the period [October through to September] will be offered in an annual allocation which will take place in [July] of each year. In addition, within a year a rolling MSEC allocation may be held to offer capacity for use in the month following the month of allocation.

DSEC will be offered from the day ahead stage and during a relevant gas day. Capacity allocated within a gas day will be allocated on the basis of equal hourly use through to the end of the gas day.

Transco will offer a quantity that, in aggregate, is no less than the appropriate quantity of Baseline Capacity that is expected to be specified in its Gas Transporter licence. The release will be structured so that 80% of Baseline Capacity will be offered initially in the most distant year for which capacity is made available. Thereafter in each annual allocation the residual quantity after taking into account previous allocations in the relevant year will be made available for Users. In the annual MSEC allocation that is held immediately prior to the relevant gas year the quantity to be offered will be at least 20% of the appropriate Baseline Capacity plus any Entry Capacity remaining unsold from previous allocations. Within a relevant gas year any residual quantity of Baseline Capacity will be offered in a rolling MSEC allocation to be held prior to each relevant capacity month. Transco will be able to offer additional entry capacity (above the allocation requirement described above) in any allocation.

QSEC will be offered in a bid period of [5] business days. Transco will signal an initial cost associated with provision of quantities up to Baseline Capacity and it will also signal a series of [20] marginal costs which will broadly reflect costs that may be anticipated for providing an additional increment of marginal output above the preset output measure. Broadly it is expected that the increments should provide indicative costs for providing equal sized increments up to an aggregate quantity that is equal to [50]% of Baseline Capacity (ie, the costs if capacity provision was to be increased [50]% above Baseline Capacity). Users will be able to signal the volume that they might wish to acquire at each of the indicated prices.

When the bid period is completed Transco will aggregate the quantities demanded at each price to create a demand curve for each period in which demand has been placed. If aggregate demand is less than or equal to the relevant proportion of Baseline Capacity on offer at the initial price indicated then all capacity demanded will be allocated and the initial price against which demand was placed will be payable for all units of capacity. If aggregate demand is greater than the relevant proportion of Baseline Capacity (or capacity remaining available after previous allocations) then Transco will give consideration to the potential risks and rewards associated with the provision of additional increments of capacity above a relevant Baseline Capacity. Transco will determine the cleared price (from the published increments) and volume to be allocated. If valid demand is equal to the volume available at the selected cleared price then capacity will be allocated to all valid bids at that price. If demand exceeds supply at the cleared

price then Transco will allocate 100% of User's valid demand at the next price step that signals an aggregate demand that is less than supply. The remaining unallocated quantity is allocated in proportion to the extent of User's unsatisfied demand at the cleared price.

The process from bid window closure to publication of results will take up to 2-months.

MSEC will continue to be offered on an annual basis (years 1 to 3) in a pay-as-bid blind auction. The reduced quantities implied by a requirement to offer the majority of capacity in preceding (QSEC) allocations and the potential for Transco to expand supply indicate that a single round is appropriate it is proposed that the bid window periods remain unchanged and the reporting arrangements for reporting allocation results and statistics remain unchanged. The date at which an allocation can be completed and consequently the date at which accompanying statistics are produced will be 2-months after closure of the bid window. The delay is necessary to ensure that appropriate credit arrangements are in place.

Within a gas year a rolling MSEC allocation may be conducted each month. The quantity to be offered would be any residual Baseline Capacity remaining unreleased by Transco for use in the following month. The allocation process will be a single round blind pay-as-bid allocation. The reporting requirements will remain unchanged and the allocation details will be published 3-business days after closure of the bid window. It is also proposed that the present "off the shelf" provision of MSEC is discontinued because a more frequent use of market based allocation processes should offer adequate opportunity for Users to obtain MSEC.

Overrun charges should be adapted to reflect the new entry capacity release process. It is proposed that the Overrun charge should be based on a multiple of the highest price paid for firm entry capacity and firm entry capacity management tools, where the multiples are [8] for all types of Firm Entry Capacity. In the case of capacity management tools a multiplier of [1.1] is applied to the weighted average (by volume) of the top [25]% of accepted bids for each product.

Monthly Interruptible System Entry Capacity should not be required because the new arrangements will enable capacity provision to be expanded if appropriate. The capacity expansion will also be additional to a minimum offered quantity that is identified as an output measure, which should effectively remove previous doubts about how Transco estimates capacity release quantities.

As previously indicated a single round MSEC is proposed, and the final optimisation round will no longer be required. A release based upon the proposed output measures removes any potential for significant inter ASEP optimisation.

It is also proposed that the requirement to release a daily estimate of use-it-or-lose-it capacity on an interruptible basis should be capped to maintain the release of this product in manageable proportions. Recent moves to a "top down" type entry capacity arrangement have created difficulties in managing this product. With this in mind it is proposed that DISEC capacity release on any day and at any ASEP should be capped at the greater of [100] GWh/day or [10%] of Baseline Capacity and that the scaling factors that may be necessary to manage this product should be proportionate to operational need.

2. Transco's Opinion

Transco supports the principle of making available longer term Entry Capacity rights. to achieve that objective a robust product definition must be achieved and the long term allocation process must dovetail with shorter term release processes. This has necessitated a review of most of the existing aspects of Network Code section B2 in addition to the formulation of a new process. Transco believes that taken together with together with new System Operator Incentives the Proposal should better enable Transco and Users to contract for an efficient level of System Entry Capacity.

During Workstream discussion a maximum 13 year horizon has been put forward as an appropriate duration for offering Entry Capacity. determination of the period is necessarily subjective and therefore Transco would like to seek views on this aspect of the proposal.

The terms of reference for the Workstream set a number of objectives for the development of long term Entry Capacity amongst which were "so that efficient and timely investment can be undertaken" and that "capacity is placed where and when shippers want it". In order to fulfil these objectives it was broadly agreed that a quarterly capacity bundle would provide Users with an opportunity to inform Transco of seasonal requirements in addition to providing an indication of longer term demand. This view was not universally held and it had been argued by some parties that an annual capacity product should be offered. Transco considers that quarterly capacity will provide a valuable signal about seasonal requirements that would not be available through an annual allocation. To that extent it believes a quarterly product will offer an opportunity for more efficient capacity provision. Views are requested on the appropriateness of a quarterly product.

Transco has indicated in the workstream discussion that it would seek views on the appropriate number of marginal cost steps (20 are proposed) and the appropriate aggregate additional volume (provision of up to 150% of Baseline Capacity is proposed). Transco believes that the marginal cost steps should be small enough to offer an opportunity for a close match between supply and demand and consequently will minimise the materiality of pro rating rules.

Transco believes that competition between Users and efficient allocation may best be served by replacing the present off the shelf process with the proposed rolling MSEC allocation. This process will also provide an additional opportunity for Transco to respond to User demand for additional Entry Capacity. Views are sought on the appropriateness of this aspect of the proposal.

The workstream process identified a 5 day bid period for QSEC and a single bid day for MSEC. Transco believes that the increased number of opportunities to obtain Entry Capacity, through a series of annual and within year processes will effectively provide a multi round opportunity for Users to obtain capacity. In this context the quantities that may be demanded in any year may be comparatively small. Consequently Transco believes the bid periods indicated should be sufficient but seeks representations on this issue from Users.

During the Workstream discussion there has been some debate about the need for an anti-hoarding product and the appropriate volumes that should be offered. This proposal maintains use of the present Daily Interruptible System Entry Capacity product as an effective anti-hoarding tool but views are sought on the appropriateness of limiting the quantities to be made available. Transco has proposed a maximum quantity that is the greater of 10% of baseline capacity or 100 GWh. In Transco's opinion a release of significant quantities of Interruptible capacity can potentially lead to inefficient operation of the system. When taken together with the quantities of firm capacity released it is clear that the aggregate quantity of Entry Capacity can be far in excess of physical capability. Transco believes it is most efficient for Transco to manage the availability of Interruptible capacity before it considers management of firm capacity. Taken together these processes should ideally be managed as close to the time of anticipated constraints as possible. However large quantities of Interruptible Entry Capacity could become available after 1 April (a consequence of the introduction of Baseline Capacities) which might necessitate the management of Interruptible capacity being potentially invoked at an earlier stage, if increased risks of firm capacity buy back are to be avoided. An increased probability of interruption being invoked might be considered appropriate by some Users alternatively Transco believes the quantities offered should be held to a level consistent with over coming hoarding concerns whilst enabling Transco to manage capacity released in a more structured manner.

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

The changes to the Entry Capacity regime will better facilitate the following relevant objectives:

- Condition 7(1)(a) - *"the efficient and economic operation by the licensee of its pipe-line system"* and
- Condition 7(1)(c) - *"the securing of effective competition between relevant shippers and between relevant suppliers"*.

It should be noted that the proposal will also "fit" with the System Operator Incremental Incentive to be introduced from 1 April 2002.

The key features of the proposals that will help achieve these relevant objectives are as follows:

Long term capacity allocation will enable contracting for an efficient level of entry capacity that will satisfy Users needs and will be offered at prices that closely match Transco's costs. The process will also enable Users seasonal demand to be signalled in a manner that supplements the present planning process.

Effective competition is enhanced by offering long term Entry Capacity to all Users on a non discriminatory basis and by utilising credit arrangements that maintain low barriers to entry.

the proposed allocation process will provide greater certainty and reduced risk for Users through a frequent (annual) offering of Entry Capacity that enables a Users capacity portfolio to be managed incrementally and for it to consist of capacity commitments for varying periods of time.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

It is not anticipated that daily operation of the system will be impacted by this development. In terms of the appropriate size of the system the signals received from a long term allocation process might lead to a changed investment programme to more closely match Users needs.

b) development and capital cost and operating cost implications:

Development costs will be incurred as a new computer system might be required to manage the allocation process. Feasibility studies are under way to examine the adaptability of present systems and to determine the most efficient solution. In addition billing systems will need to be adapted to provide functionality to reflect new charge types for entry capacity.

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:

Any additional System Operator costs incurred as a result of implementing this Proposal would be accounted for under the proposed internal cost incentive scheme, as set out in Ofgem's final proposals for the System Operator incentives.

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

Pricing Methodologies will be required to determine the appropriate reserve prices and incremental costs to be used in a long term capacity allocation.

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

The implementation of new System Operator Incentives, in particular the incremental incentive and the buy back incentive will increase contractual risks incumbent upon Transco from releasing Entry Capacity.

Rules are proposed to limit the participation of a User in any capacity allocation mechanism in the event of that User exceeding Network Code credit limits.

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

Systems developments will be required to implement this proposal, it is anticipated that these will be delivered at the beginning of August 2002. Capacity registration and billing processes will remain largely unchanged though they must be adapted to reflect the introduction of new categories of capacity and release over extended durations.

7. The implications of implementing the Modification Proposal for Users

Users will have an opportunity to acquire entry capacity for periods of up to 13 years. Users will be able to hold a mix of long and short term capacity in a manner that reflects their risk profile. Users will also have opportunities to demand and receive capacity in excess of the Baseline Capacity signalled in Transco's licence.

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

A process that enables supply of capacity to be adjusted to meet demand should over time tend to reduce the incidence of unexpected constraints. This should enable more efficient planning of gas supplies by producers and more predictable operation for Terminal Operators.

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

An amendment to Transco's PGT licence has been provisionally agreed to reflect the System Operator Incentives that are required to enable Transco to respond to long term investment signals. A greater use of incentives may change the relationship between Transco and each User, in particular where revenue share or over/under recovery arrangements are in place.

The determination of reserve prices and incremental costs to be used in the long term Entry Capacity allocation process will be the subject of an agreed methodology. the methodology will be subject to the established pricing consultation process.

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

Advantages:

- Supply can be expanded to meet demand.
- More opportunities to obtain Entry Capacity
- Users can obtain a mix of short and long term Entry Capacity to reflect each Users risk.

Disadvantages:

- More complex systems are required to manage the Entry Capacity process.

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

Representations are now sought.

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

Implementation is not required to enable Transco to comply with any legislation.

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

Transco is unaware of any such requirement.

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

Finalise system design requirements,
Evaluate systems changes within Transco and Users systems,
Design and build systems,
Test revised systems with Transco and Users,
Test linkages between systems,
Implement training programs within Transco and Users,
Amend systems to reflect observations during training and testing,
Re test systems,
Implement changes.

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

Draft Modification Report circulated - 8th February 2002
Consultation period ends - 1st March 2002
Ofgem Decision expected - early March 2002
Pricing Methodology Consultation - April 2002
System Implementation - 1 August 2002

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation.

17. Text

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date:

Modification Proposal 0500
Draft Entry Capacity Business Rules
For
Implementation 1 August 2002

Defined Terms

1. Gas Year is a defined Network Code term, which means the 12 month period from 1 October through to 30 September inclusive.
2. Aggregate System Entry Point (ASEP) is a defined Network Code term and is described in A-3 of the Network Code.
3. Overrun Charge is a defined Network Code term described in B-2 of the Network Code.
4. Gas Day is a 24 hour period commencing at 06:00 hrs on each day.
5. Firm Entry Capacity is a financial right to title of capacity. With the exception of a number of instances firm capacity, once acquired by Users, cannot be obtained by Transco from Users other than by market processes that are specified either within the Network Code or enabled through Transco's Procurement Guidelines. Exceptional instances are Entry Capacity Market Failure or where action is required for Transco to fulfill its obligations to maintain and operate a safe pipeline system. Release by Transco of any type of Firm Entry Capacity does not imply an obligation upon Transco to provide physical quantities of pipeline capacity.
6. Entry Capacity Market Failure is deemed to occur when insufficient volume is offered by User's in the market processes for buy-back of capacity.
7. Incremental Capacity is a quantity of firm capacity that is in addition to the Baseline Capacity for a relevant period at each ASEP.
8. Baseline Capacity is a quantity of Firm Entry Capacity that Transco must make available to User's at each Aggregate System Entry Point. The quantities will be identified in Transco's GT Licence.
9. Primary Purchaser is a User who has a bid for Firm Entry Capacity accepted by Transco when that capacity has been offered through one of the release processes described in section B of the Network Code.
10. Annual System Entry Capacity (ASEC) is offered in 12-month blocks. The quantity offered is an equal daily quantity measured in kWh/day.
11. Quarterly System Entry Capacity (QSEC) is offered in 3-month blocks. The quantity offered is an equal daily quantity measured in kWh/day.
12. Monthly System Entry Capacity (MSEC) is offered in monthly blocks. . The quantity offered is an equal daily quantity measured in kWh/day.
13. Daily System Entry Capacity (DSEC) is offered in daily blocks.
14. Daily Interruptible System Entry Capacity (DISEC) is offered in daily blocks.
15. Balancing Principles is a document to be defined in Transco's GT Licence.
16. Procurement Guidelines is a document to be defined in Transco's GT Licence.

17. System Operator Incentives is a reference to the proposed incentives to be described in Transco's GT Licence. The Incentive arrangements are anticipated to be separated into a System Operator Buy Back Incentive and a System Operator Incremental Incentive.

Introduction to the Proposed Capacity Regime

1. **This section describes the Entry Capacity regime high-level principles.**
2. **Entry capacity will be made available as a firm product. Daily Interruptible capacity will also be made available to the extent that it is necessary to provide an abiding anti-hoarding mechanism in the allocation rules. Capacity will be made available through a range of release processes for a period ranging up to [13] years ahead of the present Gas Year through to within a Gas Day.**
3. **Firm Entry Capacity will enable a User to deliver gas into the System at the Aggregate System Entry Point (ASEP) for which the capacity has been obtained. A User that has flowed gas within its holding of capacity will avoid overrun charges. Firm Entry Capacity may be traded between Users.**
4. **Should Transco seek to buy-back capacity it will be done so in line with its Procurement Guidelines and Balancing Principles documents. Should a Firm Entry Capacity Market Failure occur at a time when constraint management is deemed by Transco to be required in order to maintain system integrity then a process of non-market based rationing rules will be applied. Compensation to User's on such occasions will be in accordance with section I of the Network Code.**
5. **As a minimum Transco will make Firm Entry Capacity available to a level equal to the Baseline Capacity. Users will be able to demand a greater quantity than a Baseline Capacity measure and Transco will satisfy that additional demand subject to its assessment of the balance of financial risk and reward. The risk/reward possibilities facing Transco are set out in the GT licence arrangements for its System Operator Incentive.**
6. **All income from sales of entry capacity on the Gas Day or the day before the Gas Day (D-1) will count towards the System Operator Buy-Back Incentive. All income from Firm Entry Capacity sales that occur before D-1 and are associated with quantities at an ASEP that in aggregate are less than or equal to the relevant Baseline Capacity will be counted towards Allowed Revenue. All income from Entry Capacity sales that occur before D-1 and are associated with quantities that are greater than the relevant Baseline Capacity will be counted towards the System Operator Incremental Incentive.**
7. **Capacity offered more than [3]-years in advance of the period of use will be made available in [quarterly/annual] blocks (reflective of calendar quarters/gas or formula years). Capacity made available between [3]-years in advance of the Gas Year and 1-month ahead of the month of use will be made available in monthly blocks. Monthly capacity will be offered in an annual allocation in the applicable period in advance of the Gas Year. A rolling monthly allocation will be operated within a Gas Year in which capacity for use in the succeeding month will be offered. The rolling monthly allocation will replace the present "off the shelf" release process for Unsold**

Long Term Firm Capacity. Daily firm entry capacity will also be made available for use on a specific day, it will initially be made available immediately before the gas day and if necessary an allocation will be repeated throughout the gas day (until 02:00am).

8. **Daily Interruptible System Entry Capacity** will be made available on a daily basis and will be released on the day ahead of the relevant Gas Day. The quantities offered would be the lesser of an estimate of unused firm capacity held by Users or a quantity that is consistent with removing a substantial threat of hoarding. The estimate of unused capacity will be obtained by use of the established methodology.
9. **All capacity will be charged for on a daily basis. Capacity entitlements will be charged for regardless of whether a User chooses to flow gas. Capacity charge invoices will be issued during the month after the month of use (M+1).**

1. Product definition

1. **This section describes the capacity products that will be made available and the rights and obligations that are due to capacity holders. There will be two categories of entry capacity, firm and interruptible.**
2. Firm capacity will enable a User to deliver gas into the System at the Aggregate System Entry Point (ASEP) for which the capacity has been obtained. Capacity is offered in terms of an end of day quantity (kWh/day) for a specified day, or multiples thereof, from which is allocated a gas flow rate entitlement that is equivalent to $1/24^{\text{th}}$ of the end of day quantity held by a User in any hour of that gas day. For capacity sales or buy-back of capacity within day the applicable rate change to a User's capacity entitlement is $1/n$ where n is equal to the number of hours remaining in the relevant gas day after the relevant exercise time. after the time of sale or purchase (and taking into account lead times required by hour bar plus one acceptance rules).
3. Firm Entry Capacity held by a User cannot be acquired by Transco other than by:
 1. Agreeing a purchase price with the User or
 2. Scaling of all Users' holdings of Entry Capacity on a relevant day when a transportation constraint has occurred and a market failure obstructs a remedy in a time frame that can avoid an infringement of Transco's safety case. [Or perhaps can avoid jeopardising safe operation of the pipeline system] or
 3. Circumstances in which a User fails to maintain the appropriate credit [worthiness/guarantees] commensurate with the entry capacity it has previously purchased in a primary allocation.
4. Daily Interruptible System Entry Capacity rights can be cancelled either entirely or in part by Transco if it considers that it is unlikely to be able to accept prospective gas flow consistent with anticipated flows and the quantities of capacity released. Daily Interruptible System Entry Capacity rights may also be cancelled by Transco if the User fails to maintain the appropriate credit [worthiness/guarantees] commensurate with the entry capacity it has previously purchased at auction.

5. A Users total entitlement at an ASEP for a gas day will be the sum of all its capacity entitlements held under the various products at the ASEP at the end of a gas day.
6. These Business rules are intended to be consistent with Modification Proposal 0520 which proposes to migrate the existing (as of 1 January 2002) transitional Firm Entry Capacity neutrality provisions into the substantive body of the Network Code and to remove the entry capacity incentive scheme provisions from the Network Code. The entry capacity incentive scheme would instead be defined within Transco's Gas Transporters (GT) Licence. That is, the incentive arrangements consist of a target level of costs, sharing factors and a cap and collar. If the actual buy back costs are above the target level, Transco will be exposed to a share of the additional costs (determined by the downside sharing factor) up to the maximum level (the collar). Equally, if the buy back costs are lower than the target, Transco will be allowed to retain a share of the benefit (determined by the upside sharing factor) up to a maximum level (the cap). This process as set out in Transco's licence will address costs and revenues arising from incremental sales or constraint management costs that occur within the relevant gas day.
7. Payment for capacity shall be made on the following basis:
 1. The Primary Purchaser (User) shall be invoiced for entry capacity on the 1st capacity invoice after the month in which the capacity was valid. Invoices are issued on a monthly basis.
 2. The primary purchaser of entry capacity is liable for payment to Transco on the relevant due date indicated above. Capacity trading shall not affect each User's liability.
 3. [In the case of a pay your bid type allocation a User's payment for all types of entry capacity shall be based on the bid prices and volumes for each of a User's accepted bids.]
 4. [In the case of a cleared price allocation a User's payment shall be the minimum accepted price of capacity in the allocation for which capacity was obtained.]
8. Overrun charges will be calculated on a p/kWh basis and shall apply to the quantity of gas flowed in excess of a User's registered entitlement to entry capacity (all types) at a specified ASEP at the end of the Gas Day. The overrun charge shall be the higher of the following calculations applicable to the Gas Day in which an overrun occurred (up to 02:00 am):
 1. 8 times the highest price paid (at the relevant ASEP) to Transco for firm Entry Capacity in any of the defined release processes that it chooses to operate.
 2. 1.1 times the weighted average price of the top 25% (by volume) of accepted buy-back offers (at the relevant ASEP) when ranked in price order and taking the highest price first.
 3. 1.1 times the weighted average price of the top 25% (by volume) of accepted Forward contracted buy-back offers (at the relevant ASEP) when ranked in price order and taking the highest price first.

4. 1.1 times the weighted average price of the top 25% (by volume) of accepted Exercise prices arising from constraint management options contracts (at the relevant ASEP) when ranked in price order and taking the highest price first.

3. Quantities of Entry Capacity Offered

1. **This section describes the quantities to be allocated in each release process. The quantities offered will be released with reference to the quantities, known as Baseline Capacities identified in Transco's GT licence. Baseline Capacities will be provided for each ASEP. Transco will have an obligation to offer no less than the Baseline Capacity specified in the GT Licence. Transco will allocate additional further financial rights above and beyond the relevant Baseline Capacity subject to its assessment of risk and reward. That assessment will be conducted with respect to the parameters governing the system Operator incentives as set out in its GT licence.**
2. The aggregate quantity of Firm Entry Capacity offered at each ASEP would be no less than the quantities identified as being available at the relevant ASEP in the GT licence. In any allocation period the quantity offered will be the relevant Baseline Capacity minus any capacity previously released. The aggregate quantity will be offered on the following basis:
3. [90%] of Entry Capacity identified in the table of Baseline Capacity for an ASEP in a particular gas year (defined as 1 October to 30 September) shall be offered as firm capacity in a number of long term Quarterly System Entry Capacity (QSEC) allocation processes that will be completed no less than 3 years before the gas year in which the capacity is intended to be used. The Long term allocation shall be:
 1. Completed before [30 July] of each year
 2. In each allocation the capacity offered will be not less than [90%] of the relevant Baseline Capacity minus any capacity previously allocated (i.e. capacity released in previous years)
 3. Monthly System Entry Capacity (MSEC) auctions will be held on an annual basis for years 1, 2 and 3 ahead of the relevant Gas Year. In each MSEC allocation capacity will be offered for a 12 month period. The quantity to be offered in years 2 and 3 shall be no less than [90%] of the Baseline Capacity minus any previously allocated quantities. In year 1 the quantity to be offered will be the greater of the quantity held back or the Baseline Capacity minus any previously allocated quantities. That is no Baseline Capacity quantities will be held back. The annual MSEC auctions will be completed before [30 July] of each year.
 4. Transco will offer additional quantities of MSEC capacity in a rolling MSEC allocation to be held in the month preceding the month of use. Any quantities offered would be at least the residual quantity of Baseline Capacity remaining unsold following previous allocations. Additional capacity may be made available subject to a Transco assessment of risk and reward with regard to Transco's SO incremental Incentive. There will be a requirement to offer quantities up to Baseline Capacity should it not have previously been sold

5. Transco can offer additional quantities of firm capacity on the [day] [week] before a Gas Day and during the actual gas day. The assessment of quantities offered on either the day ahead stage or on the gas day is subject to a Transco assessment of how best to optimise System Operator performance against the SO Buy Back Incentive described in Transco's licence. There will be no requirement to offer quantities up to Baseline Capacity.
4. Daily Interruptible System Entry Capacity (DISEC) may be offered on the day before the intended gas flow day. The quantity to be offered will be the lesser of
 1. Transco's assessment of the average quantity of un-used firm entry capacity released for a [30] day period prior to the relevant capacity month or
 2. [[10]% of the quantity offered at the relevant ASEP in the relevant month in the table of Baseline Capacity provided in the GT licence.]
4. **Granularity of Capacity offered**
 1. **This section outlines the differing durations of capacity blocks that will be made available.**
 2. Firm Entry Capacity will be offered up to [13] years before the period of use. Firm Entry Capacity will be offered in [quarterly/annual] blocks when capacity is offered greater than 3-years in advance of the relevant gas year. Firm Entry capacity will be offered in daily blocks (DSEC) when the release process is conducted within [7] days of the relevant gas day. All other Firm Entry Capacity released at any other period will be offered in Monthly blocks (MSEC).
 3. All capacity released for periods greater than 1 day will be done so on the basis of an equal daily quantity for each day of the relevant period.
 4. Interruptible Entry Capacity will be offered for use on a specific day (DISEC).
5. **Provision of Information ahead of Entry Capacity Allocation**
 1. **This section defines the information sources that will be available to User's ahead of an allocation.**
 2. Incremental marginal costs up to [150%] of Baseline Capacity will be published no later than 28 business days before the annual bid process commences.
 3. Baseline Capacities will be specified in Transco's GT Licence.
 4. Reserve prices and any applicable methodology for setting reserve prices will be described in the charging statement published by Transco in accordance with its licence.
 5. Transco's investment and associated scenario planning will be published annually in its Ten Year Statement.
 6. Transco's process for addressing constraint management of entry capacity will be addressed in its balancing principles and/or procurement guidelines documents.
6. **Common Allocation Features**
 1. **This section describes certain features that are common to the allocation of all categories of entry capacity.**
 2. Common features of the allocation process are:
 3. System Entry Capacity will be sold by Aggregate System Entry Point (ASEP).
 4. A reserve price(s) will be used in each allocation; the reserve price will be set in accordance with a Methodology that is described in Transco's charging statement.

In the case of MSEC allocations a single reserve price will be set for each ASEP. The reserve price level will differ between ASEPs but when considering its application at a single ASEP it will be set at the same level for all applicable months. In the case of QSEC allocations a range of prices will be published for each ASEP against which User's will signal volumes required. The prices will apply across all years offered in QSEC allocations.

5. A bid period will be defined for each of the defined allocation procedures.
6. Users may post, withdraw or amend bids during the bid period.
7. The minimum bid size is 100,000 kWh.
8. On each allocation date capacity will be offered in a single bid period
9. All bids will be posted on an anonymous basis.
10. Each bid shall specify:
 1. User (User) ID
 2. ASEP
 3. Relevant period (annual, quarter, month or day)
 4. Maximum bid quantity (kWh)
 5. Minimum bid quantity (kWh)
 6. Bid price (p/kWh) – maximum 4 decimal places.
11. Bids will be rejected by the system if:
 1. A User does not meet the appropriate credit test.
 2. A bid is below the applicable reserve price.
 3. A bid quantity is less than the minimum bid size (100,000 kWh).

7. **Quarterly [Annual] System Entry Capacity Allocation**

1. **This section describes requirements that are specific to the QSEC/ASEC allocation.**
2. Transco will offer capacity for the period Year 4 to year [13].
3. The bid window will be open for [5] consecutive business days in [July] of each year.
4. Volume based allocation will require the following additional features.
5. For each ASEP Transco will identify an [Average] or [Marginal] cost associated with provision of quantities up to a Relevant Baseline Capacity and for [20] increments above the Baseline Capacity. In aggregate all increments shall equal to at least [50%] of the relevant Baseline Capacity relevant to that year in which QSEC/ASEC is offered.
6. A common (cleared) price will be paid for all accepted capacity and that price shall be the price that Transco determines will provide the appropriate volume allocation when taking into account the balance of risks and rewards indicated by Transco's incentive arrangements.
7. During the relevant bid period Users will be able to signal the volume that they may wish to obtain at each price increment.
8. [At the end of each day (after 17:00) of the bid period Transco will publish on the system a snapshot of aggregate volumes registered on the system at [17:00]. The tables of aggregate volumes will be published for each ASEP and each period in which capacity is offered.]
9. The bid period will be open for [5] consecutive business days. The bid period will open at 08:00 on day 1 and close at 17:00 on day [5]

8. **Acceptance of valid Quarterly [Annual] System Entry Capacity bids**

1. **This section describes how User's valid bids may be accepted or rejected by Transco subject to its assessment of incentive outcomes.**
2. On closure of a bid period Transco will conduct the allocation process.
3. If a User is found to have submitted bids, which in aggregate exceed the credit arrangement's that it has in place, then Transco will inform the User within 5 working days of closure of the bid period. The User will then be allowed [10] working days to put in place the appropriate credit arrangements. Failure to satisfactorily put in place credit arrangements will render all of a Users bids invalid.
4. If the aggregate quantity of valid bids placed at the first price is less than the Baseline Capacity and after taking into account previously allocated capacity and capacity held back for short term allocation, then all valid bids will be accepted.
5. When considering each ASEP, if the aggregate quantity of valid bids is greater than the Baseline Capacity, after taking into account previously allocated capacity and that quantity held back for shorter term release then Transco may allocate additional quantities of entry capacity. In doing so Transco will consider the potential income at each price increment and the volumes demanded. Transco has no prior requirement to offer more capacity than the quantity for sale and will only do so if in its judgement it is commercially advantageous to do so. If the allocation is conducted in an environment of surplus demand over availability (after taking into account additional quantities that Transco may consider it appropriate to make available) then:
 1. Transco will determine the cleared price (from the published increments) and volume to be allocated.
 2. If valid demand is equal to the volume available at the cleared price then capacity will be allocated to all valid bids at that price.
 3. If demand exceeds volume at the cleared price then Transco will allocate [100% of] User's valid demand at the next price increment that signals an aggregate demand that is less than availability.
 4. The quantity allocated to each User in 8.5.3 above is deducted from each User's demand at the relevant cleared price. Then pro rate the remaining available capacity in proportion to each User's residual unsatisfied demand at the cleared price. Note the outcome must be a positive integer. If demand continues to exceed supply then the allocation will be based on a pro rating of capacity demanded at the cleared price.

9. **Reporting of Accepted/Unaccepted QSEC Bids**

1. No later than [2] months after completion of the annual allocation process Transco will inform each User of all accepted or unaccepted bids that had been submitted by that User.

10. **Monthly System Entry Capacity Allocation**

1. **This section describes the frequency of MSEC allocation.**
2. Transco will offer monthly blocks of capacity for use in a 12-month period, at an ASEP on a [date] in [July] which falls 3-years in advance of the relevant gas year and is repeated:

1. On a [date] in [July] which falls 2-years in advance of the relevant gas year and
2. On a [date] in [July] which falls in the year preceding the relevant gas year and
3. On a [date] in each month of the relevant gas year in which MSEC shall be offered only for use in the succeeding month. Known as a rolling MSEC allocation
3. In each MSEC allocation the bid period shall last for [1] business day and the bid period shall open at 08:00 and close at 17:00
4. The quantities on offer in each annual allocation shall be no less than the appropriate proportion of the relevant Baseline Capacity less any previously allocated capacity. In the annual allocation that occurs immediately prior to a relevant Gas Year the quantity offered will take into account the [10%] of the proportion of the Baseline Capacity previously reserved for shorter term allocation. Transco will be able to allocate additional capacity (above the Baseline Capacity) if it is judged to be commercially advantageous. The quantity that may be allocated in each rolling MSEC allocation is no less than the Baseline Capacity minus any previously allocated capacity. Additional capacity (above a Baseline Capacity Measure) may be allocated subject to Transco's discretion and will be based on its assessment of the risks and rewards associated with further incremental sales of entry capacity.

11. Acceptance of valid Monthly System Entry Capacity bids for Annual Allocation

1. **This section describes the rationale for bid acceptance in a series of annual MSEC allocations.**
2. A bid period is of a duration of [1] business day, the period commencing at 08:00 and closing at 17:00 on the same day.
3. On closure of a bid period Transco will establish which bids to accept.
4. If a User is found to have submitted bids in annual MSEC allocations, which in aggregate exceed the credit arrangements that it has in place then Transco will inform the User within 5 working days of closure of the bid period. The User will then be allowed [10] working days to put in place the appropriate credit arrangements. Failure to satisfactorily put in place credit arrangements will render a User's entire bids invalid.
5. If the aggregate quantity of valid bids is less than the appropriate proportion of the Baseline Capacity, and after taking into account previously allocated capacity, then all valid bids will be accepted.
6. When considering each ASEP, and each relevant period, if the aggregate quantity of valid bids is greater than the Baseline Capacity, after taking into account previously allocated capacity then Transco may allocate additional quantities of entry capacity. Note, in the annual allocation that occurs immediately prior to a relevant Gas Year the quantity offered will take into account the [10%] of the proportion of the Baseline Capacity previously reserved for shorter term allocation. Transco has no prior requirement to offer more capacity than a Baseline Capacity measure (or proportion thereof) and will only do so if in its judgement it is commercially advantageous to do so. If the allocation is conducted in an environment of surplus demand over availability (after taking into account

additional quantities that Transco may consider it appropriate to make available) then:

7. All bids will be ranked in price order.
8. Allocation will start with the highest ranked (priced) bid and proceed until all capacity on offer has been allocated.
9. In the case of bids of equal price the aggregate bid quantity will be allocated, unless there is insufficient capacity available, in which case capacity will be allocated on a pro-rata basis (subject to minimum quantity threshold).

12. Acceptance of valid Monthly System Entry Capacity bids for A Rolling Allocation

1. **This section describes the rationale for bid acceptance in a series of MSEC allocations to be held a month in advance of the month for which capacity is to be available for use.**
2. A bid period is of a duration of [1] business day, the period commencing at 08:00 and closing at 17:00 on the same day. The bid period will be open no later than [5] business days before the end of each month ahead of the month for which capacity may be offered.
3. On closure of a bid period Transco will establish which bids to accept.
4. If a User is found to have exceeded its credit limit prior to the allocation then its bids will not be accepted. If the rolling MSEC allocation takes a User above its agreed credit limit then sanctions will apply from the date of notification by Transco of a breach of credit limits.
5. If the aggregate quantity of valid bids is less than the appropriate proportion of the Baseline Capacity, and after taking into account previously allocated capacity, then all valid bids will be accepted.
6. When considering each ASEP, if the aggregate quantity of valid bids is greater than the Baseline Capacity, after taking into account previously allocated capacity then Transco may allocate additional quantities of entry capacity after giving consideration to the risk and reward associated with further incremental sales of entry capacity.
7. If the allocation is conducted in an environment of surplus demand over availability (after taking into account additional quantities that Transco may consider it appropriate to make available) then:
 1. All bids will be ranked in price order.
 2. Allocation will start with the highest ranked (priced) bid and proceed until all capacity on offer has been allocated.
 3. In the case of bids of equal price the aggregate bid quantity will be allocated, unless there is insufficient capacity available, in which case capacity will be allocated on a pro-rata basis (subject to minimum quantity threshold).

13. Reporting of accepted/unaccepted MSEC bids

1. **This section identifies when User's will be informed of the success or otherwise of their bids in the various MSEC auctions.**
2. No later than [2] months after completion of the annual allocation process Transco will inform each User of all accepted or unaccepted bids that had been submitted by that User. Users will be notified of which of their bids have been accepted and/or reasons for rejection, if appropriate.

3. In the case of the annual MSEC allocation conducted immediately prior to the relevant Gas Year then reporting of accepted and unaccepted bids will be completed no later than 1 month after completion of the annual allocation process.
4. In the case of rolling MSEC allocations User's will be notified of which of their bids have been accepted and/or reasons for rejection, if appropriate, no later than 3 working days after completion of the bid period.

14. Daily System Entry Capacity Allocation

1. **Allocation of DSEC will remain unchanged from the present arrangements.**
2. That is capacity will be made available at Transco's commercial discretion and will not be governed by requirements to offer Baseline Capacity. The allocation process will be a transparent process that is conducted at regular periods from the day before the gas day through to the gas day.
3. **Daily Capacity Utilisation**
 1. The holding of Daily Firm System Entry Capacity (DSEC) gives a User a firm entitlement to deliver gas into the System from a specified ASEP for a specified single Gas Day only.
 2. Where a User is registered as holding DSEC in advance of the gas day, the holder will be entitled to deliver gas at a rate not exceeding 1/24th of the daily entitlement per hour.
 3. Where a User is registered as holding DSEC within the gas day, the holder will be entitled to deliver gas at a rate not exceeding 1/ n th of the registered end of day quantity where n is the number of hours remaining in the gas day from the effective time of the registration.
4. **Bidding for Daily System Entry Capacity**
 1. **Users will be able to place bids for Daily System Entry Capacity (DSEC) in respect of any gas day.**
 2. **Users will place bids for DSEC up to seven days prior to the gas day but not later than 02.00 hrs on D. Bids will specify the following:**
 1. ASEP
 2. Quantity expressed in kWh/day
 3. Minimum Quantity expressed in kWh/day
 4. Price expressed in pence/kWh
 5. Evergreen (constant quantity) or decreasing (constant rate)
 3. Transco will reject any bid were:
 1. The bid price is less than the applicable reserve price for the bid ASEP or,
 2. The quantity (or minimum quantity) is less than 100,000 kWh/day or,
 3. Where a bid is a reducing bid, the maximum quantity has become less than the minimum quantity
 4. The start time of a bid is deemed to be the later of;
 1. The start of the gas day (06:00) or,
 2. The next hour plus one after the acceptance of the bid by Transco.
 5. Users will be able to place up to an aggregate of 20 bids in respect of each ASEP.
 6. Bids can be withdrawn or revised.

5. **Daily System Entry Capacity Bid Acceptance**

1. When appropriate Transco will accept bids for DSEC before the gas day after 13:00 D-1
2. Where Transco is able to make additional DSEC available, which is specific to an ASEP, Transco will rank all bids for DSEC at that ASEP in price order with the highest priced first.
3. Bids will then be accepted in price order in the manner described in Section B 2.5.5 of the Code. Existing Code rules for tied bids will apply.
4. Where Transco is able to make additional capacity available and the additional DSEC could be made available at more than one (but not all) ASEP's, Transco will rank all bids at ASEPs where the incremental capacity could be made available. Bids will then be accepted as previously indicated.
5. Where Transco has bought back capacity, it may choose to release additional daily firm capacity (at either the ASEP where capacity has been bought back or another relevant ASEP) taking account of changes in ASEP capability since the buy back was enacted (due to plant availability, demand, etc) and the effect on Transco's incentive.
6. Transco may choose to buy back capacity and to release an equal quantity of daily firm capacity (at either the same ASEP or another relevant ASEP) where:
 1. The revenue from sale of daily firm capacity exceeds the cost of capacity buy back
 2. The expected increase in flow rate associated with the daily firm sale (taking account of the rate at which the User will be able to deliver gas) will not cause a constraint
 3. Buy back actions to resolve a constraint have been completed
 4. Sales of additional Daily Firm Entry Capacity have been completed
7. A relevant alternative ASEP is one at which the rate of delivery of gas to the System has a direct impact on the availability of System Entry Capacity at the ASEP where additional DSEC is required.
8. When appropriate Transco will accept bids for the purchase of additional DSEC within day.
9. Where Transco is of the view that additional DSEC can be made available at an ASEP within day, it will calculate the additional rate of delivery that can be accepted at that ASEP. The additional end of day capacity availability will be derived by multiplying this rate by the number of hours remaining in the day.
10. All prevailing bids for the purchase of additional DSEC will be ranked in descending price order (highest first).
11. Transco will then calculate the implied delivery rate of each ranked bid by dividing the bid quantity by the number of hours from the bid start time to the end of the gas day. If this calculated rate exceeds Transco's additional rate availability then the bid will be ignored.

12. Bids will then be accepted in price order until such time as the sum of the implied delivery rates of all accepted bids is equal to the additional rate available.
13. Where Transco is able to make additional DSEC available within day and the additional DSEC could be made available at more than one (but not all) ASEP's, Transco will rank all bids at ASEPs where additional DSEC could be made available. Bids will then be accepted as previously indicated. The calculation of rates will be the same as for when DSEC can only be made available at a specific ASEP.
14. Where Transco has bought back capacity, it may choose to release additional daily firm capacity (at either the ASEP where capacity has been bought back or another relevant ASEP) taking account of changes in ASEP capability since the buy back was enacted (due to plant availability, demand, etc) and the effect on Transco's incentive.
15. Transco may choose to buy back capacity and to release an equal quantity of Daily firm Entry Capacity (at either the same ASEP or another relevant ASEP) where:
 1. The revenue from sale of daily firm capacity exceeds the cost of capacity buy back
 2. The expected increase in flow rate associated with the daily firm sale (taking account of the rate at which the User will be able to deliver gas) will not cause a constraint
 3. Buy back actions to resolve a constraint have been completed
 4. Sales of additional daily firm have been completed
16. A relevant alternative ASEP is one at which the rate of delivery of gas to the System has a direct impact on the availability of System Entry Capacity at the ASEP where additional DSEC is required.

6. **Daily System Entry Capacity Invoicing**

1. Daily capacity services will continue to be charged for on a daily basis and invoiced on a monthly basis.
2. Daily System Entry Capacity will be charged for irrespective of whether gas was allocated to the holder of the capacity. The charge will be raised against the registered holder of the capacity irrespective of whether the entitlement has subsequently been traded.
3. The charge for daily capacity services at each ASEP will be calculated as the accepted bid quantity multiplied by the bid price.

15. **Daily Interruptible System Entry Capacity**

1. **The allocation process for DISEC will remain unchanged. However, it is appropriate to limit the quantities to a level that provides an appropriate incentive not to hoard entry capacity whilst not prejudicing efficient operation of the Interruptible capacity curtailment process.**
2. Allocation of DISEC will remain unchanged from the present arrangements. DISEC is offered on the day before the gas day determined at present. The quantity to be offered is based on the lesser of an estimate of unused firm capacity on the appropriate gas day or [10%] of the appropriate Baseline Capacity for each ASEP. The allocation is conducted in a transparent pay your bid auction.

3. Daily Interruptible System Entry Capacity will be made available on a daily basis and will be released on the day ahead of the relevant gas day. The quantities offered would be the lesser of an estimate of unused firm capacity held by User's or a quantity that is consistent with removing the threat of hoarding.
4. Daily Interruptible System entry Capacity (DISEC) may be offered on the day before the intended gas flow day. The quantity to be offered will be the lesser of:
5. Transco's assessment of the average quantity of un-used firm entry capacity released for a [30] day period prior to the current week (use-it-or-lose-it) or
6. The greater of [10%] of the quantity offered at the relevant ASEP in the relevant month in the table of Baseline Capacities provided in the GT license or [100 GWh/day].
7. Transco will declare the amount of use-it-or-lose-it capacity, which is available at each ASEP at 12.00 hrs on D-1.
8. Users will be able to place bids for DISEC in respect of any gas day.
9. Users will place bids for DISEC up to seven days prior to the gas day from 06.00 but not later than 13.00 hrs on D-1. Bids will specify the following:
 1. ASEP
 2. Quantity expressed in kWh/day
 3. Minimum Quantity expressed in kWh/day
 4. Price expressed in pence/kWh/
10. Transco will reject any bid were the bid price is less than the applicable reserve price for the bid ASEP or the quantity (or minimum quantity) is less than 100,000 kWh/day
11. Transco will rank bids in price order (highest price first) and accept bids in descending price order.
12. Transco will notify Users of successful bids by 15.00 hrs. on D-1.
13. DISEC provides a right to deliver gas to the system at the ASEP on a gas day provided the System could accept the delivery flow rate.
14. Where the system cannot accept the expected gas flow rate Transco will reduce DISEC entitlements.
15. DISEC can be interrupted at any time before or during the gas day but with an effective time not later than 02.00. If a reduction in DISEC is necessary then the reduction will be applied with effect from the next hour plus one.
16. A User's DISEC entitlement will be calculated taking into account any reduction in the entitlement as a result of interruption, which may have been called during the day.
17. Should DISEC require curtailment, the existing calculations of Network Code Section B2.10.2 and B.2.10.3 will apply.
18. To enable large volumes of DISEC to be scaled off rapidly, a process that differs from the present incremental rules, which had been designed for capacity release in quantities close to physical capability Transco shall determine the aggregate proportion of DISEC to be scaled off in the event that the transmission operator should deem such action necessary.
19. Transco will issue an Interruptible Curtailment Notice to be applied to DISEC entitlements at the ASEP. The magnitude and timing of the scaling factor used to calculate each Users Revised DISEC entitlement will be determined at Transco's

discretion. DISEC will entitle a holder to deliver a quantity of gas during a gas day, at a rate not exceeding $1/24^{\text{th}}$ or $1/n^{\text{th}}$ of the daily entitlement per hour. After scaling, a holder will have the right to deliver gas at a rate not exceeding $1/24^{\text{th}}$ of their holding multiplied by the ICF.

20. DISEC will be tradable between Users.
21. A DISEC trade will entitle the buying User flow at a rate not exceeding $1/n^{\text{th}}$ of the registered trade quantity where n is the number of hours remaining in the gas day from the time of registration.
22. The User will be invoiced on the original DISEC quantity multiplied by the entitlement price.

16. **Reporting of Allocation statistics after the event.**

1. **This section details certain information, that is common to all entry capacity allocation processes and which Transco shall make available to User's.**
2. Transco shall make available certain statistics after each allocation. In the case of QSEC and MSEC the statistics shall be made available within [24] hours of notification of successful/unsuccessful allocations. In the case of DSEC and DISEC allocations the statistics will be made available within [1] hour of notification results and where appropriate (DSEC) shall be updated on a cumulative basis after each subsequent allocation period for a relevant gas day. Reports are to be made to the RGTA system [and/or] Transco web site. The statistics to be published (up to 4 decimal places for price, no decimal places for volume), by ASEP and by period are:
 1. Highest accepted bid price (p/kWh) and volume (kWh)
 2. Lowest accepted bid price and volume
 3. Weighted (by volume) average accepted price
 4. Volume (kWh) allocated (successful bids)
 5. Number of successful bidders in each period
 6. Number of unsuccessful bidders in each period
 7. Weighted (by volume) average accepted price of the highest priced accepted bids.
 8. Quantity of unsold Baseline Capacity.
 9. For QSEC allocations, the number of bidders per increment

17. **Entry Capacity Trading Arrangements**

1. **This section describes the provisions for secondary trading of entry capacity. It is necessary for Users to register their trades with Transco so that entitlements (and overruns if applicable) may be correctly calculated.**
2. No change is anticipated for capacity trading arrangements. Capacity trading between Users can be conducted on the secondary markets. Transco will provide a trade registration facility to enable trades to be recorded on the system and for Users registered quantities of capacity to be adjusted accordingly.
3. All adjustments will then be taken into account when calculating overrun charges.
4. Users will be able to take a negative position with regard to their capacity holding. If on a gas day a User retains a negative capacity holding it will be subject to an overrun charge that is applied specifically to negative capacity situations (see overrun charges).

5. In order to register a trade the User acquiring capacity through a secondary market trade shall specify the identity the counter party (relinquishing User), the volume and the period for which the trade shall apply. The recipient User will also have an option to register the trade price. In order to action a trade registration the relinquishing User (seller) shall provide confirmation of the trade by indicating agreement on the (UK-Link or RGTA) system. If a trade registration is to be completed then a relinquishing User must signify agreement before 04:00 on the gas day in which a potentially acquiring User has posted details of a prospective trade.
 1. Where a capacity trade is registered in advance of the gas day, the counter parties end of day capacity holdings will be adjusted and the revised assumed daily flow rate will be adjusted in a manner that reflects 1/24th of the daily entitlement per hour.
 2. Where a capacity trade is registered within the gas day, the counter parties holdings will be adjusted to reflect a changed delivery rate not exceeding $1/n$ th of the registered end of day quantity where n is the number of hours remaining in the gas day from the effective time of the registration.

18. Entry Capacity Constraint Management

1. **Entry capacity constraint management will be conducted in accordance with Transco's role as residual system balancer. The principles that underpin that role will be set out in a "balancing principles" document to be published and maintained by Transco. The services that Transco may wish to use in order to fulfil that role will be subject to its procurement guidelines. The Network Code will identify how costs and revenues arising from the use of such tools are transferred to User's invoices. The Network Code will also identify how a User's holding of entry capacity may be adjusted as a result of it choosing to contract with Transco for constraint management purposes.**
2. Transco will be able to use tools identified in its Procurement Guidelines for the purposes of capacity management. They shall include, [but will not be exclusively limited to] the following:
 1. Daily entry capacity buy-back
 2. Forward contracts
 3. Options contracts
3. Further tools may be developed by Transco and from time to time added to its procurement guidelines.
4. A constraint will be deemed to occur if gas flow (or a reasonable expectation thereof) exceeds physical system capability at any time. Transco will be required to reduce capacity availability to a level that will effectively eliminate the constraint.
5. In fulfilling this role Transco will reduce interruptible entitlements first.
6. Revenues arising to a User as a result of Transco's use of constraint management (see next section) tools shall be identified on an invoice published in the month following the month (M+1) in which the constraint occurred, or to which the contract applied (in the case of forwards and option contracts).
7. On completion of a firm entry capacity constraint management transaction Transco will adjust the firm capacity holding of the transacting User to reflect the

trade of capacity from Transco to User. In the case of options contract the adjustment shall be made when Transco calls upon any such capacity under contract (i.e. at the time payment of the exercise fee is triggered). All adjustments shall be completed within [1] hour.

8. Scaling of Interruptible capacity will remain broadly unchanged from the present Network Code arrangements. The management of Interruptible Entry Capacity will be conducted under the auspices of Transco's Balancing Principles. The exception is a change required to enable large volumes to be scaled of rapidly, a process that differs from the present incremental rules, which had been designed for capacity release in quantities close to physical capability.
9. Transco shall determine the aggregate proportion of interruptible entry capacity to be curtailed in the event that the transmission operator should deem such action necessary.

19. Maintenance

1. **Maintenance is subject to the System Operator incentive, whereby Transco is required to buy-back entry capacity if it is necessary to curtail availability. All costs are set against its incentive target.**
2. Transco may not publish its forecast maintenance and system enhancement plans (programme of work) for the coming gas year until completion of primary allocation and any forward contracting pursuant to a period in which maintenance may be required. That is maintenance plans will not be published for a period up to 12 months in advance until after completion of primary allocation and forward contracting. The timing of any publication will be at Transco's discretion.
3. The effects of maintenance will not be reflected in a reduced proportion of any Baseline Capacity that may be offered for sale. It might however, reduce Transco's willingness to allocate additional capacity (above a Baseline Capacity) at a time and place where maintenance is having an effect.

20. Failure to Accept Gas Tendered for Delivery

1. **In the event of a constraint occurring on the system then Transco will use in the first instance Interruption then market based procedures for curtailing Firm Entry Capacity entitlements. In the event of both such procedures not enabling a timely resolution then Transco may choose to scale firm capacity entitlements.**
2. The present rules as specified in (I3.9 & I 3.7) shall apply.

21. Transco Liability

1. **This section describes the arrangements for payment of compensation in the event that User's are prevented from using 'firm' entry capacity entitlements as a result of scaling back those firm entitlements. This section allows that the level of firm entitlement retained by Users may have been reduced by Transco action to 'buy back' capacity in a capacity market.**
2. Where scaling has reduced a firm capacity entitlement then Transco will make a compensation payment in respect of the firm capacity entitlements that have been so reduced.
3. The present rules as specified in (I3.7.2) shall apply with the exception that the payment calculation shall be adjusted to reflect all forms of available firm capacity.

22. Long Term Entry Capacity Credit Arrangements

1. Network Code Credit Requirements

1. The Network Code Credit Limit represents the maximum indebtedness that Transco will extend to a User. The User liability for accrued capacity charges attained in Entry Capacity Allocations, with the inclusion of Long Term Entry Capacity Allocation (LTECA), will make up part of the relevant code indebtedness. Participants of the Entry Capacity Allocations will be required to provide appropriate levels of security to be commensurate with the maximum anticipated peak indebtedness in respect of LTECA.
2. In respect of Entry Capacity Allocations, Code Credit Limits will be set in accordance with current Transportation Code Credit Rules and section V3.2 of the Network Code.
3. Transco will undertake to derive a separate indebtedness calculation for LTECA credit requirements. This will be added to the User's existing Transportation credit limit to determine the aggregate credit requirement.
4. requirement.

2. Credit Assessment

1. The credit assessment, which will be subject to Transportation Code Credit Rules and paragraph V3.2 of the Network Code, will be undertaken two months prior to day of use of the long term entry capacity.

3. Allocation Credit Assessment Period

1. The LTECA will have a [2 month] window between placement of bids and allocation.
2. Where the User is exceeding 85% of its Code Credit Limit, in accordance with paragraph V3.3.2 of the Network Code, any bid(s) it places in the LTECA will be rejected until such time as the breach is remedied. Transco will notify the User of any such credit deficit.
3. In the event that the User's relevant code indebtedness is not reduced to less than 85% of the Code Credit Limit the User's bid(s) will be excluded from the Allocation process. A rejection reason code will be sent to the User.
4. In respect of LTECA commitments the User must provide security/surety for a duration not less than 12 months.
5. Transco will carry out a Credit Review 3 months before the LTECA day of use and will notify the User of the appropriate security/surety required.
6. User non-compliance to contractual arrangements in respect of capacity obligations and capacity credit arrangements.
 1. Where a User does not make the appropriate increases in surety/security or the instrument of security is deemed insufficient for the level of code indebtedness, Transco reserves the right to: -
 1. Refuse to accept an application for system entry capacity made by the relevant User.
 2. Reject System Capacity Trades

3. And: - The sanctioned User will not be permitted to enter into a negative entry capacity position or make a negative position greater.
4. Until such time as the User's Relevant Code Indebtedness is reduced to less than 85% of the Credit Code Limit, in accordance with paragraph V3.3.2.
2. Where sufficient security/surety is not in place by D-1 month (prior to the Long Term Capacity day of use), Transco reserves the right to recall the following 12 months Long Term Entry Capacity, at D-1 month. Transco will issue, to the User, an 'intent to recall' notice 7 days prior to D-1 month.
3. Where the User has defaulted on its contractual arrangements Transco reserves the right to recall all capacity allocated to the User.
7. Termination arrangements in respect of Long Term Entry Capacity Allocation obligations.
 1. In the event that the User has defaulted, in accordance with paragraph V4.3 of the Network Code, Transco may issue a Termination Notice. Transco reserves the right to call upon the defaulting User's securities to cover outstanding capacity obligations or initiate recall capacity arrangements.
 2. Recall arrangements
 1. Where the User's capacity rights are recalled, and those rights have been traded, Transco will notify the Transferee of its intent to recall the capacity, as soon as reasonably practicable and in the event no more than 5 business days following initiation of recall arrangements. Transco will offer the Transferee the option to take on the payment obligation for the entry capacity and retain the capacity rights. The Transferee shall, as soon as reasonably practicable and in any event no more than 5 business days after notice, notify Transco of its intent to take on the entry capacity obligations.
 2. In the event that the Transferee does not notify Transco of any such intent, upon the discontinuance date the capacity will be recalled and sold within the appropriate Allocation.
 3. Where the Transferee notifies Transco of its intent to take on the entry capacity obligation, determination of the price for entry capacity will be based on the Weighted Average Price of all the defaulting User's long term capacity obligations for the relevant month of use that the Transferee has acquired the traded capacity.
 4. Where the Transferee accepts the obligation Transco will carry out a credit assessment on the Transferee and may request an increase in surety/security.
 5. The revised entry capacity obligations will apply upon the discontinuance date.

23. Transition Arrangements