

URGENT Modification Report
Auctions of Monthly Interruptible System Entry Capacity
Modification Reference Number 0410

Version 4.0

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

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 OFGEM has agreed that this Modification Proposal should be treated as Urgent because it is desirable to consider the above proposal ahead of the next set of auctions for MSEC.

Procedures Followed:

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

Issued to Ofgem for decision on urgency	19 June 2000
Proposal agreed as urgent	21 June 2000
Proposal issued for consultation	21 June 2000
Close out for representations	11 July 2000
Final report to Ofgem	18 July 2000
Ofgem decision expected	21 July 2000

1. The Modification Proposal

The following describes the proposal consulted upon:

"The proposal outlines for consideration a potential allocation mechanism for Monthly Interruptible System Entry Capacity (MISEC). That allocation mechanism would follow closely the format of the present MSEC auctions. That is a sealed, pay your bid type auction for interruptible capacity that can be utilised at a specific ASEP in a specific month. The proposed period for which MISEC would initially be sold is October 2000 through to March 2001 inclusive.

Transco would also welcome views on the desirability of auctioning an option to flow interruptible capacity. The auction of options could follow the same format as described above with the exception that an additional option fee would be payable if the option is called upon as a source of capacity.

The suggested quantities identified below and the number of auction rounds are parameters that Transco would particularly welcome comments upon, in addition to the concept of introducing the MISEC service.

MISEC Quantity

It is proposed that the quantity of MISEC offered at auction in respect of a specific month at a specific ASEP would be conditional upon the prior sale of no less than 90% of MSEC at an ASEP. On passing that threshold the quantity of MISEC shall be equal to 60% of the total interruptible capacity amount, and the interruptible capacity amount is defined as:

1.0 times the Maximum Capacity Amount minus MSEC

Bidding

It is proposed that bids may be submitted between 08.00 hrs and 17.00 hrs on the first day of the auction for all ASEPs. The auction could be conducted over two rounds. It is proposed that there should be two business days between each round.

Under the proposal, bids may be withdrawn or amended at any stage during the period when the bid window is open. After 17.00 hrs bids would no longer be able to be withdrawn or amended. Up to 20 current bids could be submitted with respect to each ASEP for a particular calendar month in the gas year.

Bids would need to specify the following

- ASEP
- Quantity in kWh/day
- Minimum Quantity in kWh/day
- Price in pence/kWh
- The calendar month for which capacity is bid.

Allocation

It is envisaged that bid processing would take place after closure of the bid window and that the auction would be a sealed pay your bid type auction.

Assuming two auctions rounds are held, it is proposed that 50% of all available capacity would be allocated in each round.

Transco would rank all valid bids in price order and then allocate capacity on a price basis, starting with the highest priced bid and descending until all capacity has been allocated or all bids have been satisfied when the aggregate quantity of bids is less than the aggregate available MISEC.

Where the amount of remaining Monthly Interruptible System Entry Capacity to be allocated is less than that applied for under the next applicable bid, providing the amount is greater than the specified minimum of the bid, the bid would be satisfied in part. If the remaining amount is less than the specified minimum the bid would be disregarded and the next bid (in descending price order) considered. If the remaining amount is less than the minimum eligible quantity then no further allocation would take place.

Where there are a number of identically priced bids allocation would be made pro rata to the bid quantities. Where the pro rata quantity is less than the specified bid minimum that bid would be disregarded and a revised allocation made between the remaining equal priced bids. Where the pro rata amount is less than the minimum eligible amount then it is proposed that Transco would allocate such quantities.

No more than the specified percentage of the available amount would be allocated in first round and any unsold quantity from the first round would be carried forward to the final round. It would also be possible for any unsold quantity of MISEC from the final round to be made available as 'off the shelf' MISEC.

Following any allocation of MISEC Transco would expect, not later than 09.00 hrs on the Business day following each invitation date, to inform each shipper of its accepted bids, including quantity, and its rejected bids.

In addition on the Business day following each invitation date Transco would propose providing the :

- highest accepted bid price
- lowest accepted bid price
- weighted average price of accepted bids
- quantity of accepted bids per ASEP; and
- number of successful shippers per ASEP

Unsold Monthly Interruptible System Entry Capacity

It is proposed that the process for the sale of unsold monthly interruptible capacity would be the same as that applied to unsold long term firm capacity.

The allocation process would follow that set out in the Network Code section 2.4.

Under this approach, Shippers would be able to amend or withdraw bids at any time prior to closure of the bid window provided that the number of live bids did not exceed [20].

After closure of the bid window capacity would be allocated in chronological order.

Payment

The proposed transportation charge payable for MISEC would be a shipper's accepted bid price for the quantities bought in the primary auction of MISEC.

In the case of options, the transportation charge payable would be shippers' accepted bid price for the quantities bought in the primary auction of options. In addition an exercise price would be payable if a quantity of options held by a shipper was called upon on a day.

Shippers would not need to take any action to exercise an option; the process could be fully systematised.

The invoice calculation would be carried out after M+15.

Capacity Transfer

It is proposed that Interruptible capacity would be traded on the same basis as the present arrangements for firm capacity. No distinction would be required for the type of capacity traded and therefore no changes are proposed for Network Code section B5.

Interaction with day ahead interruptible capacity auctions

If this Modification Proposal were implemented, day ahead auctions of interruptible capacity would remain unchanged provided MISEC is the product auctioned.

If options are auctioned in monthly blocks, then it may be necessary for the avoidance of complexity that the day ahead auction should also become an auction of options.

It is proposed that the quantity of interruptible capacity to be auctioned at the day ahead stage would consist of an estimate of unused firm capacity that would continue to be calculated on the basis presently set out in the Network Code (2.6.10). An additional quantity of interruptible capacity could also be offered. That additional quantity might be equal to the residual quantity of interruptible capacity available after allocation of MISEC.

Transitional requirements

If the proposal contained in Modification Proposal 0409 to offer Monthly System Entry Capacity for six months is approved, then Transco considers the period of any Monthly Interruptible System Entry Capacity that is offered should be adjusted to coincide with that for Monthly System Entry Capacity."

2. Transco's Opinion

Following the latest auctions of Monthly System Entry Capacity (MSEC) there have been discussions amongst Users and Transco about entry capacity issues. The absence of a release mechanism for interruptible system entry capacity, other than the present day ahead release mechanism, has been identified as an area that could contribute to uncertainty for Users when planning their scheduling and capacity requirements.

This proposal envisages a Monthly Interruptible System Entry Capacity (MISEC) product that would afford Users with the opportunity to obtain interruptible entry capacity at around the time of, or shortly thereafter, the opportunity to acquire MSEC via auction from Transco.

Implementation would provide for the release of entry capacity to a level that approximates to the maximum deliverability of each entry point. Users would then be able to gain a greater knowledge of their entry capacity portfolio in advance of the day of use. That should enable a greater degree of certainty with regard to capacity holdings and planned gas flows. Users would then have increased opportunity to fine tune their portfolios through secondary market trading and finally through Transco's within day capacity release mechanism.

The proposal advocated in this report reflects discussions at the Capacity Workstream and the views of many of the respondents to the consultation. In particular changes from the initial proposal have occurred in respect of

- * the first month in which MISEC would be made available (December 2000)
- * the removal of the requirement that 90% of MSEC is sold prior to the sale of any MISEC.
- *the calculation of the MISEC quantities, which would take account of the greater of the Maximum Capacity Amount or the highest flow experienced at a particular ASEP during the preceding 3 years
- *the split between monthly/daily interruptible release, with increased quantities being available in the monthly release
- * the daily release of interruptible would only include UIOLI, plus any unsold capacity from the MISEC auctions.
- * the first monthly interruptible auctions for Dec-March 2001 capacity will be implemented by 10 November.

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

Implementation of this proposal would enable the release of capacity to a level that approximates to the maximum deliverability of each entry point. The majority of this capacity may be available well ahead of gas flow enabling shippers greater certainty with regard to capacity holdings and planned gas flows. Users would therefore have an

increased opportunity to fine tune their portfolios through secondary market trading and finally through Transco's within day capacity release mechanism. The proposal would therefore potentially secure a greater degree of effective competition between Users.

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

This proposal would enable shippers to have greater choice in respect of the locations at which they input gas to the system. The fact that more capacity would be released well ahead of the Gas Day may have an impact on the profile of gas inputs. The proposal may therefore have an impact on operational costs associated with compression.

b) development and capital cost and operating cost implications:

Transco will incur significant development costs associated with the development, testing and implementation of the new service. The service would increase the administrative effort associated with the management of the capacity process although this is not expected to lead to a significant increase in operating costs.

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 development and ongoing costs would be accounted for under the price control formula and Transco does not intend to recover additional costs for the provision of this service in the present formula period.

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

The longer term implications upon price regulation are not clear. However, under the current Licence income from the sale of MISEC will contribute towards Transco's allowed revenue, subject to the maximum permitted transportation income controlled by Special Condition 9C. Transco has made proposals in "PC60 - Rebalancing Revenue Raised by MSEC and Other NTS Auctions" for how differences between target and actual auction revenues (which would include MISEC auctions) are addressed. Income from the sale of daily interruptible capacity sold at the "day ahead" stage will continue to be the subject of an exclusion from transportation income although it will continue to be subject to redistribution to MSEC holders as defined within the Network Code Section B 2.11.

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 release of larger quantities of interruptibles may affect the risk/reward relationship associated with the capacity incentive regime hence changing Transco's level of contractual risk.

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

This proposal would require enhancements to the current capacity computer systems to facilitate another capacity product, associated auctions, interruptible capacity trading and the associated invoicing processes.

7. The implications of implementing the Modification Proposal for Users

Users would have access to another capacity product in the form of monthly interruptible capacity. This may necessitate changes in Users' business processes including IT systems.

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

Users would have access to another capacity product which may enhance choice in respect of where Users input gas to the system. The proposal may therefore be considered to enhance the extent of competition between parties owning or operating facilities at the input points to the system which may better promote competition in supply. Such increased competition may give rise to a more economic and efficient regime thereby generating lower gas prices to end-consumers.

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 significant consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party are anticipated as a result of the implementation of this proposal.

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

Advantages

- * Releases greater levels of capacity
- * Facilitates greater shipper choice in respect of capacity products
- * Develops a tradeable product for Users to refine their capacity positions

Disadvantages

- * Introduces a new capacity product and associated administrative workload
- * May undermine the sale of firm capacity.

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

Responses were received from 18 parties:

Agip (U.K) Limited
V-is-on Gas
Yorkshire Energy Limited
Alliance Gas Limited
Powergen UK plc
Northern Electric & Gas Limited
Scottish Power UK plc
Total Gas Marketing Limited
BP Gas Marketing Limited
British Gas Trading Limited
Conoco Limited
Scottish & Southern Energy plc
National Power plc
Aquila Energy Trading Limited
Shell Gas Direct Limited
TXU Europe Energy Trading Limited

Transco LNG

General views

Most of the respondents to the consultation supported the modification proposal.

YE supported the modification on the basis that in the short term auctions were used as the allocation method. However, in the longer term YE would prefer alternative allocation approaches. Four respondents (SSE, NPOWER, TXU, SHELL) advocated that the service is postponed particularly in the light that the introduction of the monthly tranches of capacity are unlikely to be introduced before December 2000 and that the service might benefit from further refinement. AQUILA believes that large quantities of interruptible capacity distort the market.

Transco Views

Transco notes YE concerns and would welcome views as to alternative allocation methodologies that could be used to apportion capacity entitlements between shippers.

Transco notes that the monthly tranches of capacity will not be available until December 2000 but would point out that such monthly interruptible capacity as would have been made available will be released at the day ahead stage during October and November. As such Transco believes that it is beneficial to introduce change from 1 December.

Transco also notes AQUILA's concern that large quantities of interruptible may distort the market. Larger quantities of interruptible will attract higher risks of interruption, and shippers with a greater appetite for risk may be attracted to purchase capacity, thereby helping efficient use of the Transco system.

Number of auction rounds and time interval between rounds

Few shippers commented explicitly on the above issues although TOTAL, BGT and CONOCO indicated support for 2 rounds. NEGAS suggested a third might be appropriate whereas BP suggested a single round. Few respondents commented on the time period between auctions.

Transco View

Transco believes that the original proposal of 2 rounds with 2 days between each represents a reasonable compromise for this service. This will permit unsuccessful bidders in the first round sufficient time to reconsider their positions before the second.

Option/Exercise

The majority of respondents indicated that they did not want the service to be priced using an exercise and option fee. Only NEGAS supported the exercise/option approach.

Transco View

Transco believes that the exercise/option fee approach would introduce complications into the billing process that would outweigh the benefit. Therefore, Transco proposes that the interruptible service auctions should comprise a "pay as bid" primary release approach with no fee payable when such capacity is used. No charges will be levied to the extent that any such accepted bid is scaled back.

90% Threshold before Monthly Interruptible Released

SCOTPOWER & NEGAS offered support to the principle that Transco should only sell monthly interruptible once 90% of MSEC has been sold at an ASEP for a given month. BGT, SHELL, TOTAL strongly refuted this position. It was suggested that it is essential that Transco release all capacity to the market to avoid accusations of withholding capacity from the market.

Transco View

Transco notes that the original proposal was made to develop an approach to avoid the revenue risks that would result from a "flight from firm". In the context of PC60 (which assures Transco of timely revenue recovery) and of PC62 (which sets the reserve price for day ahead interruptible at zero) and the arguments expressed by respondents Transco considers it is now appropriate to drop the 90% threshold.

This will ensure that there is no artificial barrier to the release of MISEC.

Suggested Quantities and Split between Monthly and Daily Interruptible

BGT is the only respondent that commented explicitly on the derivation of the total interruptible capacity quantities with BGT claiming that "Transco are proposing a reduction from the current 105% of 1 in 20 peak flows".

Several other shippers including BGT, TOTAL, YE and POWERGEN, want to maximise the availability of monthly interruptible and sought the early release of such capacity.

Transco View

Transco recognises that there are merits in making significant quantities of interruptible capacity available in monthly tranches.

Transco therefore endorses the approach developed in the Capacity workstream that the quantity of interruptible capacity to be released should be based upon a calculation involving the greater of the highest throughput in the preceding 3 years and the 1 in 20 peak forecast. The difference between this number and the MSEC quantity will then be released. In the workstream it was suggested that this factor might be 60%. However, Transco accepts shipper arguments that it is beneficial to release all such capacity as MISEC given that the product can be traded on the secondary market.

The workstream also considered that it would be appropriate to maintain the provision of some interruptible at the day ahead stage to enable players to fine tune their positions by buying capacity from Transco.

It was suggested that the quantity to be released should be the greater of either 10% of MSEC or such quantity defined as the greater of highest throughput in the preceding 3 years or 1 in 20 peak forecast less MSEC less MISEC sold.

Given the release of a high level of MISEC, Transco considers it appropriate that day ahead interruptible capacity only be made available in the context of UIOLI.

This, together with any day-ahead firm (which Transco believes is an appropriate "fine tuning" capacity tool) should ensure sufficient capacity is available in the market.

Capacity hoarding and inefficient utilisation

V-IS-ON expressed concern about the risk of hoarding in the regime, and that the monthly interruptible will sell at prices above daily interruptible capacity potentially adding to the cost of gas.

SHELL also expresses a concern that auctioning more capacity so far ahead of the day may increase the likelihood that capacity will remain inefficiently unutilised.

Transco View

Transco would make "use it or lose it" (UIOLI) capacity available at the "day ahead" stage. Transco would closely monitor the utilisation of capacity and could report findings to both the Capacity workstream and the Operational Forum. Transco would also anticipate that Ofgem would closely monitor both the release, allocation and utilisation of capacity.

Transco recognises that there is an interaction between overrun charge levels and the extent to which shippers will be willing to trade surplus capacity. Transco believes that the current overrun regime may be too severe, hence the recommendation that Modification Proposal 0408 should be implemented, which will reduce overrun charges. It is anticipated that this will enhance the extent of capacity trading by enabling those shippers which might have retained large capacity surpluses to mitigate against the risk of overruns to release such capacity as is held for "insurance" purposes. Such changes to the overrun regime are considered under the terms of Modification Proposal 0408 but significant softening of the overrun regime might weaken the incentive to purchase capacity to avoid an overrun and hence Modification Proposal 0408 has not advocated prescriptive change.

Transco would be releasing larger quantities of capacity via the monthly interruptible service which would in turn reduce the industry's dependence on UIOLI.

LNG Entry Points

TLNG points out that MISEC will be offered at LNG entry points, thereby facilitating occasional use.

Transco View

Transco believes this will ease the administrative overhead for securing entry capacity at storage sites thereby potentially increasing the efficient operation of the system.

Timing of the introduction of the service

Most responses make references to the importance of the timing of the introduction of the service with TOTAL expressing "disappointment" and NEGAS "reluctantly accepting" the delay to December 2000 for the introduction of the monthly product. Shippers including ALLIANCE, POWERGEN and BP stated that it was important that the start date of the new service and the timings of the introduction of the new monthly product (including auction dates) should be established quickly so that the full framework of the winter regime is known before the start of the MSEC auctions. BGT stated that the delay was "unsatisfactory...leaving considerable uncertainty about where gas can be sourced from". SSE went further stating that it considered that there was "little point" in introducing a monthly interruptible service" part way through the winter period.

Transco View

Transco is disappointed that it has had to advise the community that it cannot deliver the full monthly product for October implementation. In part this has arisen because of the inability to close down some of the "options" that have been considered as part of the development of this service. Transco has also taken note of shipper concerns about the time shippers need to train staff in the use of new services and the development of associated IT systems and administrative procedures. Therefore, Transco recommends that the service should be implemented from 1 October 2000. Such monthly interruptible capacity as would have been released in October and November will be made available at the day ahead stage. The monthly product will be introduced so it is effective from December 2000 onwards with auctions being conducted on or before 10 November.

This timetable will deliver the service in the shortest possible time consistent with an acceptable risk profile for its introduction.

Transco's Market Facilitation Role

SHELL commented that it is "somewhat disappointed that no further consideration has been given to how Transco's systems might enable parties to confirm (monthly interruptible) trades anonymously".

Transco View

Transco notes that both the community and Ofgem wanted Transco to give up its "market facilitation role" and that this philosophy was one of the reasons that the OCM was conceived.

Having made that decision Transco does not necessarily think it is appropriate for Transco to fulfil a "market facilitation role" in respect of capacity trading. However, Transco would welcome approaches from any potential market operator that would want to have similar interface capability to allow trade registration as is currently available to the OCM operator.

Transco's systems will however permit the registration of shipper to shipper interruptible capacity trades and such functionality would be available immediately after completion of the first monthly interruptible capacity auctions in November.

When trading interruptible capacity shippers will need to identify the category of capacity (either interruptible or firm). When trading interruptible capacity shippers will record the gross quantities traded to which any scaling factor that might be appropriate will then be applied when overrun calculations are performed

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 facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement furnished by Transco under Standard Condition 3(1) of the Licence

Transco is unaware of any such requirement

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

Effect change control in respect of systems specification

Develop, test and implement IT systems

Develop and Implement procedures

Implement training programme.

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

Systems build, implementation and testing - July - November 2000

Introduction of new service - 1st October 2000

Monthly Interruptible Auctions (Dec-March) - Mid November 2000

Introduction of trading facility for interruptible capacity - mid November 2000

First effective use of monthly interruptible capacity - 1st December 2000

16. Recommendation concerning the implementation of the Modification Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report.

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 Director General in accordance with this report.

19. Text

SECTION B SYSTEM USE AND CAPACITY

Amend paragraph 2.1.2 to read as follows:

“(ii);

Monthly Interruptible System Entry Capacity pursuant to a bid under paragraph 2.6, or by later application under paragraph 2.7; and Daily Interruptible System Entry Capacity pursuant to a bid under paragraph 2.8.”.

Amend paragraph 2.1.4 to read as follows:

“(b)

“Monthly Interruptible System Entry Capacity” is System Entry Capacity which may be applied for and registered as held (in a given amount) by a User for a particular calendar month; and

“Daily Interruptible System Entry Capacity” is System Entry Capacity....for a particular Day only”.

Amend paragraph 2.1.5 to read as follows:

“(c) ...Daily System Entry Capacity and “Interruptible System Entry Capacity” means Monthly Interruptible System Entry Capacity and Daily Interruptible System Entry Capacity; and Interruptible System Entry Capacity is liable to be curtailed pursuant to paragraph 2.10.2.”.

Change in paragraphs 2.1.5(d) and (e) references to paragraphs 2.7.12 and paragraph 2.8.3 to paragraph 2.9.12 and 2.10.3 respectively.

Change in paragraph 2.5.11(a) reference to paragraph 2.7 to paragraph 2.9.

Change in paragraphs 2.5.11(c) and (d) reference to paragraphs 2.7.6 to paragraph 2.9.6.

Renumber Section B2.6, 2.7, 2.8, 2.9, 2.10, 2.11 as 2.8, 2.9, 2.10, 2.11, 2.12 and 2.13 respectively.

Add new paragraph 2.6 to read as follows:

“2.6 Auction of Monthly Interruptible System Entry Capacity

2.6.1 Transco will invite applications for Monthly Interruptible System Entry Capacity in respect of each Aggregate System Entry Point for each calendar month in the Gas Year.

2.6.2 Transco’s invitation under paragraph 2.6.1 will specify:

(a) the two dates (“invitation dates”, each of which shall be a Business Day) on which applications pursuant to such invitation may be made, the last of which shall not be later than 15 August in the Preceding Year; and the period between each such invitation date shall be not less than two Business Days;

for each invitation date, the Available Monthly Interruptible Capacity (being an equal amount for each such date).

2.6.3 On each invitation date Users may apply for Monthly Interruptible System Entry Capacity in respect of an Aggregate System Entry Point for a calendar month in the Gas Year in accordance with this paragraph 2.6.

2.6.4 An application (a “monthly interruptible capacity bid”) for Monthly Interruptible System Entry Capacity pursuant to this paragraph 2.6:

- (a) shall specify:
 - (i) the identity of the User;
 - (ii) the Aggregate System Entry Point;
 - (iii) the calendar month in the Gas Year for which Monthly Interruptible System Entry Capacity is applied for (in kWh/Day);
 - (iv) the amount (not less than the minimum eligible amount) Monthly Interruptible System Entry Capacity applied for (in kWh/Day);
 - (v) the minimum amount (not less than the minimum eligible amount) of which the User is willing to be allocated if paragraph 2.6.7(c) and (d) applies; and
 - (vi) the amount (the “**bid price**”, which shall not be less than the applicable monthly reserve price) in pence/kWh/Day which the User is willing to pay by way of Capacity Charge in respect of the Monthly Interruptible System Entry Capacity applied for;

(b) may not be submitted before 08:00 hours or after 17:00 hours on the invitation date; may be withdrawn or amended until, but not after, 17:00 hours on the invitation date.

2.6.5 On each invitation date a User may have, at any one time, up to but not more than 20 monthly capacity bids in respect of a particular Aggregate System Entry Point for each calendar month in the Gas Year capable of acceptance in accordance with this paragraph 2.6.

2.6.6 Transco will reject a monthly interruptible capacity bid where the bid price is less than the applicable monthly reserve price, or where any other requirement of paragraph 2.6.4 is not complied with, and may reject such an application in accordance with Section V3.

2.6.7 For each calendar month in the Gas Year in respect of each Aggregate System Entry Point Monthly Interruptible System Entry Capacity will be allocated pursuant to monthly capacity bids submitted on each invitation date as follows:

- (a) all monthly capacity bids (excluding any bid rejected pursuant to paragraph 2.6.6) will be ranked in order of bid price (the highest priced ranking first);
- (b) Monthly Interruptible System Entry Capacity will be allocated in respect of each bid, in descending order of bid price starting with the highest priced, in the amount applied for, until the amount of Monthly Interruptible System Entry Capacity in aggregate for which bids are accepted is equal to (or falls short by no more than the minimum eligible amount of) the Available Monthly Interruptible Capacity;
- (c) subject to paragraphs (d) and (e) and paragraph 2.6.8, where the amount of Monthly Interruptible System Entry Capacity applied for under a bid exceeds the amount (the “**remaining unallocated amount**”) of the Available Monthly Interruptible Capacity remaining unallocated after allocation to higher priced bids, the User will be allocated an amount equal to the remaining unallocated amount;

subject to paragraph (e) and paragraph 2.6.8, where each of two or more bids (“**equal priced bids**”) specifies the same bid price, and the amount of Monthly Interruptible System Entry Capacity applied for in aggregate under such bids exceeds the remaining unallocated amount, the remaining unallocated amount will be allocated pro rata the amounts applied for in each such bid; and

where the amount to be allocated in respect of a bid pursuant to paragraph (iii) or (iv) is less than the minimum amount specified pursuant to paragraph 2.6.4(a)(v), the bid will be disregarded (and of no effect), and a revised allocation will be made between

remaining equal price bid(s) under paragraph (d), or (as the case may be) an allocation made in respect of the next priced bid.

2.6.8 Where the amount to be allocated in respect of any bid pursuant to paragraph 2.6.7 is less than the minimum eligible amount, Transco will not accept that or any further monthly capacity bids under this paragraph 2.6.

2.6.9 Subject to paragraph 2.6.8, Transco will accept bids in respect of which Monthly Interruptible System Entry Capacity is allocated in accordance with paragraph 2.6.7, and each User whose bid is so accepted will be registered as holding Monthly Interruptible System Entry Capacity (in the amount so allocated) for the calendar month in the Gas Year in respect of the Aggregate System Entry Point.

2.6.10 Transco will, not later than 09:00 hours on the Business Day following each invitation date, inform each User of those of its monthly interruptible capacity bids which have been accepted and the amount of Monthly Interruptible System Entry Capacity which it is registered as holding for a calendar month in the Gas Year pursuant to each such accepted bid and in addition Transco will notify all Users of:

- (a) the highest and lowest bid price in respect of a bid for Monthly Interruptible System Entry Capacity was allocated; and
- (b) the weighted average price in respect of bids for Monthly Interruptible System Entry Capacity was allocated (in pence/kWh) calculated as:

0

where:

n is the number of successful bids;

Q is the amount of Monthly Interruptible System Entry Capacity allocated to each successful bid;

P is the bid price of each successful bid;

(c) the aggregate amount of Monthly Interruptible System Entry Capacity which Users were registered as holding at each Aggregate System Entry Point in each calendar month; and

(d) the number of Users who were registered as holding Monthly Interruptible System Entry Capacity at each Aggregate System Entry Point in each calendar month.

2.6.11 Each User who applies for Monthly Interruptible System Entry Capacity shall tender in respect of each monthly capacity bid made a bid price (in accordance with paragraph 2.6.4(a)(vi)), and agrees by making such application to pay by way of System Entry Capacity Charges the bid price so tendered in respect of the Monthly Interruptible System Entry Capacity allocated in accordance with this paragraph 2.6 pursuant to such monthly bid.

2.6.12 Transco will, as soon as reasonably practicable after the [last of the] invitation date[s], notify to each User:

- (a) the amount of Monthly Interruptible System Entry Capacity at each Aggregate System Entry Point for each month which was allocated in aggregate to all Users, pursuant to the invitation;

(b) the amount (if any) of Outstanding Monthly Interruptible Capacity that Users may apply for subject to and in accordance with paragraph 2.7.

2.6.13 For the purposes of this paragraph 2.6:

the “**applicable monthly interruptible reserve price**” is the price determined as such (for the purposes of this paragraph 2.6) in accordance with the Transportation Statement;

the “**Available Monthly Interruptible Capacity**” in respect of an Aggregate System Entry Point is the maximum amount of System Entry Capacity which will be allocated following the submission of monthly interruptible capacity bids on each of the invitation dates; and the aggregate of the Available Monthly Interruptible Capacity in relation to the invitation dates will be the Maximum Monthly Interruptible Capacity; and

the “**Maximum Monthly Interruptible Capacity**” in respect of an Aggregate System Entry Point for a calendar month is an amount equal to:

$$\text{MC} - \text{OMSEC}$$

where:

MC is the greater of:

the highest Maximum Capacity Amount for the Aggregate System Entry Point for any calendar month in the preceding 3 Gas Years; and

the peak flow forecast for the Aggregate System Entry Point set out in the Base Plan Assumptions for the Gas Year in which the calendar month falls; and

OMSEC is the amount of Monthly System Entry Capacity in respect of which Users were invited to make applications for the relevant month pursuant to paragraph 2.3.2.

2.7 **Later application for Monthly Interruptible System Entry Capacity**

2.7.1 Where (for any calendar month and in relation to any Aggregate System Entry Point) the amount of Monthly Interruptible System Entry Capacity allocated in aggregate pursuant to monthly interruptible capacity bids submitted on the invitation dates is less than the Maximum Monthly Interruptible Capacity, Users may subsequently apply for Monthly Interruptible System Entry Capacity, subject to and in accordance with this paragraph, until such time as there is no longer any Outstanding Monthly Interruptible Capacity.

2.7.2 For the purposes of this paragraph 2.7, at any time (or in relation to any application for Monthly Interruptible System Entry Capacity) the “**Outstanding Monthly Interruptible Capacity**” for any calendar month and in relation to any Aggregate System Entry Point, is the amount (if any) by which the Maximum Monthly Interruptible Capacity exceeds the Monthly Interruptible System Entry Capacity for the time being held by Users in aggregate (including pursuant to all preceding applications under this paragraph 2.7, and taking account of paragraph 2.1.8).

2.7.3 An application for Monthly Interruptible System Entry Capacity pursuant to this paragraph 2.7:

(a) shall specify:

(i) the identity of the User,

(ii) the Aggregate System Entry Point,

(iii) the calendar month for which Monthly Interruptible System Entry Capacity is applied for (in kWh/Day),

(iv) the amount (not less than the minimum eligible amount) of Monthly Interruptible System Entry Capacity applied for (in kWh/Day), and

- (v) the minimum amount (not less than the minimum eligible amount) of Monthly Interruptible System Entry Capacity which the User is willing to be allocated if paragraph 2.7.7 applies;
 - (b) may not be submitted before 08:00 hours or after 17:00 hours on any Day;
 - (c) may be submitted at any time after Transco has announced the allocations of Monthly Interruptible System Entry Capacity for all Aggregate System Entry Points pursuant to the auction under paragraph 2.6 for the relevant Gas Year;
 - (d) may not be submitted later than the fourth Day before the first Day of the calendar month for which the application is made.
- 2.7.4 Transco will reject an application for Monthly Interruptible System Entry Capacity under this paragraph where the requirements of paragraph 2.7.3 are not complied with, and may reject such an application in accordance with Section V3.
- 2.7.5 An application for Monthly Interruptible System Entry Capacity pursuant to this paragraph 2.7 may be amended or withdrawn until but not after 18:00 hours on the Day on which it was submitted; and where such an application is amended it shall be treated (for the purposes of paragraph 2.7.8) as resubmitted at the time it is amended.
- 2.7.6 Where the Outstanding Monthly Interruptible Capacity is less than the minimum eligible amount, Transco will not accept any (or any further) applications for Monthly Interruptible System Entry Capacity (in respect of the relevant calendar month) at the relevant Aggregate System Entry Point under this paragraph 2.7.
- 2.7.7 Subject to paragraph 2.7.6, where under any application the amount of Monthly Interruptible System Entry Capacity applied for is greater than the Outstanding Monthly Interruptible Capacity at the relevant Aggregate System Entry Point the User will be allocated an amount equal to the lesser of the Outstanding Monthly Interruptible Capacity unless the minimum amount specified pursuant to paragraph 2.7.3(a)(v) exceeds such amount of System Entry Capacity, in which case the application will be disregarded (and of no effect) and the next application will be considered.
- 2.7.8 Monthly Interruptible System Entry Capacity will be allocated on a Daily basis to applications under this paragraph 2.7 in the chronological order in which such applications were submitted on each Day.
- 2.7.9 Where a User's application under this paragraph is accepted, the User will be registered as holding (in addition to any already held) Monthly Interruptible System Entry Capacity at the Aggregate System Entry Point for the relevant calendar month in the amount allocated or applied for pursuant to paragraph 2.7.7 and/or 2.7.8.
- 2.7.10 Transco will notify to all Users by not later than 19:00 hours each Day:
- (a) the aggregate amount of Monthly Interruptible System Entry Capacity held at each Aggregate System Entry Point for each calendar month following the allocation of such capacity pursuant to this paragraph 2.7 on the preceding Day;
- for each calendar month (if any) the remaining Outstanding Monthly Interruptible Capacity (after deducting the aggregate amount in paragraph (a)).”.

Change all existing references in renumbered Section B2.8 from 'Interruptible System Entry Capacity' to 'Daily Interruptible System Entry Capacity'.

Change in renumbered paragraph 2.8 all references to paragraph 2.6 to paragraph 2.8.

Change in renumbered paragraph 2.9 all references to paragraph 2.7 to paragraph 2.9.

Change in renumbered paragraph 2.9.8(f) reference to paragraph 2.8 to paragraph 2.10.

Change in renumbered paragraph 2.10 all references to paragraph 2.8 to paragraph 2.10.

Change in renumbered paragraph 2.10.2 in definition of ‘Y’ reference to paragraph 2.7 and 2.11 to reference to paragraph 2.9 and 2.13.

Amend renumbered paragraph 2.10.3 to read as follows:

“...interruptible curtailment notice, the amount of each User’s Available Interruptible System Entry Capacity (excluding any negative Available Interruptible System Entry Capacity) will be determined as....

....

where R is the amount of the User’s Available Interruptible System Entry Capacity for the Day.”.

Change in renumbered paragraph 2.11 all references to paragraph 2.9 to paragraph 2.11.

Change in renumbered paragraph 2.11.4 references to paragraphs 2.8.3 and 2.7.10 to paragraphs 2.10.3 and 2.9.10.

Change in renumbered paragraph 2.12 all references to paragraph 2.10 to paragraph 2.12.

Change in renumbered paragraph 2.12.1 references to paragraphs 2.7.10, 2.8.3 and 2.8.5 to paragraphs 2.9.10, 2.10.3 and 2.10.5.

Change in renumbered paragraph 2.13 all references to paragraph 2.11 to paragraph 2.13.

Change in renumbered paragraph 2.14 all references to paragraph 2.12 to paragraph 2.14.

Change in renumbered paragraph 2.14.5(c) references to paragraphs 2.7.12 and 2.8.4 to paragraphs 2.9.12 and 2.10.4.

Amend renumbered paragraph 2.8.2 to read as follows:

“...(**“daily interruptible capacity bid”**)....”.

Amend renumbered paragraph 2.8.3 to read as follows:

“...daily interruptible capacity bid....”.

Amend renumbered paragraph 2.8.4 to read as follows:

“...daily interruptible capacity bid....”.

Amend renumbered paragraph 2.8.5 to read as follows:

“...daily interruptible capacity bid....

all daily interruptible capacity bids....”.

Amend renumbered paragraph 2.8.8 to read as follows:

“...daily interruptible capacity bids.”.

Amend renumbered paragraph 2.8.4 to read as follows:

“...daily interruptible capacity bid....”.

Amend paragraph 2.8.10(b) to read as follows:

the amount (if any) of Outstanding Monthly Interruptible Capacity for the calendar month in which such Day falls following the allocation of Monthly Interruptible System Entry Capacity in accordance with paragraph 2.7;

the amount (if any) by which....; and

based on Transco’s reasonable estimate....”.

Amend renumbered 2.11.3 to read as follows:

“(iii/c)

(iv/d) in respect of Monthly Interruptible System Entry Capacity the bid price tendered by the User in respect of Monthly Interruptible System Entry Capacity allocated under paragraph 2.6; and

- (v/f) in respect of Daily Interruptible System Entry Capacity the bid price tendered by the User in respect of Daily System Entry Capacity allocated under paragraph 2.8.”.

Change references in paragraphs 5.2.1 and 5.1.4 to paragraph 2.7.10 and paragraph 2.8.5 to paragraph 2.9.12 and paragraph 2.10.3 respectively.

Add new paragraph 5.2.1 to read as follows:

- “(iii);
(iv); and
(v) in the case of System Entry Capacity, whether the Transferred System Capacity is Firm System Entry Capacity or Interruptible System Entry Capacity.”

Change reference in paragraph 5.5.1 to paragraph 2.7 to paragraph 2.9.

Change reference in paragraph 5.5.2 to paragraph 2.6 and paragraph 2.10.2 to paragraph 2.8 and paragraph 2.12.2 respectively.

TRANSITIONAL DOCUMENT PART II

Add text in paragraph 8.1 to read as follows:

“B2.6 In respect of the Gas Year 2000/2001: the reference in Section B2.6.1 to each calendar month in the Gas Year shall be deemed to be a reference to the calendar months December 2000 to March 2001 (inclusive); and the reference in Section B2.6.2(a) to 15 August in the Preceding Year shall be deemed (for the purposes of paragraph (1)) to be a reference to [10] November 2000; by not later than 28 February 2001 Transco will invite applications for Monthly Interruptible System Entry Capacity in respect of each Aggregate System Entry Point for the calendar months April 2001 to September 2001 (inclusive); and for the purposes of paragraphs (1) and (3), Section B2.6 shall apply separately in respect of applications made for Monthly Interruptible System Entry Capacity for the calendar months referred to therein.”

Add text in paragraph 8.1 to read as follows:

“B2.8 On each Day in the calendar months October and November 2000, the Available Interruptible Capacity at each Aggregate System Entry Capacity shall be increased by an amount of capacity equal to the Monthly Maximum Interruptible Capacity for the Aggregate System Entry Point for the relevant month.”

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Director General of Gas Supply Response:

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0410**, version **4.0** dated **21/07/2000**) be made as a modification to the Network Code.

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

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **4.0**.

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 Director General of Gas Supply ("the Director") within 28 days of the date on which the Agreement is made; or
 - (ii) if, within 28 days of the provision of the copy, the Director gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in 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 Director does not so approve the Agreement then Clause 3 shall apply.

2. If the Director 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 Director 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 Director 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 Director 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.