

URGENT Modification Report
Further Temporary Extension of Absolute Tolerance Quantity
Modification Reference Number 0403

Version 1.0

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

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 9.1.2 OFGEM has agreed that this Modification Proposal should be treated as Urgent because normal procedures would necessitate retrospective application should the proposal be implemented.

Procedures Followed:

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

Issued to Ofgem for decision on urgency	23 May 2000
Proposal agreed as urgent	23 May 2000
Proposal issued for consultation	23 May 2000
Close out for Representations	25 May 2000
Final Report to Ofgem	26 May 2000
Ofgem decision expected	30 May 2000

1. The Modification Proposal

The intent of Modification Proposal 0386 - Temporary Extension of Absolute Tolerance Quantity was to continue the Absolute Tolerance and Cumulative Imbalance Tolerance Regime until such time as a tolerance (or linepack) service is introduced.

Modification 0386 implemented a temporary extension until 31 May 2000 and it was expected that Modification Proposal 0373 would implement a tolerance service from 1 June 2000.

However, the tolerance service is now scheduled for implementation on 1st October 2000 and hence all the arguments in support of Modification Proposal 0386 would now suggest that the Absolute Tolerance and Cumulative Imbalance Tolerance Regime should be extended until 30 September 2000.

This Modification Proposal advocates the retention of the Absolute Tolerance Quantity and Cumulative Imbalance Tolerance Regime until 30 September 2000

2. Transco's Opinion

Transco expressed its support for a temporary extension of the Absolute Tolerance Quantity (ATQ) and Cumulative Imbalance Tolerance Quantity (CITQ) in the Modification Reference Number 0386 Report.

Transco recognises that the implementation of Modifications 0386 and 0373 would create a short period where shippers might be exposed to additional costs during the period of

abolition of the ATQ and CITQ prior to the introduction of a tolerance service. As argued in the Modification 0386 Report Transco does not believe it is desirable to have three different cash out regimes applying over a period as short as six months.

Therefore Transco sees merit in the Modification Proposal.

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

This Modification Proposal would better facilitate condition 7(c), the securing of effective competition between relevant shippers and relevant suppliers, in so far as allowing small shippers to compete with large shippers. Retention of ATQ will ensure that shippers are not exposed to short-term changes which may disrupt their operations prior to the potential implementation of Modification Proposal 0373.

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

a) implications for the operation of the System:

Transco does not envisage any significant impact on System Operation.

b) development and capital cost and operating cost implications:

As the Modification Proposal seeks to extend an existing facility, there will be no development costs. Implementation would avoid some minor operational costs associated with IT system and administration process changes.

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:

There is no requirement for Transco to recover costs in this case.

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

Transco is not aware of any impact on price regulation.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Transco is not aware of any increased contractual risk as a result of this Modification Proposal

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

Transco and Shippers would need to ensure that their systems continue to operate on the basis of ATQ and CITQ functionality which was due to end on 31 May 2000 following the decision to implement Modification 0386. Transco requests that a decision on this Proposal is made before 31 May 2000 so that any system changes, if necessary, can be made prior to the ATQ and CITQ expiry date.

Should a decision not be made before the end of May 2000, AT-Link will display information on provisional shipper cashout quantities and sums that could be misleading.

Implementation of the Modification Proposal would prevent Users from needing to make system changes.

7. The implications of implementing the Modification Proposal for Users

Tolerances reduce the volatility of imbalance cashouts and it is the view of small shippers, which may not have access to within day gas supplies, that they benefit in terms of reduced exposure.

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

Transco is not aware of any implications for terminal operators, suppliers, producers, and any non Network Code party.

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

Transco is not aware of any such consequences.

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

Advantages:

ATQ and CITQ provide some protection against SMP exposure.

Continuation of ATQ and CITQ would avoid the need for both Transco and Shippers to make changes to their systems to take effect from 1 June 2000.

Continuation of ATQ to the start of provision of a tolerance service would help ensure a relatively smooth transition to an new tolerance regime.

Disadvantages:

ATQ extension has the potential for some gas users to be cashed out at a price which does not reflect the true value of their imbalance, thereby generating an enhanced risk of poor cost allocation.

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

Five responses were received prior to the end of business day 25 May 2000 from Regent Gas, Contract Natural Gas Limited, BG Gas Marketing Limited, British Gas Trading Limited and Reepham Ltd.

Four respondents supported the Modification Proposal with the fifth indicating it had "no objection" to the implementation of this proposal.

Reepham Ltd recommended that the ATQ/CITQ should be a permanent feature of the Network Code. Some shippers believe that the ATQ/CITQ was an appropriate transitional feature within the regime to encourage competition but that it may have generated a small cross subsidy and hence should not be contemplated as a permanent feature of the regime. However, as an interim arrangement, Transco does not consider it is appropriate for shippers to face three distinct cashout regimes in a six month period and hence Transco supports the Modification as originally formulated.

A sixth response from Scottish & Southern was received on the 26 May 2000 which did not support the Modification proposal and expressed concern that it was not appropriate for this Modification Proposal to have been considered as Urgent, given that Ofgem took nearly two months to reject the Modification Proposal 0386 Consent to Modify which would have amended the expiry date of the ATQ/CITQ regime until 30 September 2000.

Transco considered that it was important to consider this Modification as urgent. Modification 0386 Report concluded that the extension of the ATQ/CITQ regime to avoid three cashout regimes within a short period was desirable. Without Urgent procedures this could not have been achieved given the late rejection of the Consent to Modify application.

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

This Modification is not required 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

This Modification is not required to comply with the above clauses.

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

In so far as a decision is made before 31 May 2000, no additional significant work will be required to support implementation.

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

Transco recommends an implementation date of 1 June 2000.

16. Recommendation concerning the implementation of the Modification Proposal

It is recommended that Modification 0403 be implemented from 1 June 2000, thereby extending the application of the ATQ and CITQ regime until 30 September 2000.

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.

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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.

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19. Text

Transition Document, Part II, Paragraph I

In paragraph 1.1 (ii), after "for the purposes of paragraph 6,":

delete "31 May 2000 (inclusive)" and insert "30 September 2000 (inclusive)".

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 **0403**, version **1.0** dated **30/05/2000**) 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 **1.0**.

Signature:

Process Manager - Network Code
Transco
Date:

Annex

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