

URGENT Modification Report
Waiver of two-month notice period for adjustment of NTS Commodity Charge.
Modification Reference Number 0423

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 it is considered that failure to grant urgent status could potentially undermine the intent of the proposal and prevent a possible adjustment of the NTS Commodity Charge occurring from 1 October 2000 following the September 2000 monthly capacity auctions.

Procedures Followed:

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

Issued to Ofgem for decision on urgency	29 August 2000
Proposal agreed as urgent	31 August 2000
Proposal issued for consultation	31 August 2000
Close out for Representations	7 September 2000
Final report to Ofgem	12 September 2000
Ofgem decision expected	15 September 2000

1. The Modification Proposal

It is proposed that the normal period of notice for changes to the level of NTS commodity charges should be reduced from two to one month. It is further proposed that the notice period be waived on an exceptional basis to address the revenue over-recovery associated with MSEC and other NTS auctions associated with the October 2000 to March 2001 period.

The aim of the proposal is to facilitate a timely enactment of the post auction adjustment mechanism proposed by Transco in its recent Pricing Consultation paper PC60. The mechanism adjusts NTS commodity charges to counterbalance high or low auction income, such that in aggregate NTS revenue will broadly remain in line with allowed revenue expectations.

2. Transco's Opinion

Transco is in support of this Modification Proposal which would enable the post auction adjustment mechanism, consulted upon by Transco in Pricing Consultation 60, to apply over the whole service period offered at auction.

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

Transco considers that a single adjustment to the commodity charge, to be applied to the whole service period offered at auction, presents a more efficient discharge of its obligations and offers greater clarity to Users than would be the case if a series of commodity charges are applied following two month notice periods.

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

The implementation of this proposal would have no impact upon the operation of the System.

b) development and capital cost and operating cost implications:

There are no development, capital or operating cost implications as a result of implementing this proposal.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Not applicable.

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

Implementation of this proposal would facilitate adjustments to the NTS Commodity Charge in accordance with Pricing Consultation 60. This will enable aggregate NTS revenue to remain broadly in line with allowed revenue expectations.

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

It is not anticipated that there will be a change to the level of contractual risk to Transco as a consequence of this proposal.

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

No development implications on the computer systems of Transco or on the related computer systems of Users are anticipated.

7. The implications of implementing the Modification Proposal for Users

If implemented, the NTS Commodity Charge could be amended in line with Pricing Consultation 60 and the revised Commodity Charge would be applicable for the whole service period offered at auction.

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

No implications are anticipated on the above parties.

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 consequences on the legislative and regulatory 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

A timely enactment of the post auction adjustment mechanism, consulted upon in pricing Consultation PC60, could be implemented.

A single Commodity Charge would apply following each auction rather than two rates that may be necessitated if a two month notice period is retained.

Disadvantages

Users will have less than two months notice of the changes to the NTS Commodity Charge.

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

User representations

Five representations were received. Two, Aquila and V-is-on supported the proposal in full. The three remaining respondents, Association of Electricity Producers, BG Trading, and Scottish and Southern Energy offered support for a Commodity Charge adjustment to be effective from 1 October 2000, but withheld support for an ongoing one month notice period to be applicable to the Commodity Charge. It was suggested by Aep, BGT and SSE that under normal circumstances capacity auctions would be completed in July, which suggests that two months should be available for Transco to provide notice of changes to

the Commodity Charge. It was also highlighted that this summer the entry capacity auctions were delayed to allow further time to develop the regime.

Aep suggested that the industry should be aiming for a more stable regime where adequate time is allowed for the normal two-month notice period to apply. They also suggested that it could be argued that the notice period for changes to transportation charges could be extended to three months to provide greater certainty over the transportation charges that will apply when tenders are being submitted and considered.

SSE sought to clarify that the commodity charge adjustment proposed to be effective from 1 October will include an additional compensatory adjustment in anticipation of the forthcoming auctions of Monthly Interruptible System Entry Capacity.

Transco's response

Transco is pleased with the unanimous support for the notice period to be waived with respect to a Commodity Charge adjustment to be effective from 1 October 2000.

Transco does not believe that it will be feasible to provide two months notice in the future without having to apply revised charge rates part way through a period that has been offered at auction. In normal circumstances the Network Code provides that the final day of Monthly System Entry Capacity (MSEC) auctions will be not later than 28 July. Allowing a single business day before the end of the month for the final results to be issued. A short period of time will then elapse (approximately one week) in which Users can consider their position prior to auctions of Monthly Interruptible System Entry Capacity (MISEC). The final day of those auctions will be not later than 15 August. It is therefore probable that Transco will be unable to calculate the commodity charge adjustment with respect to both types of capacity auction until the third week of August.

Transco sympathises with Users desire for longer notice periods before changes to transportation charges are implemented. However, the timetable for provision of capacity data in advance of the auctions presents a constraint upon the start date for MSEC auctions. Unfortunately the results of auctions are by their nature uncertain, consequently a notice period can only be provided from the date that the final auction results are known. Transco considers that the possibility of running MSEC and MISEC auctions simultaneously in the future may enable a two month notice period to be reinstated.

The commodity charge that is proposed to be effective from 1 October does not take into account possible income from the forthcoming MISEC auctions. It is probable that another adjustment will be required to be effective for the period from December to March inclusive.

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 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 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

If changes to the NTS Commodity Charge arising from the post auction correction mechanism are to be implemented with effect from 1 October 2000 this Modification Proposal must be implemented.

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

There are no modifications required to the UK-Link Systems and therefore a programme of works will not be required as a result of implementing the Modification Proposal.

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

The timetable envisages an Ofgem decision on this Modification Proposal on 15 September 2000, potentially allowing the adjustment to the NTS Commodity Charge arising from the post auction correction mechanism to be effective from 1 October 2000.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification Proposal is implemented.

17. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Section B : System Use and Capacity

Amend paragraph 1.8.2 to read as follows :

"...not less than 2 months, or where such notice relates to a change to the level of NTS
Commodity Charges not less than 1 month, before the date..."

Transition Document , Part II

Amend paragraph 8.1 to read as follows :

"B1.8.2 In respect of Pricing Consultations 60 and 61 the requirement in Section B1.8.2..."

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0423**, version **1.0** dated **12/09/2000**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code
Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
 - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
 - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.