

Modification Report
Modification Reference Number - 0014

This modification report is made pursuant to Rule 8.12 of the Modification Rules and follows the format required under Rule 8.12.4.

1. Circumstances Making This Modification Urgent

In accordance with Rule 9.2(a) Ofgas has agreed that this modification should be treated as URGENT because it ensures continued operation of the Flexibility Market until the Phase 1 flexibility cap is reached.

2. Procedures Followed

TransCo agreed with Ofgas (and has followed) the following procedures for this Proposal:

04/04/96	-	Meeting held with Shippers.
11/04/96	-	Draft proposal circulated.
17/04/96	-	Representations received from Shippers.
18/04/96	-	Modification Report to OFGAS.
April 1996	-	Implement Proposal.

3. The Modification Proposal:

For the purposes of calculating the monthly cap under Phase 1 of the Network Code it is necessary for margins and Top-Up payments and receipts to be treated in an equitable manner.

4. Text provided pursuant to Rule 8.14:

Network Code text is as follows:

Transition Document Part II -

In paragraph 4.2.5 (a), insert (after "Basic Net Neutrality Amounts") the following;

"and the amounts referred to in paragraph 4.2.7".

Add a new paragraph 4.2.7 as follows:

"4.2.7 The amounts referred to in paragraph 4.2.5 (a) are the following amounts (which are comprised in Adjustment Neutrality Amounts pursuant to Section F4.5):

- (i) Daily Margins Recovery Amounts;
- (ii) amounts falling to be treated as additional Balancing Neutrality Adjustment Revenues by virtue of what is provided (under paragraph (4)) in respect of Section P5 in paragraph 8 of this Part II".

5. TransCo's opinion:

This modification allows for equitable treatment of Balancing Margins and Top-Up costs and revenues for the Phase 1 cap thus assists the continued operation of the Flexibility Mechanism.

6. Extent to which the modification would better facilitate the relevant objectives:

The modification will ensure that relevant costs and revenues associated with the use of Balancing Margins and Top-Up costs will be included within the Basic Net Neutrality costs under the Phase 1 cap.

7. The implications for TransCo of implementing the Modification Proposal, including:

a) implications for the operation of System and any BG Storage Facility:

None

b) development and capital cost and operating cost implications

None

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:

None

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

None

8. 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:

This modification will impact on the costs under the Phase 1 cap. Flexibility bids needed after the cap is reached will only be provided by BG Trading which are taken to have a bid price of the 30 day system average price.

9. The development implications and other implications for computer systems of TransCo and related computer systems of Relevant Shippers:

Minor TransCo system changes will be needed to ensure that the modification is implemented.

10. The implications of implementing the modification for Relevant Shippers

This modification will impact on the costs and revenues under the Phase 1 cap which affects the continued operation of the Flexibility Mechanism.

11. The implications of implementing of the modification for terminal operators, suppliers, producers and, any Non-Network Code Party;

Depending on requirements for beach gas, non-Network Code Parties (i.e. producers) may be impacted by continued operation of the Flexibility Mechanism.

12. Consequences on the legislative and regulatory obligations and contractual relationships of TransCo and each Relevant Shipper and Non-Network Code Party (if any), of the implementation of the Modification Proposal;

TransCo has not been informed of any consequences of the legislation and regulatory obligations and contractual relationships of implementing this proposed modification.

13. Analysis of any advantages or disadvantages of the implementation of the Modification Proposal;

- Advantages:-
- Continued operation of the Flexibility Mechanism.
 - A more representative month end system average price for cumulative month end imbalances due to extended use of the Flexibility Mechanism.
 - A more equitable allocation of costs and revenues from Balancing Margins and Top-Up costs under Phase 1 of the Network Code

14. Summary of the representations (to the extent that the importance of those representations are not reflected elsewhere in the modification report;

Shipper representations on this subject were mainly favourable as it would result in "more logical calculation of the flexibility cap" and removal of the Code drafting anomaly thus allowing for further operation of the Flexibility Mechanism. Two Shippers withheld support for the proposal pending agreement of other proposed modifications.

TransCo Response

TransCo considers that corrections to the anomaly will support further operation of the Flexibility Mechanism thus providing further valuable operational experience under the Network Code.

15. The extent to which the implementation is required to enable TransCo to facilitate compliance with safety or other legislation;

The modification is not required to facilitate compliance with safety or other legislation..

16. 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;

The modification is not required to comply with the above clause.

17. Programme of works required as a consequence of the implementation of the Modification Proposal;

Minor TransCo system changes will be required to Balancing Neutrality functionality.

18. Proposed implementation timetable;

The modification will be implemented for the determination of costs / revenues under the Phase 1 cap from 1st March 1996.

19. Recommendation for the implementation of the modification;

The modification is to be implemented to determine Neutrality costs from 1st March 1996.

20. Restrictive Trade Practices Act

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

21. TransCo Proposal

This Modification Report contains TransCo's proposal to modify the Network Code which TransCo has already received a direction from the Director General to make in accordance with this report.

Signed for and on behalf of British Gas TransCo.

Signature:

Date:

Name:

Position:

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 British Gas TransCo that the above proposal be made as a modification to the Network Code.

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

Signature:

Date:

Name:

Position:

ANNEX 1

Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976, 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 paragraph (2)3 of the Schedule to the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996;

provided that if the Director does not approve the Agreement as aforesaid then the following clause shall apply:

Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.