

Final Modification Report
Modification Reference Number : 0102
Extension of Phase 2 until 1st September 1997

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. Procedures Followed

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

Modification Proposal submitted	-	13th November 1996
Proposal discussed at Panel meeting	-	12th December 1996
Development Workgroup meeting	-	8th January 1997
Development Workgroup report to Panel	-	16th January 1997
Modification Proposal submitted for representations	-	22nd January 1997
Modification Report discussed at Panel	-	20th February 1997
Ofgas direction	-	25th February 1997

2. The Modification Proposal:

This modification proposal would enable extension of the issue of the Absolute Tolerance and the Cumulative Imbalance Tolerance for a further 6 months to 1st September 1997

3. Transco's opinion:

In Transco's opinion progression towards a full daily balancing regime should be the aim of all Network Code participants. However, whilst concerns remain about small Shipper access to within day balancing gas and their exposure to poor DM forecasting, Transco believe that an extension of the Absolute Tolerance regime will impose relatively small additional costs and should be supported by the community to encourage development of vigorous competition between Shippers.

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

In Transco's opinion this modification proposal would not better facilitate the relevant objectives.

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

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

Transco recognises that there may be a minor impact on System operation due to the delay in implementing a full daily balancing regime.

b) development and capital cost and operating cost implications

Transco is not aware of any capital or operating cost implications as a result of this modification 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;

see section 5(b).

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

Transco is not aware of any impacts on price regulation.

6. 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 consequence of this Modification Proposal.

7. The development implications and other implications for computer systems of Transco and related computer systems of Relevant Shippers;

Transco and Shippers require a 3 day notification of implementation in order to adequately prepare computer systems.

8. The implications of implementing the modification for Relevant Shippers.

The extension of Phase 2 of the energy balancing regime will allow the Absolute Tolerance and the Cumulative Imbalance Tolerance to continue for a further six months. These tolerances reduce the extent of imbalance cash-outs and its the view of small Shippers who do not have access to within day gas supplies that they benefit in terms of reduced exposure.

The Modification Proposal also offers protection to Shippers during a period in which DM forecast performance is a concern but is likely to improve with operational experience.

9. The implications of implementing of the modification for terminal 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.

10. 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:

This modification proposal further delays the implementation of a full daily balancing regime under the Network Code.

11. Analysis of any advantages or disadvantages of the implementation of the Modification Proposal:

During discussion in the Development Workgroup the following advantages and disadvantages were highlighted:

Advantages

- Whilst Small Shipper access to within day balancing gas is limited, a retention of the Absolute Tolerance offers some protection against exposure to Network Code charges.
- The Modification Proposal will assist in protecting NDM Shippers from inaccurate NDM demand forecasts due to poor DM nomination performance.
- Large Shippers continue to receive the benefits of increased flexibility under Network Code operations.

Disadvantages

- Under the Network Code gas should have a daily value reflecting the requirement for full daily cash-outs. The continuation of the Absolute Tolerances delays implementation of a full daily balancing regime.
- The continuation of the Absolute Tolerance creates a regime where there is potential for some gas to be cashed out at a price with the true value of that imbalance not realised.

12. Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the modification report):

Representations were received from 15 Shippers. The issues raised have also been highlighted elsewhere in this Modification Report. Copies of the representations are attached.

Shippers **in support** of the Modification Proposal:

- The Gas Light and Coke Company
- Contract Natural Gas Ltd
- United Gas Services Ltd

- AGAS (3 month extension)
- Southern Electric Gas
- Regent Gas
- Quadrant Gas
- YE Gas Limited
- Yorkshire Energy Limited

Shippers **not in support** of the Modification Proposal:

- National Power
- Accord Energy Ltd
- Kinetica
- Enron
- BGT
- Beacon Gas Ltd

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

This Modification Proposal is not required to facilitate compliance with safety or other legislation.

14. 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 Proposal is not required to comply with the above clause.

15. Programme of works required as a consequence of the implementation of the Modification Proposal:

Not applicable

16. Recommendation for the implementation of the modification:

It is recommended that this Modification Proposal is implemented on 1st March 1997.

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 Proposal

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

19. Text provided pursuant to Rule 8.14

Transition Document, Part II

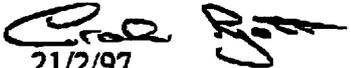
Paragraph 1

Amended paragraph 1.1. to read:

"...and Phase 2 means the period from 1st September 1996 to:

- (i) except as provided in paragraph (ii), 28th February 1997 (inclusive);
- (ii) for the purposes of paragraph 6, 31st August 1997 (inclusive).

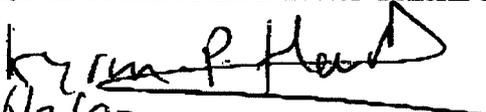
Signed for and on behalf of British Gas Transco.

Signature: 
Date: 21/2/97
Name: Graham Ryott
Position: Gas Trading Development Manager

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: 26/2/97
Name: KYRAN HANKS
Position: HEAD OF NETWORK OPERATIONS

The network code is hereby modified, with effect from.....*1st MARCH 1997*..... in accordance with the above proposal.

Signature:

Secretary Modification Panel
British Gas Transco

ANNEX

Restrictive Trade Practices Act - Suspense Clause

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

1. Suspense Clause

1.1 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 so approve the Agreement then Clause 1.2 shall apply.

1.2 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.