

Forward to Ofgas  
6.39pm. 21/2/97

**Modification Report**  
**Modification Reference Number 0117**  
**Capacity Booking (and associated) Rules for Interconnectors**

This modification report is made pursuant to Rule 9 (**Urgent**) of the Modification Rules and follows the format required under Rule 8.12.4.

**1. Circumstances Making This Modification Urgent**

Ofgas stated the reason for urgency is due to the possible impact on the commercial arrangements both for gas transportation and gas supply at the interconnectors. That is, interconnector shippers have suggested that their transportation and supply contracts are dependent on the resolution of some or all of the issues raised in this modification.

**2. Procedures Followed**

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

27th January	-	Modification Proposal submitted to Ofgas
3rd February	-	Modification Proposal deemed Urgent Modification Proposal circulated
12th February	-	Open Forum Meeting, Tottenham Court Road
18th February	-	Written Representations close out
21st February	-	Final Modification Report submitted to Ofgas
24th February	-	Ofgas Decision
25th February	-	Implementation

**3. The Modification Proposal**

Section J5 of the Code contains some terms for transportation arrangements at CSEPs which were developed towards the end of the network code process in the absence of any detailed discussion either of general principles or specific cases. It has become clear that the arrangements in this Section are deficient in a number of respects. This modification seeks to remedy some of the deficiencies which have been encountered in actual negotiations on interconnector CSEPs. The issues addressed by this modification are:

- the need to clarify that (at least at certain CSEPs) NTS Exit Capacity will not be oversold.
- to establish that Interconnector NTS Exit Capacity would be treated in a similar fashion to capacity held by Users at VLDMC Supply Points. This would allow CSEP Users to continue to book and hold capacity from year to year. A 'book it or lose it' principle would apply, ie. any capacity not rebooked from one year to the next could be sold to other CSEP Users.

- to give Transco the right to ask for 'evidence' from CSEP Users that they have a bona fide requirement to book interconnector NTS Exit Capacity. Transco could reject requests for capacity should Users be unable to demonstrate a need to book such capacity.
- the possible need for all shippers using a CSEP to enter into an agency agreement to appoint an agent for purposes of nominations and other communications. (This is in part already addressed by J5.8.3, but that Section only contemplates the Connected System Operator acting as agent).
- the possible need to for all shippers using a CSEP and Transco to enter into an Ancillary Agreement setting out additional terms. At present the Code envisages that all terms (additional to those in the Code) applicable to a CSEP will be contained in a Network Exit Agreement with the Connected System Operator. There are a number of possible difficulties with this. There may be difficulties in modifying a NExA which can be overcome by a code Agreement. In some cases the CSO may be reluctant to enter a NExA containing terms which bind only shippers. In other cases terms may be required which are really only appropriate for an Agreement directly binding shippers, or not envisaged by Section J5 as being contained in a NExA.
- the possible need to establish pre-conditions (such as entering into an agency agreement) before a shipper can become a CSEP User.
- the need for CSEP reconciliation to include adjustments on testing, verification or calibration (in Section E).
- to enable interruptible services to be offered at interconnectors if appropriate

It is too soon to attempt a general rewrite of J5 and the approach of this modification is simply (i) to extend the possible contents of a CSEP NExA, and (ii) to allow anything which might be contained in a NExA to be contained as an alternative in a 'CSEP Ancillary Agreement'.

#### **4. Transco's opinion**

Transco supports implementation of this modification.

#### **5. Extent to which the modification would better facilitate the relevant objectives**

The modification clarifies and amends CSEP rules to deal with interconnectors thereby further facilitating the efficient and economic operation of the system.

#### **6. The implications for Transco of implementing the Modification Proposal, including:**

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

Capacity definition at interconnectors assists Transco in the efficient operation of the system.

b) development and capital cost and operating cost implications

Transco is aware of no such implications.

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;

Transco is aware of no additional costs relating to this modification.

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

Transco is not aware of any such consequences.

7. **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's level of contractual risk remains unchanged by this modification.

8. **The development implications and other implications for computer systems of Transco and related computer systems of Relevant Users**

Capacity limits will be monitored manually by Transco. Transco has not been made aware of any User system implications.

9. **The implications of implementing the modification for Relevant Shippers**

Users will be able to proceed with commercial arrangements at interconnectors without the current uncertainty over capacity rights or availability. This modification should also ensure that capacity is released and allocated only to those Users with a demonstrable need for it, and that interruptible services are offered to compliment the firm transportation service. Users will be able to appoint a User Agent to manage the nomination and re-nomination processes before-the-day and on-the-day.

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

This modification will assist commercial discussions for all parties at interconnectors.

11. **Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each Relevant User and Non-Network Code Party (if any), of the implementation of the Modification Proposal**

Transco is not able to determine at this stage what these consequences, if any, would be.

12. **Analysis of any advantages or disadvantages of the implementation of the Modification Proposal**

**Advantages** - this modification facilitate;

- (a) progress of commercial arrangements at interconnectors,
- (b) alleviation of unnecessary risk faced by Users due to existing supply obligations,
- (c) Transco to better fulfil its Gas Act obligations to promote efficient use of the System.

**Disadvantages** - A number of parties stated reservations that this modification does not directly address certain detailed terms. Transco believe this modification rightfully leaves the detailed terms to be established through consultation, and that these belong more naturally in the relevant ancillary agreements.

13. **Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the modification report**

Written representations were received before the close-out deadline from the following parties;

Accord, AGAS, BG plc, British Gas Trading Ltd. (BGT), BP Gas Marketing Ltd. (BP), Conoco, Eastern Natural Gas (Retail) Ltd. (Eastern), Elf, Enron, Esso, Mobil, National Power, Powergen, Quadrant Gas Ltd. (Quadrant), Scottish Hydro-Electric, Shell UK, Texaco, Texaco, Total.

**(a) Recognition that Clear Capacity Booking Principles are Needed Immediately**

All written representations, with one exception, recognize that the problems addressed by this modification proposal require urgent resolution.

18 representations were received before close-out. 10 parties expressed strong support for this proposal in essentially its current form, characterized by **Quadrant** who maintain that these principles are a "*...limited but vital and pragmatic first step.*" A further 7 parties offered support for the principles within the proposal, albeit with some suggested modification. Only **Eastern** opposed this proposal, primarily on the grounds that they believe the issues should be resolved through a non-urgent process.

Eastern are concerned that the principles established by this modification will in some way complicate future development of an efficient non-discriminatory capacity regime, and that consultation is required before we move forward. **Transco agree that consultation is vital to the development of detailed methodologies to ensure efficient operation of interconnectors, and accept there is still some important ground to be covered in the area of ancillary agreements. However, this consultation cannot proceed in a meaningful and informed manner without a number of fundamental principles, and it is these enabling principles which this modification intends to establish.** Indeed, several parties (Accord, BP, Elf, Esso, National Power, Powergen, Quadrant, Shell UK and Texaco) stressed in their representations the need to move forward quickly with the modification so that a framework can be established in which to conduct subsequent discussion of detailed terms. The detail of these terms will be established in the relevant Ancillary and Network Exit Agreements.

#### **(b) No overselling of Exit Capacity at CSEP Interconnectors**

This principle gains the overwhelming support of representations, with the exception of Eastern. Enron strongly endorsed this principle and recommended that it is also applied to Entry points. **The definition and development of entry capacity is currently being discussed in the Ofgas Pricing and Service Steering Group.**

Eastern believe Transco should sell any shipper as much capacity as they wish. **Transco believes that to do so would represent a complete abdication of its Obligations under the Gas Act to promote efficient system usage, in addition to an irresponsible neglect of the consensus view of its customers. This modification also signals Transco's commitment to the evolution of a secondary market in capacity, an evolution which Transco believe will be undermined by the overselling of capacity. Transco considers interconnector exit capacity to be analogous with VLDMC supply point capacity and similarly should not be oversold.**

#### **(c) Definition of "Overselling"**

It was apparent from the Open Forum meeting and representations received from Conoco and Mobil that "*maximum instantaneous rate*" should be defined. BGT understand "*maximum instantaneous rate*" to mean a maximum hourly rate, however BGT regard total daily flow as a better basis for capacity monitoring than maximum hourly flow, since the latter is controlled by Transco and the pipeline operator. **Transco accept that flows are commercially managed primarily to achieve end-of-day quantities. However, definition of capacity and hence overselling can only be related to instantaneous flow rates. The term "*instantaneous flow rate*" applies to DM supply point components as defined in Section G 5.3. Modification 0117 simply seeks to replicate these principles.**

A number of shippers asked Transco to clarify which party is obliged to ensure capacity is not oversold, and what the consequences would be of oversale. **Transco confirms that it is responsible to make gas available for offtake at exit points, and that a failure to do so**

**represents a breach of its obligations under the Network Code, and would be treated under the remedies of the Network Code.**

Both at the Open Forum meeting and in written representations, Users have asked Transco to clarify the basis for calculating capacity limits. **Transco will establish available exit capacity through Network Analysis. This aggregate firm interconnector capacity will be defined in the Network Exit/Ancillary Agreements and will be revised from time to time as the Systems are reinforced to meet new demands. Once ARCAs have been signed with Transco, Transco will ensure sufficient capacity is made available, and that such commitments are not oversold.**

**BGT, BP and Elf suggest "...entitled to reject..." in 5.10.2 should become "...obliged to reject...". 5.10.2 enables Transco to deliver 5.10.1, i.e. restricting capacity allocations to the physical limit. Transco therefore requires a right and not an obligation in this respect.**

#### **(d) "Book it or Lose it" Rights**

All representations received by Transco supported the principle of year-on-year capacity rights, with the exception of Eastern. Representations support this as a minimum degree of protection for capacity rights, although BGT and Total suggest the principle in itself does not extend far enough.

**Enron** assert that long-term capacity rights at interconnectors must be coupled with some form of "Use it or Lose it" principle to prevent block-booking of capacity. **Texaco** approve of "Book it or Lose it" rights in the immediate term, but envisage a move at some point to "Use it or Lose it" criterion.

**Transco agree with the view of Users that unfettered Year-on-Year capacity rights are undesirable, but believe that a "Use it or Lose it" criterion is unnecessarily stringent. Transco prefer a "Book it or Lose it" criterion combined with a year on year bona fide requirement as this promotes efficient capacity usage into the future. In doing so, this modification clears the discrepancy between a supply point, where capacity can be held indefinitely as long as the User is the Registered User, and a CSEP interconnector, for which the Network Code currently offers no clear rights to Users.**

**BGT, BP, Conoco, Elf, Quadrant** suggest that "*may*" in 5.10.3 should be altered to "*shall*". **This is a generic enabling rule and in order to contain "shall" would need a much greater level of definition. Therefore "may" will be retained since the detail will be held in the relevant Ancillary Agreement. Parties have the right to modify the Ancillary Agreement where it is felt necessary.**

#### **(e) Requirement for Bona Fide Evidence**

Almost 90% of written representations believe a requirement for bona fide evidence will deter gaming at the expense of genuine Users at the relevant point, whilst promoting

competitive and effective System usage. The exceptions to this view were **Eastern** and **Enron**.

**Eastern** are concerned about the requirement to demonstrate a need for capacity, even though **Transco** has emphasized that all Users already warrant to do this at supply point level under Section G 2.5.3 of the Network Code.

**Enron** believe that the offer of interruptible transportation meets the same need as a bona fide evidence clause, and that the latter would be difficult to implement. **Transco** maintain that the rationale within this modification is already well proven as a means of substantiating a User's need to supply gas at supply point level, and that it should be possible to build objective criteria for bona fide evidence for interconnectors into the relevant Ancillary Agreements. Interruptible transportation will compliment but not replace bona fide evidence as a deterrent to inefficient capacity booking and further supports the "book it or lose it" principle.

A number of Users, characterized by **Conoco**, **Elf** and **BGT**, urge **Transco** to strengthen the "...may include a requirement..." to "...shall include a requirement..." in 5.10.4. **Transco** believe it is meaningless to say "shall" in this context unless the detail is specified. Therefore "may" is appropriate and the detail once defined would be in the appropriate Ancillary Agreement.

#### **(f) Definition of Bona Fide**

Representations showed interest in what should constitute "bona fide evidence". **Total** suggest a User's negotiations with End Users should be considered adequate as bona fide evidence, on the grounds that some End Users make negotiations on a prospective gas supply conditional on holding requisite capacity. This view is challenged by **BGT** who strongly assert that such letters of intent (or similar) can be withdrawn with little or no financial consequence, and hence should not pass muster as bona fide evidence.

**Transco** feel it is inappropriate to prescribe such an important definition to the industry and suggest that the definition of "bona fide evidence" will be shaped through consultation with all interested parties and contained in the relevant Ancillary Agreement.

There was a widespread feeling at the Open Forum meeting, reinforced by **Conoco** and **Elf** in their representations, that the term "*reasonable*" should precede "*...satisfaction of Transco*" in Section 5.10.4. **Transco** has modified the drafting accordingly.

#### **(g) Offer of Interruptible Transportation**

There was unanimous enthusiasm for this principle, which Users regard as being a significant means of injecting liquidity into the secondary market, maximizing throughput, and a useful deterrent against monopolistic block-booking of capacity. **Enron** and **BGT** highlighted, and **Transco** agree, that an interruptible service at Moffat will afford shippers valuable new

transportation opportunities presently unavailable, dissolving the current capacity stalemate that has arisen due to inadequate booking rules. In addition, **Enron** believe the service will clarify pricing signals. **This further reinforces the requirement not to oversell firm capacity as it is only by defining what is firm that you can offer interruptible.**

Several Users are keen to see terms of this service and a number of Users submitted detailed suggestions. **Transco value this input and support although at this stage it is not the intent of this urgent modification to lay down anything more than enabling principles.**

5.10.6 **BGT, AGAS, Conoco, Elf, Enron** would like a definitive commitment from Transco to offer interruptible so "*Transco may agree*" in 5.10.6 should become "*shall*". Furthermore, **Elf and Enron** seek reassurance from Transco that a User may secure interruptible terms irrespective of whether it holds firm CSEP capacity.

**Transco believe it would be premature to commit at this stage to an interruptible service at all CSEP Interconnectors as in some instances there is no firm capacity restriction and the detail of this service has still to be considered. However, Transco has every intention of offering an interruptible service at the Irish Interconnector as soon as practicable.**

#### **(h) Charging for Interruptible Transportation**

**Eastern and Mobil** have reservations that Transco should charge for this service, when the issue has not been resolved at PGT CSEP level. Conversely, **BGT** support the concept of charging for an interruptible service as a means of discouraging speculative bookings.

**Enron** wish to see 5.10.6 eliminated on the basis that interruptible charges are covered by the Transportation Charging Statement. **The drafting is necessary to allow for charging for this service, but the pricing would rightly be contained in the Transportation Charging Statement.**

#### **(i) User Agent**

Representations were received supporting this concept as a means of managing complex issues at the interface between two systems. **Enron** wish to see co-ordination between upstream and downstream operators, but question the need for an Agent. **Quadrant** believe that interconnector Users should be given the freedom to appoint either the Connected System Operator, Transco or any other suitable party as the User Agent.

**From experience at Moffat, Transco conclude that an Agent is essential to match properly exit nominations and renominations before and during the day on the Transco system with those into the Irish Interconnector. Transco consider that effective management by an Agent of before-the-day and on-the-day processes could remove the need altogether for convoluted after-the-day allocation processes. Transco agree with Quadrant that interconnector Users should not be restricted in their choice of User Agent. Again, this drafting is facilitatory and not prescriptive.**

## **(j) Ancillary Agreement**

There is widespread acceptance that an Ancillary Agreement is the best vehicle in which to detail several important mechanisms affecting Users at each CSEP interconnector. **Enron and Mobil** prefer to see as much detail as possible within the Network Code itself, where it would be accessible, transparent and non-discriminatory. **Mobil** alone take the view that it is possible to construct workable terms for CSEP Interconnector without any Ancillary Agreements.

There is almost unanimous support for the principle that Ancillary Agreements should contain standard terms for all shippers at each CSEP with one exception. **Total** query this approach, with a concern that future modification of an Ancillary Agreement could undermine a User's ongoing contractual arrangements with its customers.

**Transco** consider it inappropriate to insert large sections of detail into the main body of the Network Code unless these terms are generic in nature. The Ancillary Agreement is a more useful means of packaging rules specific to each interconnector in one document. Furthermore, Ancillary Agreements are governed by the Network Code, so Users enjoy the same rights of modification as they do for terms contained within the main body of the Network Code. In relation to **Total's** concern, **Transco** have confidence that any modifications effected by the Director General would be made with due regard for the ongoing commercial arrangements of Users governed by that Ancillary Agreement.

**Conoco** request "...*Transco may require...*" in 5.9.1 is changed to "...*Transco shall require...*". **Transco** believe it is meaningless to say "shall" in this context unless the detail is specified. Therefore "may" is appropriate and the detail once defined would be in the appropriate Ancillary Agreement.

**Conoco** seek confirmation that the Network Exit Agreement is between system operators, and the Ancillary Agreement is between **Transco** and its Users. **Transco** confirm this to be the intention.

**Elf** have submitted drafting to the effect that the Ancillary Agreement is between **Transco**, the Connected System Operator, the User Agent and all relevant CSEP Users. **Transco** is aware of the reservations of Connected System Operators in signing what are essentially transportation terms held within the Ancillary Agreement; it is for this reason that the Network Exit Agreement has been tailored to the specific requirements of the two system operators. **Transco** believe the Ancillary Agreement primarily meets the needs of the Users and the relevant System Operators.

**Elf** and **Enron** believe the CSEP Ancillary Agreement "*shall require Condition 7(4) Approval of the Director*". **Transco** has removed the square brackets in agreement.

**BP** and **Conoco** want clarity that signing an Network Exit and/or CSEP Ancillary Agreement is not a pre-requisite of signing an ARCA. Strictly, a User can secure capacity rights through an ARCA without first signing either Network Exit or Ancillary Agreements.

**However, a User cannot effectively exercise this right until they have signed these ancillary agreements.**

#### **(k) Disclosure of Ancillary Agreement**

Views on this issue are mixed. **BGT** believe disclosure of CSEP Ancillary Agreements should match arrangements for similar agreements e.g. VLDMC NExAs. **BP** want clarification that the intention of 5.9.4 is only to publish the form, but not commercial specifics of any ancillary agreement. **Enron** want ancillary agreements to be made available publicly.

**Transco believe ancillary agreements (notwithstanding ARCAs and commercial confidentiality) rightfully belong in the Public Domain.**

#### **(l) Network Exit Agreement**

**BGT** suggest the Network Exit Agreement should require the interconnector operator to appoint the User agent.

**Elf and Mobil** advocate the term "*relevant*" before "*Network Exit Agreement*" in 5.6.4. **Transco accept this suggestion and have modified the drafting to reflect this.**

**Enron and Elf** believe the Network Exit Agreement should be made publicly available, although **Enron** stipulate that this must be accompanied by publication of legacy contracts. Specifically, **Elf** suggest 5.8.3 should be extended to include the sentence "*Transco will make available to any relevant User a copy of any CSEP Network Exit Agreement*". **Transco concur that, similar to all NExAs, should be publicly available subject to commercial confidentiality. Transco do not believe it is relevant to comment on legacy contracts.**

5.8.3 **Elf** wish to insert the term "...*(which shall be an Ancillary Agreement)*..." after "...*specified Agreement*...". **Transco believe this is unnecessary; the Network Exit Agreement is already defined as an ancillary agreement under the Network Code.**

#### **(m) Linkage with VLDMC Exit points/other CSEPs**

**Enron** link the rationale at Interconnectors with a number of issues relating to supply point allocation (the subject of Enron's modification proposal 0123). **Scottish Hydro-Electric** also believe there is merit in amalgamating modification proposals 0117 and 0123. **BGT** oppose such a linkage, and suggest that the principles emerging from mod 0117 should not be applied to other areas of the Network Code where they consider practices are already adequate. **Enron** also state that this modification must be pursued "with all deliberate speed" and that the industry can only take "...one step at a time".

**On balance, Transco believe that the principles held within modification 0117 must be evaluated on their own merits and to a timescale that satisfies their own particular requirements. There are crucial differences between the allocation processes covered by**

**modification 0123, and the before-the-day and on-the-day processes managed by a User Agent under modification 0117. Transco has been made aware of the views of several Users who would prefer the two modifications to be treated separately.**

**(n) Future Consultation Process for Detailed Terms**

The question of which parties will be able to modify the terms of the Ancillary Agreement aroused much interest.

There is an almost unanimous view that discussion should be open to **all** interested parties, with the exception of **BGT** who request "...*only active Users at 1/2/97...*" be consulted. A frequent concern, characterized most ardently by **Eastern**, is that this modification should not prejudice the outcome of future discussions. **Quadrant** suggest the process would be accelerated if both Transco and Ofgas commit to a structured timetable for consultation. In their representation, **Total** urge the industry to debate the wider issue of long-term transportation capacity.

**Transco welcome the enthusiasm expressed in representations to develop detailed terms, however the intent of this modification is to deal in principles. Transco wish to consult with all interested Users on the terms of the Ancillary Agreement. We suggest it makes sense that the right to modify terms of an Ancillary Agreement is restricted to signatories of that Ancillary Agreement.**

**BGT** object to the phrase "... *in a form designated by Transco...*", believing the interconnector operator and shippers should be consulted. **Transco maintain that as part of the Network Code, the terms of the various ancillary agreements must be designated by Transco as these are multi-party agreements and terms should not be subject to bilateral specification.**

**(o) Miscellaneous Points**

**AGAS** seek clarification whether just interconnector CSEPs or all CSEPs fed of the NTS will be covered by this modification. **AGAS** prefer individual classification. **Transco** confirm that this modification relates only to those CSEPs which **Transco** define as "relevant" in the appropriate Ancillary Agreement.

5.6.1 **Elf** wish to delete "...*apply for or hold System Capacity at or...*" so that the text reads "*No User may offtake gas at...*" **The notification required in 5.6.1 is required to advise a particular User is a CSEP User and has complied with any conditions specified in the Network Exit Agreement and acceded to the Ancillary Agreement. Therefore Transco have not made any deletion of text.**

**Conoco** would like to understand the difference between "*notice*", as referred to in 5.6.2, 5.6.4, 5.9.1 and "*Conventional Notice*" as contained in 5.10.5. **Transco clarify that a**

**"notice" is any accepted form of notification from a party, whereas a "Conventional Notice" is a written notification.**

**Mobil and National Power indicate the reference to 5.10.6 within 5.10.5 should be 5.10.5. Transco have amended the drafting accordingly.**

**BGT, BP and Elf note that the reference in the drafting for Section B should be to J5.10.2. Transco have amended the draft accordingly.**

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

This modification enables Transco better to fulfill its obligations under the Gas Act to promote efficient and effective system use.

**15. 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 this clause.

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

This modification is not required to comply with this clause.

**17. Proposed implementation timetable;**

The modification will be implemented as soon as practicable after Ofgas approval.

**18. Recommendation for the implementation of the modification;**

Transco recommends that this modification will be implemented as soon as practicable after Ofgas approval.

**19. Restrictive Trade Practices Act**

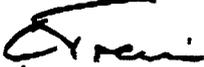
If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

**20. Transco Proposal**

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

21. Text provided pursuant to Rule 8.14 (Standard) or 7.2.2 (c) (ii) (Implementation direct) or Rule 9 (Urgent).

Signed for and on behalf of British Gas Transco.

Signature: 

Date: 21/2/97

Name: C. TRAIN.

Position: MANAGER, SERVICE DEVELOPMENT STRATEGY

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: 

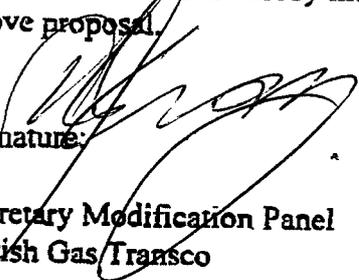
Date: 24/2/97

Name: Kyran Hanks

Position: Head of Network Operations.

The network code is hereby modified, with effect from ~~26 February~~, in accordance with the above proposal.

26 FEBRUARY 1997

Signature: 

Secretary Modification Panel  
British Gas Transco

## PROPOSED TEXT

Amend paragraph 5.6.1 to read as follows:

"5.6.1 No User may apply for or hold System Capacity at or offtake gas at a Connected System Exit Point unless the User has given notice (but subject to paragraphs 5.6.4 and 5.9.1) to TransCo of its intention to do so; ..."

Insert a new paragraph 5.6.4 as follows:

"5.6.4 A User shall not be entitled to give notice pursuant to paragraph 5.6.1 until and unless the User has complied with such conditions as may be specified in the relevant Network Exit Agreement and (where required pursuant to paragraph 5.9.1) has acceded to the CSEP Ancillary Agreement."

Amend paragraph 5.8.3 to read as follows:

5.8.3 A CSEP Network Exit Agreement may provide for the Connected System Operator or any other person (including TransCo) to be appointed as User Agent by each User intending to hold System Capacity or offtake gas at the Connected System Exit Point, for such purposes as are specified in the Network Exit Agreement, and may provide for each such User to be party to a specified Agreement for the purposes of such appointment (which Agreement may contain terms upon which such person is so appointed including terms as to remuneration of such person); and where the CSEP Network Exit Agreement so provides a User shall not be entitled to give notice pursuant to paragraph 5.6.1 until and unless the User has appointed such person as agent for such purposes and (if so required) has entered into or acceded to such Agreement.

Insert a new paragraph 5.9 as follows:

"5.9 CSEP Ancillary Agreement

5.9.1 TransCo may require, as a condition of a User's giving notice pursuant to paragraph 5.6.1, that the User enter into or accede to an Ancillary Agreement ("**CSEP Ancillary Agreement**") in a form designated by TransCo with Condition 7(4) Approval of the Director setting out terms (in addition to or by way of variation of the terms of the Code) in relation to the use of the System for the purposes of offtake of gas at a Connected System Exit Point.

5.9.2 A CSEP Ancillary Agreement shall be deemed to be a part of the Code for the purposes of enabling such Agreement to be modified pursuant to the Modification Rules.

5.9.3 A CSEP Ancillary Agreement may contain any provision which may be included in a CSEP Network Exit Agreement, in which case any requirement that the CSEP Network Exit Agreement contain such a provision shall not apply.

5.9.4 TransCo will make available to any User on request a copy of any CSEP Ancillary Agreement ..."

Insert a new paragraph 5.10 as follows:

"5.10 NTS Exit Capacity at relevant Connected System Exit Points<sup>1</sup>

5.10.1 In accordance with paragraph 3.9, but subject to paragraph 5.10.6, the aggregate of the maximum permitted rates (for each CSEP User) of offtake at a relevant Connected System

Exit Point shall not exceed the maximum instantaneous rate at which it is feasible for TransCo to make gas available for offtake at the Connected System Exit Point; and the aggregate amount of NTS Exit Capacity which Users may be holding at a relevant NTS Connected System Exit Point shall not exceed the maximum aggregate amount of gas which it is feasible for TransCo to make available for offtake at the Connected System Exit Point in a period of 24 hours.

- 1 This should probably be extended in due course to LDZ Capacity but some further drafting in Section B4 would first be required.
- 5.10.2 Without prejudice to any provisions for allocation of NTS Exit Capacity contained in the CSEP Network Exit Agreement or any CSEP Ancillary Agreement, TransCo shall be entitled to reject any application for (or for an increase in) NTS Exit Capacity at a relevant Connected System Exit Point where the requirement in paragraph 5.10.1 would be infringed if it accepted such application.
- 5.10.3 TransCo may agree, pursuant to the CSEP Network Exit Agreement or a CSEP Ancillary Agreement, and subject to any conditions contained in such Agreement, that with effect from the expiry of the capacity period (as defined in Section B3.2.9) in respect of any prevailing registration in the name of any User of NTS Exit Capacity at a relevant Connected System Exit Point, the User shall be entitled to apply for and may be registered (in priority to any other User) as holding NTS Exit Capacity in an amount not exceeding the amount subject to such prevailing registration.
- 5.10.4 The CSEP Network Exit Agreement or a CSEP Ancillary Agreement may include a requirement to the effect that a User applying for NTS Exit Capacity at a relevant Connected System Exit Point shall demonstrate (as a condition of such application) to the reasonable satisfaction of TransCo that it, or a person purchasing gas from it, is entitled to have gas which has been offtaken by such User from the System at the relevant Connected System Exit Point (in the maximum amounts and at the maximum rates commensurate with the NTS Exit Capacity applied for and for a period commensurate with the proposed capacity period) conveyed in the Connected Offtake System.
- 5.10.5 Unless TransCo shall otherwise agree, any application by a User for NTS Exit Capacity at a relevant Connected System Exit Point shall be made by way of Conventional Notice; and any registration of NTS Exit Capacity at a relevant Connected System Exit Point in respect of which this paragraph 5.10.5 is not complied with shall be invalid and ineffective notwithstanding such registration may be recorded in UK Link and notwithstanding TransCo may have invoiced NTS Exit Capacity Charges pursuant to such registration."
- 5.10.6 TransCo may agree pursuant to a CSEP Network Exit Agreement or a CSEP Ancillary Agreement, upon such terms and subject to such conditions as may be provided in such Agreement, that:
- (a) a relevant NTS Connected System Exit Point may be treated, pursuant to Section A3.3.5, as comprising two separate Connected System Exit Points (respectively a "**Firm CSEP**" and an "**Interruptible CSEP**") for the purposes described in this paragraph 5.10.6 and such other purposes as may be specified in such Agreement;
  - (b) a CSEP User may apply for and hold NTS Exit Capacity at the Interruptible CSEP, on the basis that TransCo shall be entitled to require the User to reduce or discontinue the offtake of gas from the System at the Connected System Exit Point:

- (i) where it would not otherwise be feasible for TransCo to make available gas for offtake from the System by CSEP Users at the Firm CSEP pursuant to the exercise of their entitlements so to offtake gas;
- (ii) in any such other circumstances as may be provided in such Agreement; and
- (c) a CSEP User will not be liable to pay NTS Exit Capacity Charges, or will be liable to pay such charges only at a reduced rate, in respect of NTS Exit Capacity held (in accordance with paragraph (b)) at the Interruptible CSEP;

and in such a case the Firm CSEP, but not the Interruptible CSEP, shall be a relevant Connected System Exit Point for the purposes of paragraph 5.10.1.

#### Section B

Amend paragraph 3.2.4 by moving the word 'or' from the end of paragraph (i) to the end of paragraph (ii) and adding a new paragraph (iii) as follows:

"(iii) in accordance with Section J5.10.2."

#### Section E

Amend paragraphs 1.3.4 (b) (i) and (ii) to read as follows:

- "(i) the quantities determined to have been offtaken by automated or estimated readings of the meter at the Connected System Exit Point, or by readings of such meter before any testing, verification or calibration thereof, and
- (ii) the quantities subsequently determined to have been offtaken, by reference to (as the case may be) a periodic check reading, or a reading following such estimation, or a determination or estimation following testing, verification or calibration, of such meter,"

Amend paragraph E6.1.4(c)(ii) to read as follows:

"... the quantity determined (upon a periodic check reading, or a reading following estimation of the reading, or a determination or estimation following testing, verification or calibration, of the meter installed at the Connected System Exit Point) differs ..."

## 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.