Modification Report
Changes to Monthly system Entry Capacity Calculation for February 2001 Auction
Modification Reference Number 0445

Version 3.0

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The Proposal is that effective from 19 January 2001, the Network Code should be amended to specify that the date by which MSEC quantities are determined will be not later than 31 December in the Preceding Year (B2.2.1). It should be noted that a transitional arrangement is proposed such that the initial quantities will be published not later than 19 January 2001.

It is also proposed that the period considered for historic determination of Aggregate System Entry Point (ASEP) gas flow should be a 36 month period ending on 30 November in the Preceding Year (B2.2.4).

Transco would also welcome comments on the continuing validity of an MSEC allocation based on 110% of Seasonal Normal Demand (SND).

2. Transco's Opinion

Transco has raised this Modification Proposal to accompany Modification Proposal 0444 which proposes changing the capacity period offered in MSEC and MISEC auctions to 12-months starting on 1 April 2001. If that proposal is approved it will be necessary to publish MSEC and MISEC quantities for the 12-month period from 1 April 2001 through to 31 March in the following year. This Modification Proposal will enable that outcome and will also enable the allocation of capacity to each Aggregate System Entry Point (ASEP) to be based upon historic gas flow for a 36-month period up to 30 November.

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

The Modification Proposal is intended to enable the MSEC quantities determined in the Network Code to be determined at a time that is in keeping with an annual entry capacity release that is proposed to be held in February of each year. The use of up to date information and timely publication of the material will tend to foster efficient operation of the pipeline system.

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

a) implications for the operation of the System:

There are unlikely to be any implications for the operation of the system.

b) development and capital cost and operating cost implications:

No development costs are required to implement this proposal and operating costs are expected to remain unchanged.

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:

No such costs have been identified.

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

No such consequences have been identified.

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 does not anticipate any change to contractual risk as a result of this proposal.

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

No development implications are anticipated.

7. The implications of implementing the Modification Proposal for Users

The Modification Proposal would enable Users to be informed of the quantities of MSEC to be offered for the 12-month period from 1 April. The allocation of MSEC quantities to each ASEP would also be based upon a revised method that takes into account more up to date gas flow information.

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.

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

If implemented, the proposal would enable Transco to publish the 12-month capacity availability that is necessary to operate monthly capacity auctions for a period longer than 6-months. If the proposal is not implemented but Transco is directed to implement Modification Proposal 0444 then the Network Code will not provide a basis for determining the quantities of capacity to be sold for 1 October 2001 to 30 March 2002.

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

Advantages

Enables Transco to publish 12-month capacity availability that will cover the same period as Modification Proposal 0444 " Extend capacity period sold to 12-months in MSEC and MISEC auctions of February 2001".

Enables the allocation of MSEC capacity to each ASEP to be based upon an up to date gas flow profile.

Disadvantages

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

Representations have been received from eighteen respondents. Nine have supported the proposal and nine have expressed a view that the Modification Proposal should not be implemented.

For:
BP Gas Marketing
ExxonMobil Gas Marketing
TotalFinaElf Gas and Power
Scottish and Southern Energy
Yorkshire Energy
Marathon Oil
Association of Electricity Producers
Innogy
Conoco

Against:
TXU Europe Energy Trading
Alliance Gas
Powergen
Shell Gas Direct

Northern Electric Gas
British Gas Trading
Chevron
Aquila
BG Group

Most comments received have been addressed as part of final report for Modification Proposal 0444. Specific comments regarding Modification Proposal 0445 include:

ExxonMobil, the Association of Electricity Producers and TotalFinaElf support the proposal on the understanding that it will enable the inclusion of more up to date gas flow data in the calculation of demand distribution between Aggregate System Entry Points (ASEPs). ExxonMobil continues to urge that Transco should use its discretion under the present Network Code arrangements to eliminate the effects of historic data that generates forward Monthly System Entry Capacity (MSEC) availability which is inconsistent with expected levels of relative demand.

British Gas Trading and Northern Electric Gas do not support the proposal, though they do consider that Transco would be justified in utilising the latest information available to issue revised summer quantities that also take into account summer maintenance.

Northern Electric Gas considers that a full two month period between publishing capacity quantities (including any adjustment for maintenance) and the commencement of the auctions to be paramount in aiding User capacity planning and scheduling requirements.

In addition to the proposed methodology changes for allocation of MSEC quantities Transco also welcomed views on the appropriateness of continuing with the present methodology for determination of MSEC quantities for the auctions of February 2001.

TotalFinaElf, Alliance Gas, the Association of Electricity Producers and ExxonMobil express the opinion that any review of quantities should be considered as part of Transco's periodic review. ExxonMobil suggests that they would be of the view that entry capacity quantities should be increased but highlights concerns that changes to quantities should be considered alongside a fundamental review of Transco's capacity incentive. Scottish and Southern Energy also considers that any medium term changes to quantities and or methodologies for determination should be considered in the light of the forthcoming debate about long term investment signals.

Marathon Oil stresses that it would not support any reduction in the MSEC allocation below SND+10%.

Innogy indicates that it would like to see further development of the top down approach.

Alliance Gas suggests that it would be beneficial to the industry if new methodologies for estimating capacity requirements could be developed. Alliance feels that this is a very

important issue as the methodology used to determine aggregate capacity quantities should offer a long-term solution which will allow shippers to confidently plan for their requirements and give Transco appropriate investment signals.

Transco's response:

A number of respondents have expressed support for this proposal whilst simultaneously withholding support for Modification Proposal 0444. Transco recommended that this proposal should only be considered for approval if Modification Proposal 0444 is to be approved at the same time. Transco can confirm that the proposal does not remove from the Network Code the provision for removal from capacity allocation calculations any gas flow data that reflects irregular events (section B2.2.8).

Transco understand the view that Users desire a longer lead time between publication of the quantities to be auctioned and operation of the auctions. However, this desire tends to be in conflict with alternative desires for the MSEC allocation to be based upon the most up to date (ie latest) gas flow data. In proposing a normal publication date of 31 December Transco has attempted to strike a pragmatic balance between the competing interests.

Transco agrees with the bulk of respondents that argue that further changes to entry capacity quantities should be considered in tandem with the long term investment debate as part of the periodic review of the price control.

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

Not applicable.

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

Not applicable.

14. Programme of works required as a consequence of implementing the ModificationProposal

Not applicable.

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

If approved, it is anticipated that this proposal could be implemented on 19 January 2001.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommend that this proposal should only be considered for approval if Modification Proposal 0444 is to be approved at the same time.

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 2.2.1 to read as follows:

"Not later than 30th June in the Preceding Capacity Year, Transco will….for each calendar month in the Capacity Year….".

Amend paragraph 2.2.3 to read as follows:

"….in the Capacity Year:".

Amend paragraph 2.2.4 to read as follows:

"….

N ….in the 36 month period ending on 30th November in the Preceding Capacity Year;

PR ….for the Gas Year in which the calendar month falls (the "**ASEP**….".

Amend paragraph 2.2.5 to read as follows:

"….in the Capacity Year:".

SECTION W : INTERPRETATION

Amend paragraph 2.2.1 to read as follows :

(g) ..... ;

(h) "**Capacity Year**" means the period from 1st October in any year until and including 30th September in the following year.

(i) and in relation to a Capacity Year, "**the Preceding Capacity Year**" is the Capacity Year ending at the start of such Capacity Year.

TRANSITION DOCUMENT, PART II

Amend text at new paragraph 8.1.2 to read as follows:

"(12) In respect of the auction of Monthly System Entry Capacity for the Capacity Year 2000/2001 to be conducted for the calendar months April 2001 to September 2001, Transco shall re-determine and re-publish the amount of Monthy System Entry Capacity available to be held at each Aggregate System Entry Point in accordance with paragraph B.2.2 and the reference in Section B.2.2.1 to 30th June shall be deemed to be a reference in 25th January 2001. The reference in paragraph B.2.2.4 to the factor "N" shall be amended to read "... the aggregate number of days which fell in the relevant calendar month in the 36 month period ending on 30th November in that Capacity Year". "

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 **0445**, version **3.0** dated **24/01/2001**) 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 **3.0**.

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.