Draft Modification Report
Recompense in the Event of Late Completion of Works for New System Entry Points
Modification Reference Number 0680

Version 2.0

This Draft 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

It is proposed that for each gas day for which gas can not be accepted for delivery prior to first gas flow in accordance with previously allocated System Entry Capacity due to non-completion by Transco of the connection between a new System Entry Point and the gas Transmission System, relevant Users would not be invoiced for its allocated System Entry Capacity at the System Entry Point. This would not include circumstances where third party works (excluding Transco sub-contractors) are not complete that are required to allow gas to be accepted for delivery, regardless of whether Transco works are complete.

2. Transco's Opinion

Transco recognises that in the event that it is late in completing a connection that it has undertaken to build between a new System Entry Point and its existing gas Transmission System, it has no obligation, under Network Code, to accept gas for delivery by the Users holding capacity at that System Entry Point. There is thus no mechanism under such circumstances to provide recompense for a User's inability to flow gas against its capacity holding.

Transco considers that under such circumstances relevant Users should be alleviated of its obligation to pay for its capacity holdings. It is proposed that this is achieved by not invoicing relevant Users for its capacity payment for each gas day for which the required Transco works are not complete beyond the agreed delivery date. However, the provision would not apply in the event that an inability to deliver gas is caused by delays in non-Transco works.

Transco recognises that this approach would differ from present arrangements for existing System Entry points for which it is obliged to manage capacity through the buy-back mechanism. It is considered that this arrangement is inappropriate for new System Entry Points as Transco would have to buy-back all the sold capacity regardless of actual intended flow rates and hence would be a distressed buyer, potentially exposed to the maximum buy-back prices permitted in the RGTA capacity system.

Transco considers that this Proposal would increase its incentives, in circumstances where it was obligated to provide entry capacity by an agreed date as it would otherwise suffer the loss of revenue under the Entry Capacity Incentive for each gas day for which works are late.

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

Implementation of the Proposal would provide an additional incentive for Transco to complete works associated with new System Entry Points in a timescale that is consistent with the commitments given when System Entry Capacity is released. Incentives to facilitate the timely connection of new System Entry Points would further the economic and efficient operation of the transportation system.

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

a) implications for the operation of the System:

Transco has not identified any implications for operation of the System.

b) development and capital cost and operating cost implications:

Transco has not identified any additional capital cost or operating cost implications. The facility to not invoice relevant Users for its capacity holdings for certain gas days is already part of the Project Gemini functional specification.

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 not proposing to recover any development or capital costs arising from implementation of this Proposal.

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

Transco does not believe that implementation of the Proposal would have any implications for price regulation.

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

Implementation of this Proposal would increase the level of contractual risk to Transco as failure to complete the works by the agreed date would result in loss of revenue under the Entry Capacity Incentive.

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

Transco considers that Transco computer systems would be in a position to provide the required functionality for implementation of this Proposal without major development and is unaware of any development implications for Users' computer systems.

7. The implications of implementing the Modification Proposal for Users

Implementation of this Proposal would ensure that in the event of late commissioning of a new System Entry Point, Users would not face the associated Entry Capacity charges until Transco's connections works are complete unless the upstream third party works have not been completed to allow the physical flow of gas.

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

Users might wish to reflect any recompense received from Transco in any relevant arrangements they might have with upstream 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

Transco has not identified any such consequences.

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

Advantage:

- The assurance of recompense, for non-availability of entry capacity, due to non-completion of Transco works, equal to the amount placed on the entry capacity via the auction process would encourage Users to participate in such auctions.
- Implementation of the Proposal provides an incentive for Transco to ensure timely completion of its connection works.

Disadvantage:

- No disadvantages identified.

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

Representations are now invited to this Proposal.

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

Implementation of the Proposal 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

Implementation is not required having regard to any proposed change as detailed above.

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

A programme of works will not be required to implement the Proposal.

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

Transco would propose immediate implementation following Ofgem's direction.

16. Recommendation concerning the implementation of the Modification Proposal

Transco proposes implementation of the Proposal.

17. Text

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Draft Legal Text

SECTION B

Amend paragraph 2.11.1 as follows:

"2.11.1 (a) A User shall, subject to paragraph (b) below, pay Capacity Charges . . . at Aggregate System Entry Points.

(b) Where:

(i) pursuant to paragraph 2.2.18 Transco allocates Quarterly System Entry Capacity for the first time at a New Aggregate System Entry Point from a specific date (the "**First Capacity Allocation Date**") but fails to accept gas properly tendered for delivery by a User (for the purpose of this paragraph 2.11.1 a "**relevant User**") at that Aggregate System Entry Point in the period on and following that First Capacity Allocation Date; and

(ii) the reason for such failure is the non commissioning of that Aggregate System Entry Point or any System Entry Point comprised within it; and

(iii) the relevant User both holds Quarterly System Entry Capacity and does properly tender gas for delivery on the relevant Day(s) at that Aggregate System Entry Point,

then no System Entry Capacity Charges shall be payable by that relevant User in respect of that Aggregate System Entry Point for each Day in the period from the First Capacity Allocation Date to the Day immediately preceding that on which Transco is first able to accept gas properly tendered for delivery by any User. Notwithstanding any other provision of the Code, the provisions of this paragraph (b) shall be the sole and exclusive remedy of Users where Transco fails to accept gas properly tendered for delivery in the circumstances set out above.

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Mike Calviou
Commercial Frameworks Manager
NT & T

Date: