

DIRECTION UNDER SECTION 23(3) OF THE GAS ACT 1986

To: The Company Secretary
Transco plc (Company
number: 2006000)
1-3 Strand
London
WC2N 5EH

Whereas -

Transco plc ('the Licensee') is the holder of a gas transporter licence in respect of its National Transmission System (NTS) ('the Licence') treated as granted under Section 7 of the Gas Act 1986 ('the Act');

In accordance with section 23(3) of the Act, the Gas and Electricity Markets Authority ('the Authority') gave notice, on 17 August 2005, that it proposed to make modifications to Special Condition C8B of the Licence and by requiring any objections or representations to the modification to be made on or before 14 September 2005;

Prior to the close of the consultation period some errors in the licence amendments were brought to the attention of the Authority. The error was in respect to Special Condition C8B. The Authority brought these matters to the attention of interested parties by way of issuing a section 23(3) notice, on 31 August 2005, that it proposed to make modifications to Special Condition C8B of the Licence and by requiring any objections or representations to the modification to be made on or before 28 September 2005.

In accordance with section 23(4)(b) of the Act, the Authority gave such notice of its intention to make the modifications to the Secretary of State and has not received a direction not to make the modification;

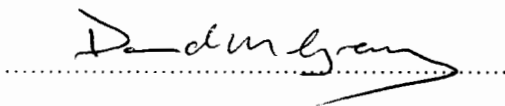
Prior to the close of the consultation period in respect of the Notice, the Authority received four responses, three of which were marked as non-confidential, including a response from

the licensee. No responses were withdrawn. All non-confidential responses have been placed in the Ofgem Research and Information Centre and on Ofgem's website.

Direction to modify

1. With the written consent of the Licensee (as required under section 23 of the Act) and in accordance with the powers contained in section 23 of the Act, the Authority hereby directs that Special Condition C8B of the Licence is modified with effect from the date specified below so as to incorporate the information contained within Appendices 1 and 2 of the Section 23 notice.
2. Pursuant to section 38A of the Act, the reasons for making this direction to modify the Licence as set out in Appendix A to this Direction are stated in:
 - a. the relevant Section 23 Notice¹; and
 - b. Section 23 notice to modify Transco's Gas Transporter licence – Explanatory note to accompany proposals for new entry points to Transco's National Transmission System, August 2005.

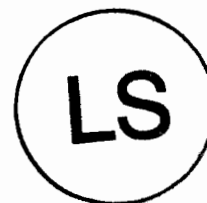
The Official Seal of the Gas and Electricity Markets Authority is affixed to this Direction and is authenticated by:



David Gray
Managing Director, Networks

Duly authorised in that behalf by the Authority

Dated 3 October 2005



¹ Notice under Section 23(3) of the Gas Act 1986, 31 August 2005

APPENDIX A: NOTICE UNDER SECTION 23(3) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority (**the Authority**) hereby gives notice pursuant to section 23(3) of the Gas Act 1986 (**the Act**) as follows:

1. The Authority proposes to modify the conditions of the gas transporter licence granted to Transco plc (**Transco**) in respect of its National Transmission System, treated as granted under section 7 of the Act which was amended and restated by a licensing scheme made by the Secretary of State for Trade and Industry pursuant to paragraph 19 of schedule 7 to the Utilities Act 2000 on 28 September 2001 by amending Special Condition C8B: *Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity Part 2*, by amending:
 - (a) The current definition of UCAG including the accompanying table set out in Part 2 paragraph 14(5)(a) of Special Condition C8B in the manner set out in Appendix 1 of this notice; and
 - (b) Schedule A: *NTS output measures for the price control* Table A1: *NTS TO baseline entry capacity (GWh/day)* and Table A2: *Initial NTS SO baseline entry capacity (GWh/day)* as set out in Appendix 2 of this notice.
2. On 17 August 2005 Ofgem published its decision document which contained a section 23 (3) licence modification notice for new entry points to Transco's National Transmission System. The reasons for issuing this new section 23 (3) notice is that the section 23 (3) notice published on 17 August 2005 contained UCAG figures for new entry points in 2004 prices rather than 2000 prices. This new section 23 (3) notice contains UCAG figures for new entry points in 2000 prices, in line with the UCAG figures for existing entry points in Transco's GT licence in respect of the NTS which are all in 2000 prices.
3. The initial reasons why the Authority proposed to make these licence modifications and their effects are set out in the main document published by the Authority entitled: "*Section 23 notice to modify Transco's gas transporter licence. Explanatory note to accompany proposals for a new entry terminal to Transco's National Transmission System*", Ofgem, August 2005.
4. In summary the effects of the proposed licence modifications are as follows:

- (a) The addition of new National Transmission System (NTS) entry points at: Burton Agnes (Caythorpe), Blyborough (Welton), Winkfield, Tatsfield, Albury and Palmers Wood under Transco's NTS system operation activity revenue restrictions and more specifically, in relation to Transco's NTS system operator entry capacity investment incentive revenue;
- (b) The addition of new unit cost allowances gross ("UCAGs") for each of the planned new NTS entry points at: Burton Agnes (Caythorpe), Blyborough (Welton), Winkfield, Tatsfield, Albury and Palmers Wood; and
- (c) The addition of new NTS entry points at Burton Agnes (Caythorpe), Blyborough (Welton), Winkfield, Tatsfield, Albury and Palmers Wood under Transco's NTS transportation owner (TO) output measures for the price control and under Transco's system operation (SO) output measures.

5. More specifically, the effects of the proposed licence modifications are as follows:

The inclusion of a new UCAG for each of the planned new entry points to accommodate storage facilities at Burton Agnes (Caythorpe), Blyborough (Welton), Winkfield, Tatsfield, Albury and Palmers Wood will supplement the existing UCAGs contained in Transco's GT licence in respect of its National Transmission System for existing entry terminals. The UCAGs, which underpin Transco's entry capacity investment incentive, are ex-ante agreed estimates of the unit costs of providing incremental entry capacity at each NTS entry point. The UCAGs determine the range of Transco's revenue allowance for the provision of incremental entry capacity. Transco is allowed to earn a rate of return of between 5.25 per cent and 12.25 per cent on the UCAG on each unit of obligated incremental entry capacity offered for sale in response to signals revealed in long-term entry capacity auctions. The proposed modifications will provide UCAGs to accommodate new entry points to the NTS at Burton Agnes (Caythorpe), Blyborough (Welton), Winkfield, Tatsfield, Albury and Palmers Wood.

The Authority has proposed 12 further modifications in order to update Schedule A of Transco's GT licence in respect of its National Transmission System. Tables A1: *NTS TO baseline entry capacity (GWh / day)* and Table A2: *Initial NTS SO baseline entry capacity (GWh / day)* have been updated to accommodate the zero baseline output measures and zero TO and SO baseline entry capacity volumes for the new entry points at Burton Agnes (Caythorpe), Blyborough (Welton), Winkfield, Tatsfield, Albury and Palmers Wood. The current output measures set out in Schedule A provide for the SO baseline entry capacity levels that Transco will be required to offer for sale for each NTS entry point in each year of its current price control.

7. A copy of the proposed modification and the explanatory note can be obtained (free of charge) from Robert Hull, Ofgem, 9 Millbank, London, SW1P 3GE and are available on the Ofgem website (www.ofgem.gov.uk). Any representation or objection to the proposed modification should be made on or before 28 September 2005 to the address above and marked for the attention of Robert Hull.

David Gray

Managing Director – Networks
Authorised on behalf of the Gas and Electricity Markets Authority

31 August 2005

Appendix 1

Special Condition C8B: Restriction of revenue in respect of the NTS transportation owner activity and NTS system operation activity

Part 2: The NTS system operation activity revenue restrictions

Paragraph 14 (5): Entry capacity investment incentive revenue (ECIIR)

UCAG^j means the unit cost allowance in pounds per kilowatt hour in respect of terminal j and has the value set out in the following tables:

Terminal j	UCAG ^j (£/kWh)
Bacton	0.182
Barrow	0.014
Easington	0.034
St. Fergus	0.639
Teesside	0.059
Theddlethorpe	0.031
Glenmavis	0.532
Partington	0.009
Avonmouth	0.064
Isle of Grain	0.186
Dynevor Arms	0.000
Hornsea	0.153
Hatfield Moor (storage)	0.042
Hatfield Moor (onshore)	0.042
Cheshire	0.003
Hole House Farm	0.002
Wytch Farm	0.000
Burton Point	0.002
Barton Stacey	0.000
Garton	0.039
Burton Agnes (Caythorpe)	0.075
Winkfield	0.083
Blyborough (Welton)	0.035
Tatsfield	0.083
Albury	0.360

Palmers Wood	0.131
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Terminal j	UCAG ^j (£/kWh)	UCAG ^j (£/kWh)
Milford Haven	0.343 where $PRIORCIOEC_{m \leq}^{j_m} \leq 500$ GWh/d	0.257 where $PRIORCIOEC_{m >}^{j_m} > 500$ GWh/d

$PRIORCIOEC_{m}^{j_m}$ shall mean the cumulative obligated incremental entry capacity in respect of each day in month m at terminal j at a date to be determined by the Authority.

Appendix 2

Schedule A: NTS output measures for the price control

Table A1: NTS TO baseline entry capacity (GWh/day)

Terminal	2002/3	2003/4	2004/5	2005/6	2006 /7
Bacton	1527	1646	1839	1939	1939
Barrow	812	790	790	791	791
Easington	1105	985	1141	1180	1180
St. Fergus	1689	1721	1809	1831	1863
Teesside	910	823	834	845	845
Theddlethorpe	758	628	879	942	942
Glenmavis	110	110	110	110	110
Partington	239	239	239	239	239
Avonmouth	165	165	165	165	165
Isle of Grain	243	243	243	243	243
Dynevor Arms	55	55	55	55	55
Hornsea	195	195	195	195	195
Hatfield Moor (storage)	60	60	60	60	60
Hatfield Moor (onshore)	1.1	1.1	1.1	1.1	1.1
Cheshire	0	0	119	179	238
Hole House Farm	29	29	29	29	29
Wytch Farm	3.6	3.6	3.6	3.6	3.6
Burton Point	61.3	61.3	61.3	61.3	61.3
Milford Haven	0	0	0	0	0
Barton Stacey	0	0	0	0	0
Garton	0	0	0	0	0
Burton Agnes (Caythorpe)	0	0	0	0	0
Winkfield	0	0	0	0	0
Blyborough (Welton)	0	0	0	0	0
Tatsfield	0	0	0	0	0
Albury	0	0	0	0	0

Palmers Wood	0	0	0	0	0
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Table A2: Initial NTS SO baseline entry capacity (GWh/day)

	MONTH				
	$1 \leq m \leq 12$	$13 \leq m \leq 24$	$25 \leq m \leq 36$	$37 \leq m \leq 48$	$m \geq 49$
Terminal	2002/3	2003/4	2004/5	2005/6	2006/7
Bacton	1374	1481	1655	1745	1745
Barrow	731	711	711	712	712
Easington	995	887	1027	1062	1062
St. Fergus	1520	1549	1628	1648	1677
Teesside	819	741	751	761	761
Theddlethorpe	682	565	791	848	848
Glenmavis	99	99	99	99	99
Partington	215	215	215	215	215
Avonmouth	149	149	149	149	149
Isle of Grain	218	218	218	218	218
Dynevor Arms	50	50	50	50	50
Hornsea	175	175	175	175	175
Hatfield Moor (storage)	54	54	54	54	54
Hatfield Moor (onshore)	1	1	1	1	1
Cheshire	0	0	107	161	214
Hole House Farm	26	26	26	26	26
Wytch Farm	3.2	3.2	3.2	3.2	3.2
Burton Point	55	55	55	55	55
Milford Haven	0	0	0	0	0
Barton Stacey	0	0	0	0	0
Garton	0	0	0	0	0
Burton Agnes (Caythorpe)	0	0	0	0	0
Winkfield	0	0	0	0	0
Blyborough (Welton)	0	0	0	0	0
Tatsfield	0	0	0	0	0
Albury	0	0	0	0	0
Palmers Wood	0	0	0	0	0

