

To: The Company Secretary  
Transco plc (a company registered in England and Wales with company number 2006000)  
1-3 Strand  
London  
WC2N 5EH

## **MODIFICATION OF TRANSCO PLC'S GAS TRANSPORTER LICENCE PURSUANT TO SECTION 23 OF THE GAS ACT 1986**

Whereas:

1. Transco plc ('the Licensee') is the holder of a licence ('the Licence') treated as granted under Section 7 of the Gas Act 1986 ('the Act'), to convey gas through pipes to any premises in the specified area in schedule 1 of the Licence and to convey gas through pipes to any pipe-line system operated by another gas transporter, for the term and upon the conditions specified in the Licence.
2. Pursuant to Section 23 (3) of the Act, on 24 November 2003 the Authority published a notice of its intention to propose modifications to the Licence ('the Notice') (together with a document explaining the proposed modifications) consulting on its proposals to modify the conditions of the Licence in two respects, more particularly detailed in the Notice and summarised below:
  - A. The Authority proposed to modify the Licence by amending Special Condition 28B: *Restriction of revenue in respect of the NTS transportation owner activity, LDZ transportation activity and NTS system operation activity Part 2*, by amending:
    - (a) The current definition of UCAG<sup>1</sup> including the accompanying table set out in Part 2 paragraph 14 (5) of Special Condition 28B; 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)*.
  - B. In summary the effects of the proposed Licence modifications are as follows:
    - (a) The addition of a new National Transmission System (NTS) entry point at Garton under the Licensee's NTS system operation activity revenue restrictions and more specifically, in relation to the Licensee's NTS system operator entry capacity investment incentive revenue;
    - (b) The addition of a new unit cost allowance ('UCA') for the planned new NTS entry point at Garton;
    - (c) The addition of a new NTS entry point at Garton under the Licensee's system operation (SO) output measures;

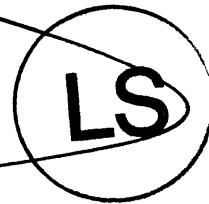
- (d) The removal of the UCA for the entry terminal at Aldbrough; and
  - (e) The removal of the transmission asset owner (TO) and system operator (SO) output measures for Aldbrough.
- 3. Pursuant to Section 38A of the Act, the reasons for making the licence modifications are those stated in the:
  - (a) Notice; and
  - (b) Document accompanying the Notice 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 148/03.*
- 4. The Authority sent a copy of the Notice to the Secretary of State for Trade and Industry and did not receive any objection or direction not to proceed.
- 5. Prior to the close of the consultation period in respect of the Notice, the Authority received two responses, none of which were marked as confidential. No response was received 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.
- 6. The Authority has carefully considered representations or objections in relation to the proposed modification made to it and not withdrawn.
- 7. Following careful consideration of responses to the Notice, the Authority considers that no further amendments are necessary to the Notice in relation to responses received.
- 8. In the Notice the Authority advised that the proposed Licence modifications in accordance with their terms, would be deemed to take effect from 0.00 hours on 9 January 2003. This was a typographical error. The modification would be deemed to take effect from 0.00 hours on 9 January 2004. Having considered this typographical error and having regard to its powers under section 23 of the Act, the Authority has decided to incorporate the correction without further consultation and considers that this correction falls within Section 23 of the Act.
- 9. On 6 January 2004 the Licensee gave its written consent to the making of the modifications in the form attached to and set out as Appendix A to this Direction.
- 10. The Authority has decided that the Direction shall be published today and that the modification shall be implemented today and shall take effect from 9 January 2004 (amended).

Now in accordance with the powers contained in Section 23 (1) of the Act and with the consent of the Licensee, the Authority hereby modifies the Licence in the manner specified in the attached Appendix A with effect on and from the date of this Direction.

Dated 9 January 2004

The Official Seal of the Authority affixed to this modification is authenticated by:

*Kyran P. Hanks*



.....  
Kyran Hanks  
Director, Gas Trading Arrangements  
Authorised in that behalf by the Authority

END OF DIRECTION TO MODIFY

**APPENDIX A**

**Special Condition 28B: Restriction of revenue in respect of the NTS transportation owner activity, LDZ transportation activity and NTS system operation activity**

**Part 2: The NTS system operation activity revenue restrictions**

**Paragraph 14 (5): Entry capacity investment incentive revenue (ECIIR)<sub>i</sub>**

UCAG<sup>j</sup> 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:

| <b>Terminal j</b>       | <b>UCAG<sup>j</sup> (£/kWh)</b> |
|-------------------------|---------------------------------|
| 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                           |

| Terminal j    | UCAG <sup>j</sup><br>(£/kWh)                          | UCAG <sup>j</sup><br>(£/kWh)                          |
|---------------|---|---|
| Milford Haven | 0.343<br>where PRIORCIOEC <sub>i</sub> ≤ 500<br>GWh/d | 0.257<br>where PRIORCIOEC <sub>i</sub> > 500<br>GWh/d |

PRIORCIOEC<sub>m</sub> 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.

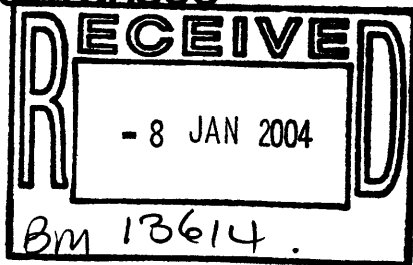
**Schedule A: NTS output measures for the price control**

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

| <b>Terminal</b>            | <b>2002/3</b> | <b>2003/4</b> | <b>2004/5</b> | <b>2005/6</b> | <b>2006 /7</b> |
|----------------------------|---------------|---------------|---------------|---------------|----------------|
| 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<br>(storage) | 60            | 60            | 60            | 60            | 60             |
| Hatfield Moor<br>(onshore) | 1.1           | 1.1           | 1.1           | 1.1           | 1.1            |
| Cheshire                   | 0             | 0             | 119           | 179           | 238            |
| Hole House<br>Farm         | 29            | 29            | 29            | 29            | 29             |
| Wyth 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              |

**Table A2: Initial NTS SO baseline entry capacity (GWh/day)**

|                         | MONTH              |                     |                     |                     |               |
|-------------------------|--------------------|---------------------|---------------------|---------------------|---------------|
|                         | $1 \leq m \leq 12$ | $13 \leq m \leq 24$ | $25 \leq m \leq 36$ | $37 \leq m \leq 48$ | $m \geq 49$   |
| <b>Terminal</b>         | <b>2002/3</b>      | <b>2003/4</b>       | <b>2004/5</b>       | <b>2005/6</b>       | <b>2006/7</b> |
| 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             |



Mr Boaz Moselle  
Managing Director, Competition and Trading Arrangements  
Ofgem  
9 Millbank  
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Alison B Kay  
UK General Counsel & Company  
Secretary

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6<sup>th</sup> January 2004  
Our Ref: ABK/sb

Dear Boaz

**Proposed Modification to Transco's Gas Transporter Licence to accommodate  
New Entry Terminal to Transco's NTS**

Your letter of 5 January to Steven Holliday relating to the above has been passed to me in Steve's absence.

In your letter you refer to the notice ("the Notice") given by the Gas and Electricity Markets Authority on 24 November 2003 pursuant to Section 23 (3) of the Gas Act 1986 ("the Act") that it proposed to modify the conditions of the Transco plc gas transporter licence by amending Special Condition 28B, Part 2, paragraph 14 (5) and Schedule A, Tables A1 and A2.

I confirm that, for the purposes of Section 23 (6) of the Act, Transco plc hereby consents to the modification of its gas transporter licence in the manner specified in the attachment to the Notice.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alison B Kay'.

**Alison B Kay**  
UK General Counsel & Company Secretary  
For and on behalf of Transco plc



# centrica

*taking care of the essentials*

To Kyran Hanks  
Director - Gas Trading Arrangements  
Office of Gas and Electricity Markets  
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5 January 2004

Dear Kyran

**Ofgem's Report – "Section 23 notice to modify Transco's Gas Transporter licence", November 2003**

Centrica Storage Ltd (CSL) offers the following comments on the issues raised by the paper. We apologise that we failed to submit these views by the requested date of 23 December and are grateful for the latitude allowed.

CSL is concerned that in the interests of long-term system security, efficiency of reinforcement and non-discrimination, Transco's planning of flows through East Yorkshire should take account of all the prospective and possible developments in the broad locality whether or not there are any detectable signals through long-term entry capacity auctions.

We thus consider it important that Transco's network planning should, for example, recognize the potential impacts of future gas deliveries from Ormen Lange and York as well as from Garton/Aldbrough, Helvellyn, Rose, etc, and that all these sources should be considered in determining future needs for incremental entry capacity.

We recall, for example, future capacity and charging problems envisaged in what was described as the "THREAD" area (Theddlethorpe, Hornsea, Rough, Easington, Aldbrough, Dimlington), and discussions intended to ensure that reinforcement costs were fairly applied irrespective of the sequence in which new sources were introduced to the system. Similar underlying issues surely remain relevant in this area, though entry capacity is now subject to auction. We believe that a properly-integrated development plan for this part of the system is essential, covering at least the period of Transco's Ten-Year Statement (TYS).

We recognize that this may not be consistent with Ofgem's desire (as summarised in Clause 2.12 of the Ofgem paper) that "any [Transco] proposal to release capacity ... is supported by aggregate bids which justify Transco's proposal". In our view, in respect of a relatively small area where there is considerable confidence that multiple projects will now be coming to fruition in a short period and where the increase in input is very important to national system security it can be appropriate to have a development plan that is not necessarily dependent on demand for entry capacity "signalled through the auctions". We consider that the consequences of "non-provision of capacity" in this area, whether or not linked to Transco's financial exposure, could be severe for the UK as well as for the project developers, and that the implications may be of a scale to justify consideration of special arrangements by which Transco would be incentivised to ensure that adequate capacity is provided in good time.

For example, we suggest that it might be practicable if for capacity allocation and charging purposes Easington, Garton and Hornsea were treated as a single entry point, in the light of their proximity and the prospective pressure and flow interactions between them.

Centrica Storage Limited  
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Staines, Middlesex, TW18 4HF

In saying the above, CSL does not wish to place any impediment, practical or economic, on the efficient growth in gas inputs at Garton or at any of the other entry points in the vicinity.

Finally, we note that the recent TYS includes (in para 5.3.4) £46 million of "projects under consideration in 2006 and 2007 .... required for additional entry capacity from Easington/Aldbrough". We are unclear as to whether suitable rates of return will be evident to Transco in sufficient time for the developments to be initiated and completed so as not to jeopardise the desired offshore completion dates, and we are surprised that the Garton pipeline extension (with its estimated cost of approximately £6.3 million) seems not to appear explicitly in the TYS.

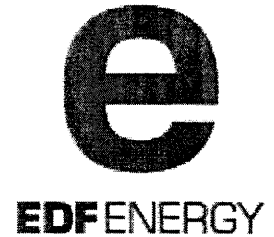
Yours sincerely

A handwritten signature in black ink, appearing to read 'Tom Welch', written in a cursive style.

Tom Welch  
Head of Sales & Marketing

**Our Ref**  
**Your Ref** New Entry Terminal to Transco's National Transmission System

Kyran Hanks  
Director, Gas Trading Arrangements  
Office of Gas and Electricity Markets  
9 Millbank  
London SW1P 3GE



**Date** 22 December 2003

Dear Kyran,

**New Entry Terminal to Transco's National Transmission System**

Thank you for giving EDF Energy the opportunity to respond to the consultation on the New Entry Terminal to Transco's National Transmission System (NTS). EDF Energy has read the proposed modifications to Transco's Gas Transporters (GT) licence to facilitate a new entry point at Garton, in East Yorkshire.

EDF Energy notes that the proposed new entry point at Aldbrough is no longer required, but due to its location and the work done on calculating the Unit Cost Allowance (UCA) the assumptions can be transferred to the proposed new entry point at Garton, East Yorkshire.

EDF Energy supports the proposed UCAG of £0.039/kWh. However, EDF Energy notes that the total project costs for reinforcing the NTS are higher than the cost to extend the NTS by 8km to Garton, and it would be beneficial for Shippers to know the details of the reinforcement work required. EDF Energy supports transparency and we request that any details of reinforcement work on the NTS be published as soon as possible in an update to the Annual Maintenance Report.

We hope that you will find these comments helpful. If you would like to discuss any of the issues raised in our response please contact Helen Bray on 0207 752 2518.

Yours sincerely

Helen Bray  
Energy Branch - Regulation



Shippers, Transco and  
Other Interested Parties

*Bringing choice and  
value to customers*

Our Ref: GSO/CAP/62  
Direct Dial: 020 7901 7021  
Email: [kyran.hanks@ofgem.gov.uk](mailto:kyran.hanks@ofgem.gov.uk)

9 January 2004

Dear Colleague,

**New entry terminals to Transco's National Transmission System – Licence modifications**

The Gas and Electricity Markets Authority (the Authority) has today, with the written consent of Transco plc (Transco), directed that modifications be made to Transco's gas transporter (GT) licence.

As part of this process, Ofgem has prepared a summary of the background to these modifications and the responses received leading up to this Direction. This paper is attached to this letter.

A copy of the Direction and the associated licence modifications are available on the Ofgem website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk)

Ofgem would like to thank all parties who have contributed to this process.

Yours sincerely

A handwritten signature in black ink that reads "Kyran P. Hanks". The signature is stylized and written in a cursive-like font.

Kyran Hanks  
Director, Gas Trading Arrangements  
**Authorised on behalf of the Authority**

## **Modification Proposals to Transco's Gas Transporter Licence in relation to new entry terminals to Transco's National Transmission System**

### **Background to the modification proposals and summary of responses received**

#### **Introduction**

On 24 November 2003, the Authority issued a statutory notice (Notice) under section 23 of the Gas Act 1986 together with an accompanying document<sup>1</sup>, setting out proposed modifications to Transco's gas transporter (GT) licence necessary to facilitate a new entry point on Transco's national transmission system (NTS) at Garton, in East Yorkshire. The licence modification consultation period closed on 23 December 2003.

The Authority has today directed modification of Transco's GT licence, thereby implementing these changes. This paper is intended to accompany the Direction.

#### **Background**

As part of the modifications made to Transco's GT licence with effect from 1 April 2002, an entry capacity regime was established with the aim of ensuring that Transco has financial incentives to invest efficiently in response to customers' demands for entry capacity as signalled through entry capacity auctions. Key features of this regime are long-term auctions of entry capacity rights and an entry capacity investment incentive, which allows Transco to earn up to 12.25 per cent on pre-agreed estimates of the unit costs (unit cost allowances – UCAs) of providing incremental capacity for up to five years.

Under its GT licence, Transco has been allocated provisions to provide entry capacity at an existing entry point at Aldbrough, in East Yorkshire. Under the current drafting, Transco is obliged to offer for sale 233 GWh/day of capacity at Aldbrough from 2003/4 onwards. The Aldbrough entry point was considered under the 2002-7 price control review as a proposed development of a storage site.

Statoil and SSE approached Ofgem in June 2003 with their individual plans to develop storage facilities at Garton in East Yorkshire. Statoil and SSE have since entered into a joint memorandum of understanding establishing a joint venture to develop the project as a single storage facility. Subject to the joint venture being concluded, SSE will serve as the operator and manage the design and construction of the facility, which is expected to be in operation from October 2006. The proposed joint venture agreement does not cover gas marketing. As such, any gas in store will be separately marketed by each of SSE and Statoil. The peak flow rate of the proposed gas storage facility is approximately 422 GWh/d.

Statoil and SSE considered that their new storage project will be better positioned to connect to the NTS at Garton, near Sproatley, via an 8 km pipeline extension. Whilst Garton is in the

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<sup>1</sup> '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 148/03', Ofgem, November 2003

vicinity of Aldbrough, the Aldbrough UCA was set to accommodate the provision of entry capacity at that point and did not incorporate the costs of building the 8km system extension.

Ofgem proposed removing the Aldbrough entry terminal output measures and associated UCA from Transco's TO and SO baseline requirements and instead introducing a new entry point at Garton. Under the proposals the initial SO and TO output measures for Garton would be set at zero.

Ofgem proposed that the Garton UCA should be based on the current Aldbrough UCA, with an adjustment to reflect the costs of the proposed pipeline extension. However, given that Transco has been provided implicit funding under its TO control for network investment in the Aldbrough area, Ofgem considered that the Garton UCA should also be adjusted downwards to take into account Transco's present and future funding through its TO control for the provision of 233 GWh/day capacity at Aldbrough from 2003/4.

### **Summary of respondents' views**

There were two responses to the Notice. No objections were raised to the licence modification proposals.

Both respondents supported the proposed licence modification.

The respondents considered that it would be beneficial for shippers to know the details of the reinforcement work required for Garton new entry terminal and that these details should be published in an update to the annual maintenance report.

One respondent noted that it was important that Transco's network planning should recognise the potential impacts of future gas deliveries from terminals such as Ormen Lange. The respondent also considered that in respect of a relatively small area where there is considerable confidence that multiple projects [*would* – sic ] be coming to fruition, it may be appropriate to have a development plan that is not necessarily dependent on demand for entry capacity signalled through the auctions.

One respondent commented on the total project costs for reinforcing the NTS and noted that it would be beneficial for shippers to know the details of the reinforcement work required.

### **Summary of Transco's views**

Transco raised no objections to the proposal to establish a new UCA for Garton.

### **Ofgem's views**

Ofgem welcomes the support expressed by respondents in relation to the proposed licence modification.

The Authority has made a typographical error to the implementation date for this licence modification and has amended the date for implementation accordingly.

Ofgem notes one respondent's view that it may be appropriate to have a development plan that is not necessarily dependent upon demand signalled in the long-term, auctions. Since the provision of permanent obligated incremental entry capacity attracts SO incentive revenue

allowance for five years, Ofgem will continue to place considerable weight on demand signalled through the auctions. As we stated in our November document, Transco would need to submit an application to Ofgem for approval under its incremental entry capacity release methodology in response to an auction signal for incremental entry capacity. Ofgem would then need to be satisfied that any proposal to release capacity at a proposed new terminal (or indeed at an existing terminal) is supported by aggregate auction bids which justify Transco's proposal.

Whilst we acknowledge the views expressed by the respondents for increased transparency in relation to the details of reinforcement work on the NTS and for inclusion of the Garton project within Transco's ten year statement, we recognise that until Transco receives an auction signal for capacity at Garton, it would be unlikely to make any changes to its annual maintenance plans. It is Ofgem's understanding that where Transco receives an auction signal, any changes to reinforcement details would be included in the subsequent ten year statement and any related maintenance plans would be revised accordingly.

In assessing the associated project costs for the provision of capacity at Garton, Ofgem considered that Transco had already been provided with implicit funding under its transmission asset owner (TO) 2002 price control for network investment in the Aldbrough area.

At the time of the 2002 price control review, Transco provided data to Ofgem on the unit costs of entry capacity for all entry points, based on Transco's projections of network gas flows for gas years 2002-2006/7. Transco and Ofgem agreed at that time that the UCAs would be based on increments of 6 mcm/day, whilst recognising that there could be economies of scale for larger increments.

Transco has therefore implicitly been allocated revenue for the provision of 233 GWh/day of entry capacity at Aldbrough under the current price control. Given the proximity of Garton to Aldbrough, Ofgem considered that the new UCA for Garton should take into account the agreed TO revenue allowed for Aldbrough, adjusted for pipeline investment costs and the anticipated level of demand for capacity at Garton. The reinforcement costs associated with the Garton project (and which are underpinned by the UCA) are therefore based upon and consistent with the planned network configuration at the time of the price control review for 2002-2007.

Ofgem is giving due consideration to the potential benefits of reviewing of Transco's network charging methodology in order to establish a framework for assessing costs of new NTS connections and associated network reinforcement.

## **Conclusions**

Having carefully considered the response summarised above, the Authority does not consider that any material change is required to the proposed licence modification. The Authority has concluded that the licence modification proposals, as amended, can be incorporated under section 23 of the Gas Act.

On 6 January 2004, Transco (as the Licensee) gave its written consent to the licence modifications, as amended. The Authority has also received confirmation from the Department of Trade and Industry that the Secretary of State does not intend to exercise her power of veto under paragraph 5 of section 23 of the Gas Act 1986, with respect to the proposed modifications. As required under the Gas Act 1986, the Authority also gave notice of the

proposed modifications to the Health and Safety Executive and to energywatch and did not receive any objections from these parties to the proposed modifications.

In this context, the Authority has today issued a Direction to implement the proposed modifications to Transco's GT licence and the modification shall take effect from 9 January 2004.