

1. INTRODUCTION

- 1.1 Transco's CSEP Ancillary Agreement to the Network Code for the UK-Continent Interconnector allows for an allocation Agent to be put in place. In 1998 a group of eight NTS and Interconnector shippers developed the business rules and agreements to manage the matching of nominations before the day, calculate shipper entitlements during periods of interruption and curtailment and allocation rules/processes for an Agent to carry out in both flow directions at Bacton. These have been modified over time and these notes apply to the arrangements put in place in June 2001.

2. BACTON AGENT COMPANY

- 2.1 A company limited by guarantee, called Bacton Agent Company Limited (BAC), has been set up with Interconnector shippers and NTS shippers that are party to the Bacton Principals Agreement as Members (equivalent to shareholders). Becoming a Member is optional for shippers, so Members are a subset of "Principals". Membership of BAC will mean that a shipper will have a say in how much BAC spends and in the development of business rules for the Agent to follow.
- 2.2 The constitution of BAC is set out in the Articles of Association, including the voting rights, procedures at meetings, the role of Directors, expenditure limits, etc. There is no cost for joining BAC as a Member, however, there may be indirect costs in attending quarterly meetings and reading papers and there is a potential liability of up to £100.

3. AGREEMENTS

- 3.1 There are four agreements with respect to the Agency arrangements linking shippers, the Bacton Agent Company Ltd (BAC), the Agent and BASL, the systems provider:
- Bacton Principals Agreement,
 - Bacton Agency Agreement,
 - Warranty and Guarantee Agreements; and
 - ISIS User Agreement.

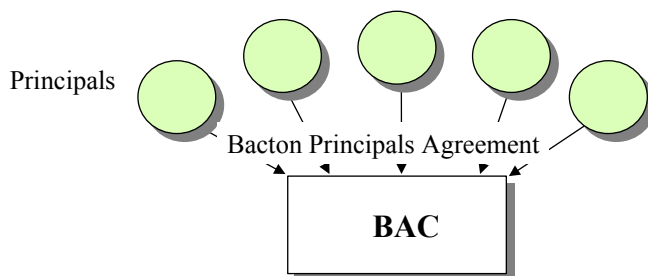
Bacton Principals Agreement

- 3.2 The Bacton Principals Agreement (BPA) is a single agreement between the shippers and BAC effectively meaning that the shippers appoint BAC to secure the appointment of an Agent. The BPA has been designated by Transco (with the approval of Ofgem) as the one and only Agency Agreement in force at the Bacton

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Interconnector Exit Point. It is therefore mandatory for all NTS shippers registering to be a 'User' at Bacton to accede to the BPA.

Figure 1 – Contractual relationship between Shippers and BAC

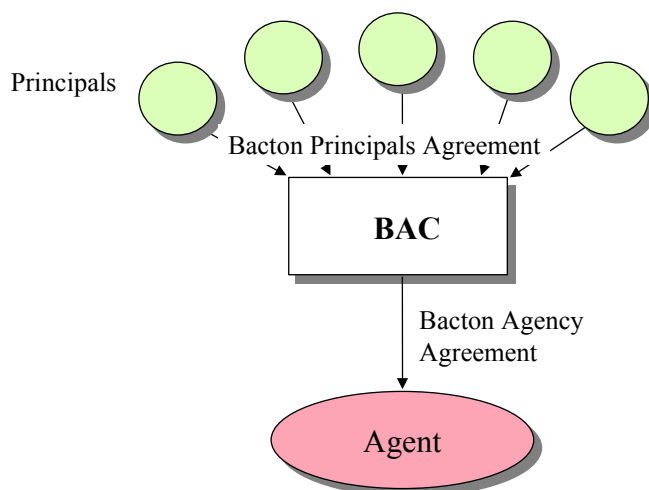


- 3.3 Each shipper is known as a Principal to the agreement. The Founder Principals are those that signed the original agreement. All other Principals accede to the agreement by signing an Accession Agreement at least 10 Business Days prior to their first gas flow day.
- 3.4 In return, the shippers also agree to pay BAC their share (based on transactions) of all of its costs, which are to be made up of:
- Agent's Fees;
 - General Expenditure - costs incurred by BAC in administering the agreements, operating as a company and developing enhancements to the Agency arrangements;
 - Loan Amounts - costs incurred by the Founder Principals in developing the Agent's services prior to 1 Oct. 1998 and to be recovered over 4 years;
 - Phase 2 costs - costs incurred by BAC in developing the direct access to ISIS prior to 4 June 2001 and to be recovered over 2 years; and
 - Principal Specific Expenditure - costs incurred by BAC directly attributable to a shipper (these can sometimes be credits).
- 3.5 An estimate of costs for a Quarter is made by BAC at the start of each Quarter. Each Principal is expected to pay a share of the estimated costs for each month of the Quarter in advance and a reconciliation will take place at the end of the Quarter. Each Principal will then be given an invoice or a credit according to the actual amount of costs incurred by BAC and the actual number of transactions incurred by each Principal.
- 3.6 Variations to the BPA can be agreed amongst the Principals by 75% of all NTS Shippers AND 75% of all Interconnector Shippers voting for the change.

Bacton Agency Agreement

- 3.7 The Bacton Agency Agreement (BAA) is a single agreement between BAC and the Agent that sets out the terms and conditions for employing the Agent. It contains all of the Business Rules set out in a schedule.

Figure 2 – Contractual relationship between Shippers and the Agent



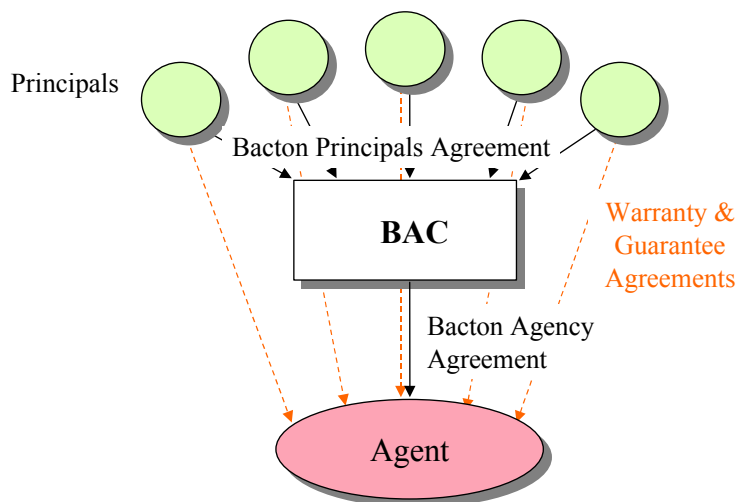
- 3.8 The BAA requires shippers to complete a Designation Notice, detailing the contact names, postal addresses, e-mail addresses, telephone and fax numbers and send a copy to BAC to forward on to the Agent. Shippers may notify the Agent of revisions to the Designation Notice directly.
- 3.9 NTS shippers must notify the Agent of their preferred code at least 3 days prior to their first gas flow day. The Agent will confirm the actual code at least 2 days prior to their gas flow day.
- 3.10 The initial Agent is Bacton Agency Services Ltd (BASL), a subsidiary of Interconnector (UK) Ltd (IUK). The initial Agent is paid according to its actual costs in a Quarter plus an uplift. The first BAA was originally for one year but was extended twice to 30 September 2001. BAC will tender for an Agent on a fixed price basis from 1 October 2001.
- 3.11 Variations to this agreement can be agreed by Members of BAC and the Agent.

Warranty and Guarantee Agreement

- 3.12 There is a Warranty and Guarantee Agreement between the Agent and each of the Shippers. This allows the Agent to go directly to the Principals for money if BAC defaults on payment, as well as providing other warrantees for both shippers and the Agent.

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Figure 3 – Warranty and Guarantee Agreement

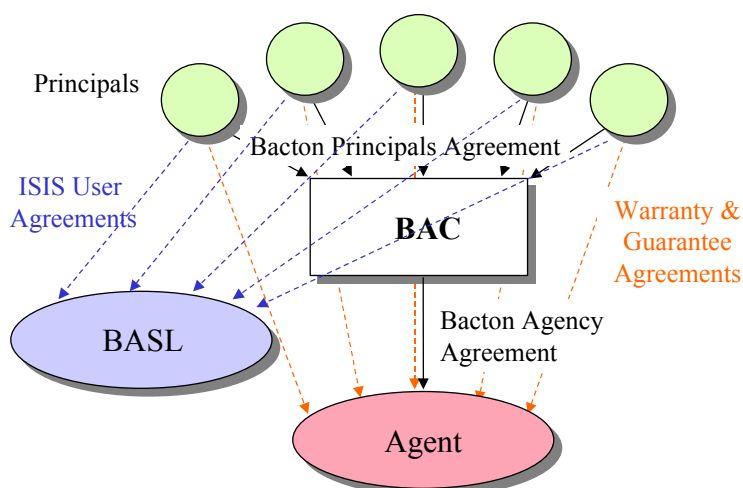


3.13 Shippers need to sign these at the same time as they sign the Accession Agreement and become Principals.

Bacton Shipper ISIS User Agreement

3.14 To provide nominations to the Agent and IUK and to receive matching information from the Agent and IUK, each NTS shipper will need to have access to the Interconnector Shipping Information System (ISIS). Each NTS shipper therefore needs to have an agreement with the service provider - Bacton Agency Services Limited (BASL), a subsidiary of IUK. It is made mandatory through the BPA.

Figure 4 – Relationship between Shippers and BASL



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- 3.15 Without this agreement NTS shippers will not be given access to ISIS and will not be able to make nominations, resulting in no gas flows.
- 3.16 The ISIS User Agreement sets out the obligations on BASL to provide access to ISIS and on the NTS shipper to avoid corrupting the system and to pay for use of the system. Fees are revised annually in line with the costs of providing the service but NTS shippers that are also Interconnector shippers avoid some of the charges as they are already paid through their IUK transportation agreement.
- 3.17 The form of this agreement is part of the BPA, and modifications to the agreement must go through the BPA variation procedure, as described in paragraph 3.6.

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