

Draft Modification Report
Modification to LTSEC Weak Closure Rule
Modification Reference Number 0623

Version 1.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

This Proposal includes three elements:

- the refinement of the definition of prevailing relevant step price group so that it includes the step price level at which aggregate demand is first less than or equal to notional supply at that step price level. A change of this nature would be in accordance with the interpretation that a number of Users had previously placed upon the Network Code text.
- a renaming of the “prevailing step price group” to “Stability Group” to address the concern, as perceived by the NT&T Workstream, that the relevant step price group is less likely to be construed as signalling the final price to be paid by Users who are successful in the Long Term System Entry Capacity; and.
- the introduction of a stronger closure rule which might be expected to encourage Users to bid throughout the process and therefore should tend to improve the efficiency of the auction process. The NT&T Workstream considered, and this Proposal envisages, that it would be appropriate to consider changing the closure rule to require that the LTSEC auction will close if the "Stability Group" changes in fewer than five individual instances (quarters/ASEP combinations) when compared with the level of "Stability Group" associated with the previous auction round. In this case each instance refers to the "Stability Group" reported in every quarterly period at every entry point (approximately 900 instances) at which Entry Capacity is made available. This would differ from the present arrangements to the extent that at present any changes in any quarter at any ASEP will ensure the requirement for another auction round (except for the 10th round).

2. Transco's Opinion

Transco believes that it is appropriate to respond to User concerns that improved clarity in the Network Code rules that are applicable to the auction of Long Term System Entry Capacity and a strengthening of the closure rules might improve the efficiency of the auction process thereby better facilitating competition between Users.

Strengthening the weak closure rule is intended to enhance the efficiency of the auction process where the most efficient outcome might be expected if Users are encouraged to bid throughout the process because otherwise they face a risk that the process might terminate before they have indicated their capacity requirements.

Transco indicated in a recent NT&T Workstream that if it considered strengthening of the closure rule inappropriate in the light of the responses to this consultation then it would consider withdrawing this aspect from the final Proposal. Transco would appreciate comments on the maximum number of changed Stability Measures that should determine auction closure to inform its recommendation in respect of this particular aspect of the Proposal.

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

Transco considers that shipper to shipper competition would be facilitated by employing Network Code rules that provide a high level of clarity for all Users. Greater clarity and a strengthening of the closure rule would, in the opinion of Transco, tend to facilitate a more efficient auction process which might be expected to better facilitate competition between Users.

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 the operation of the System.

b) development and capital cost and operating cost implications:

No significant development and capital cost and operating cost implications are envisaged. Development of a strengthened closure rule would be conducted as a part of the Gemini development.

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:

Not applicable.

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

Transco envisages no such consequences.

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 envisages no such implications.

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

Transco envisages no such implications.

7. The implications of implementing the Modification Proposal for Users

Users would participate in LTSEC auctions in accordance with the present bidding arrangements.

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

No such 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

No such consequences are anticipated.

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

Advantages :

- Greater clarity afforded to Users about application of the process.
- Stronger incentives to bid accurate requirements early in the auction process.

Disadvantages :

- Introduces possible uncertainty about how strengthened gate closure rules impinge upon bidding strategies.
- A stronger gate closure rule would tend to reduce the opportunities for revising bids.

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 sought as part of the Draft Modification Report.

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

No such requirement exists in respect of the Modification Proposal.

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

No such requirement exists in respect of the Modification Proposal.

14. Programme of works required as a consequence of implementing the Modification Proposal

A programme of works has been identified to strengthen the closure rule. It is anticipated that the work would be rolled into the existing Gemini development.

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

Clarification of auction rules could be introduced following any direction to implement the Proposal. Development of a strengthened closure rule would necessitate an implementation date of 1 October for that part of the Proposal.

16. Recommendation concerning the implementation of the Modification Proposal

Transco supports implementation of the Proposal.

17. Text

SECTION B: SYSTEM USE AND CAPACITY

Amend paragraph 2.2.17 to read as follows:

2.2.17 Following the submission of quarterly capacity bids on each annual invitation date in the annual invitation period Transco shall as soon as reasonably practicable after 17:00 hours on each such date calculate and notify Users, in respect of each calendar quarter and each Aggregate System Entry Point, of the provisional [stability] step-price group by reference to identifying where the quantities of Quarterly System Entry Capacity applied for in aggregate by Users are first equal to or less than the incremental quantities specified in the annual invitation in ascending order. up until such time and on the basis of a provisional allocation of capacity in accordance with paragraph 2.6, exclusive of capacity to be made available pursuant to the Incremental Entry Capacity Release Statement.

Add new paragraph 2.2.18 to read as follows:

2.2.18 In the event that following calculation of the provisional [stability] step-price group (in accordance with paragraph 2.2.17) for each calendar quarter and each Aggregate System Entry Point following submission of quarterly capacity bids on the next following invitation date, the provisional [stability] step-price group remains unchanged in respect of all but four or fewer calendar quarters and Aggregate System Entry Point combinations:

- (a) Transco shall by not later than 08:00 hours on the next following annual invitation date, notify Users that this paragraph 2.2.18 applies and that the annual invitation period has ended; and

- (b) Users shall not be not be permitted to submit and Transco shall not be permitted to accept any further quarterly capacity bids in respect of the annual invitation.

Amend paragraph 2.6.5 to read as follows:

....

- (b) the "[**stability**] **group**" is the step price group, when considering the incremental quantities specified in the annual invitation in ascending order, in respect of which the step price group quantity is first equal to or less than the Actual Available System Entry Capacity;

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:

Nigel Sisman
Development Manager, Gas Balancing
NT & T

Date: