

Draft Modification Report
Revision to the Standard Year for purposes of acquiring and holding Long Term
System Entry Capacity
Modification Reference Number 0617
Version 1.0

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

The Proposal stated:

"It is proposed that the LTSEC allocation process is held in September of each year and at this time would offer capacity for the period April (Y+2) to March (Y+16). This affords eighteen months between the conduct of the allocation process, with Transco's publication of the IECR scrutiny by the following November, making capacity available in the April (Y+2).

This would also provide a separation of the processes for Annual MSEC and LTSEC and allow consideration of the outcome of each process and its evaluation under the Incremental Entry Capacity Release methodology. Users would be in possession of the confirmed outcome of each process when participating in the other."

2. Transco's Opinion

Transco recognises that alignment of capacity year with the formula year might deliver a number of the benefits described in the Proposal, such as providing Shippers more time to consider the outcome of the annual MSEC auctions, and removing the step change in baseline quantities that currently might occur during each twelve month period given current arrangements. Transco also acknowledges that the Proposal would meet the preference expressed at industry meetings for the LTSEC auction to be held outside of the July/August period.

Transco would observe that the capacity year has been aligned with the gas year to coincide with the annual renewal of many end-user contracts and the start of year as defined in many gas supply contracts. Therefore views would be welcomed in respect of whether the change in capacity year from gas year to formula year would be appropriate in the context of better facilitating the relevant objectives.

Transco IT systems could accommodate the proposed change in the LTSEC auction date from August to September and the proposed capacity period of April (Y+2) – March (Y+16). However Transco would anticipate that if this Proposal is implemented, an amendment might be necessary to the Incremental Entry Capacity Release (IECR) statement to take account of the proposal to bring forward the start of the Capacity Period from October (Y+2) to April (Y+2).

Transco envisages no interaction with the electricity regime.

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

The Proposer states implementation would provide auction participants additional time to take into account the outcome of the MSEC auction. This might allow participants to make better informed decisions in their bid valuations thus improving the efficiency of the auctions which might better facilitate the efficient and economic operation of the system and competition between Users.

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

a) implications for the operation of the System:

Transco envisages no implications for the operation of the System.

b) development and capital cost and operating cost implications:

Transco would not anticipate any material development, capital or operating cost implications.

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:

No such consequences are envisaged.

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

No such consequences are envisaged.

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

The proposed delay to the timing of the LTSEC auction to September each year would require only minor changes to the RGTA Capacity System. However, there may be an interaction with the timing of the allocation process, to be completed two months after the auction, and the planned introduction of the Gemini System. Transco would propose that in the event that the Gemini System is introduced after the start of the LTSEC bidding process but prior to the completion of the allocation process, the auction and allocation process is completed on the RGTA Capacity System, with the data associated with the results of the LTSEC allocation made within the RGTA Capacity System being subsequently transferred to the Gemini System.

Transco would welcome the views of respondents as to whether implementation of the proposal might have any implications for Users' computer systems.

7. The implications of implementing the Modification Proposal for Users

The planned date for the LTSEC auction would be changed from August to September each year. The annual capacity period for LTSEC would no longer coincide with the gas year.

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 envisaged.

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

An amendment may be required to the IECR statement.

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

Advantages :

More up to date information available to auction participants.

Increase in time available to Users in considering bidding strategies between MSEC results and LTSEC auction.

Moves the timing of the LTSEC auction to outside of the July/August holiday period.

Disadvantages :

Minimises time available between the LTSEC auction results and the production of the Ten Year Statement.

Capacity year no longer aligned with gas year.

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 on 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.

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.

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

No changes to UK Link are envisaged and therefore a Programme of Works is not required.

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

Transco proposes, if implementation is directed, that such implementation occurs no later than 1 July 2003 to allow sufficient time to arrange the auction invitation process prior to the proposed commencement of the LTSEC auction in September 2003.

16. Recommendation concerning the implementation of the Modification Proposal

Transco considers that this Proposal could be implemented with relative ease and at low cost, hence if implementation was considered by respondents to afford benefits to Users then Transco would envisage recommending implementation in the Final Modification Report.

17. Text

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

NT & T

Date: