

Draft Modification Report
LTSEC for New Entry Points
Modification Reference Number 0622
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

It is proposed that following the first publication of a schedule of step prices for a new Aggregate System Entry Point (ASEP) in Transco's Transportation Statement, a Long Term System Entry Capacity (LTSEC) auction would normally commence within 60 business days. The Network Code would continue to require that a LTSEC auction be held not less than 28 days after Transco has notified Users of the reserve prices and the step prices that would apply in respect of each ASEP. Hence, normally a LTSEC auction would be conducted commencing between 28 and 60 business days after the first publication of step prices for a new ASEP and would afford Users the opportunity to purchase capacity at all ASEPs.

However, the above requirement might generate LTSEC auctions in quick succession. Thus, the extra LTSEC auction triggered by the production of the schedule of step prices for a new ASEP should not take place if such publication occurs within 100 business days of the first day of the month in which the annual LTSEC auctions would take place.

2. Transco's Opinion

Transco supports implementation of the Modification Proposal. The Network Code requires that an auction of LTSEC be held in August of each year. In the auction, Quarterly System Entry Capacity would be offered at all ASEPs. Should Modification Proposal 0617 'Revision to the Standard Year for the purposes of acquiring and holding Long Term System Entry Capacity', be implemented the LTSEC auctions would be conducted in September of each year.

Following a recent consultation on the establishment of a LTSEC price schedule for three prospective new ASEPs, it has become apparent that if Transco were to offer LTSEC as part of the existing LTSEC auctions, this could represent a delay in the planning and development of the new ASEPs. Developers might prefer to have the opportunity of gaining entry capacity at an early stage in order to better manage the risks associated with developing a new ASEP. Transco believes that System Entry Capacity should be offered close to the time that new step prices have been published. This might avoid unnecessary delay and risk in the development of new ASEPs, the establishment of which should assist in maximising gas supply options and therefore promote gas supply security in the UK energy market.

The Modification Proposal also puts forward a number of options regarding how and when such a LTSEC auction would be conducted, and views are also sought in the following areas :

1. Should LTSEC be offered at all ASEPs in addition to the new ASEPs at such time as LTSEC is first offered in respect of a new ASEP ?
2. Is it appropriate that the 28-60 day window defines the start date of the resulting LTSEC auction following the publication of a schedule of step prices for a new ASEP ?
3. Is it appropriate that a 100 day window associated with not conducting an extra LTSEC auction is included ?

No impacts are anticipated on the electricity transmission system.

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

Transco believes that the holding of LTSEC auctions close to the publication of step prices for a new ASEP would facilitate the development of new entry points by providing the opportunity to allocate entry capacity as early in the development stage as possible. Providing this certainty to developers would improve the likelihood of the new ASEP being completed in a timely manner. Such an outcome would maximise the gas supply options available both to UK Shippers and in terms of security of supply of the network, thus furthering the economic and efficient operation of the System.

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

a) implications for the operation of the System:

Implementation of the Proposal would facilitate the connection of new entry points to the System thus encouraging new gas supply availability which may enhance security of supply.

b) development and capital cost and operating cost implications:

Conducting an additional LTSEC auction would be administered by the RGTA Capacity System with no additional development work required. The resourcing requirements for the proposed auction would lead to a minimal increase in operating costs.

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:

No additional costs have been identified.

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

No impact is anticipated.

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

There is not expected to be any change in the level of contractual risk as a result of this Proposal.

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

No such implications are envisaged in respect of Transco's computer systems. Transco has not been made aware of any implications for Users' computer systems and would welcome the views of respondents as to any such implications.

7. The implications of implementing the Modification Proposal for Users

Users would be given the opportunity to bid for LTSEC at either the new ASEP or all ASEPs by way of an additional LTSEC auction.

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

Developers of new ASEPs will be provided with greater certainty that LTSEC will be available when required, which will better facilitate the planning and development of new ASEPs.

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 envisaged.

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

Advantages: Provides the opportunity for developers of new ASEPs, via their nominated Shippers, to acquire long term firm entry rights to the NTS thus reducing the potential for delay in the development of new ASEPs.

Disadvantages: Introduces possible complexity by running additional LTSEC auctions for all ASEPs

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

As no changes to Transco's UK Link system are envisaged, a programme of works will not be 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 June 2003 to allow sufficient time to arrange the auction invitation process prior to the proposed commencement of the additional LTSEC auction in June 2003.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of the Proposal.

17. Text

Draft proposed legal text:

SYSTEM B: SYSTEM USE AND CAPACITY

Amend paragraph 2.2.1 to read as follows:

2.2.1 Without prejudice to paragraph 2.2.18, by:

- (a) not later than....

Add new paragraphs 2.2.18 and 2.2.19 to read as follows:

2.2.18 In relation to an Aggregate System Entry Point where Transco has not previously invited applications for System Entry Capacity from Users in accordance with this paragraph 2.2, Transco will, unless the circumstances in paragraph 2.2.19 prevail:

- (a) notify Users of the:
 - (i) reserve prices and the step prices that will apply in respect of the Aggregate System Entry Point for the purposes of the first invitation;

- (ii) the calendar months in respect of which applications for Quarterly System Entry Capacity will first be invited and the aggregate quantities of Quarterly System Entry Capacity in respect of which applications may be made; and
- (c) not earlier than twenty-eight (28) and not later than sixty (60) Days after notifying Users under paragraph (a), Transco will invite applications for Quarterly System Entry Capacity for such aggregate amounts as notified under paragraph (a).

and such an invitation shall be deemed to be an annual invitation in relation to which the relevant provisions (in respect of the relevant quantities of Quarterly System Entry Capacity) of this Section B2 shall apply.

2.2.19 The invitation referred to in paragraph 2.2.18 shall not take place in the event that were it to take place the date on which reserve prices and step prices would have been published falls less than one hundred (100) Days before the first day of the month in which Transco reasonably expects Users will be able to make applications for System Entry Capacity in accordance with paragraph 2.2 at all Aggregate System Entry Points pursuant to the next annual invitation.

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
Manager, Gas Balancing
NT & T

Date: