

Draft Modification Report
Amendments to the NTS Entry Capacity Auction Period
Modification Reference Number 0465

Version 2.0

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 the next NTS Entry Capacity Auctions should only be for the six month period October 2001 to March 2002 inclusive. Capacity details relating to this period are required to be published by Transco by 30 June 2001.

Further, the proposal suggests that the Network Code should provide for the Monthly System Entry Capacity (MSEC) auction to be completed prior to the commencement of the Monthly Interruptible System Entry Capacity (MISEC) auction.

2. Transco's Opinion

Transco supports this Modification Proposal, believing that there may be merits in offering entry capacity for a further six month period in the next set of entry capacity auctions rather than the twelve month period presently defined in the Network Code.

Implementation of this Modification Proposal would mean that the end of the next Entry Capacity period would coincide with the end of the current price control period, also on 31 March 2002. Due to the uncertainty over the nature of the regime and the methodology by which Transco would release capacity from 1 April 2002 onwards, it would appear prudent to also start a new capacity period from this date.

Transco also supports the proposal to amend the date by which the MSEC Auction should be completed, to ensure that this occurs before the start of the MISEC auction. Transco suggests that the date could be amended to 31 July in the preceding gas year, which is consistent with how the auction timetable has operated in the past. The MISEC auction would be completed by 15 August. Transco recognises that an alternative approach would be to complete the MSEC auction by 31 August and delay completion of the MISEC auction until 7 September. However, this alternative approach is not supported by Transco because a completion of the auctions in September would not enable one months notice prior to possible NTS Commodity Charge adjustments on 1 October, the adjustment potentially being driven by deviations in auction income from levels that are consistent with Transco's allowed revenue.

In order to ensure the most up to date gas flow information is used in the allocation of capacity to each ASEP, Transco also supports calculation of auction quantities based on historical gas flows taken over a 36 month period ending on 31 May rather than 30 November in the Preceding Capacity Year. These quantities would be published by 30 June 2001

Since the Network Code defines a capacity year as the period from 1 October to 30 September, the proposed legal text for the Transition Document, paragraphs 8.1.3 and 8.1.4, also provides for the relevant completion dates of the MSEC and MISEC auctions in January / February 2002.

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

The proposer does not specifically state the extent to which the Modification Proposal would better facilitate the relevant objectives. However, it notes that should this Modification not be approved the start of the next formula period on 1 April 2002, when it is envisaged that different rules would apply, would fall midway through a capacity period running from 1 October 2001 to 30 September 2002.

Transco agrees that it would be preferable for Users to only purchase capacity for the remaining period of the current price control. Users would be able to participate in the auction with full certainty over the nature of the regime over the whole capacity period, which should enable them to make more efficient decisions on their capacity requirements. This, in turn, should promote a more efficient and economic use of the pipeline system.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

Transco does not anticipate that there would be any implications for the operation of the System.

b) development and capital cost and operating cost implications:

No development costs are required to implement this proposal and operating costs are expected to remain the same.

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 such costs have been identified.

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

No such consequences have been identified.

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 does not anticipate that there would be any consequences on the level of contractual risk to Transco under the Network Code as a result of the implementation of this Modification Proposal.

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

No development implications are anticipated for the computer systems of Transco and the related systems of Users.

7. The implications of implementing the Modification Proposal for Users

Users would only be able to acquire MSEC and MISEC for a six month period from 1 October 2001 to 31 March 2002.

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

There would be no direct implications of implementing the Modification Proposal for the above parties. However, the fact that Users would only be able to acquire Entry Capacity for a further six month period may have an impact on the contractual arrangements between Users and other parties in the gas supply chain.

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 consequences are anticipated on the legislative and regulatory obligations and contractual relationships each User and Non-Network Code Party of implementing the Modification Proposal.

Transco's regulatory obligations may be better aligned with the next price control if the next series of MSEC auctions are limited to six months.

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

Advantages :

- Entry Capacity would be offered up to 31 March 2002. A new capacity period could therefore commence at the same time as the start of a new price control period.
- Ensures that the auction process timetable is correctly aligned, with MSEC auctions being completed prior to MISEC auctions.

Disadvantages :

- There would be no move to an annual capacity regime. Many industry participants consider there would be benefits in an annual regime as there would be greater contractual certainty. Entry

Capacity prices and the post auction adjustment to the NTS Commodity charge would both be known for a full 12 month period.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

This draft Modification Report is to be circulated for representations.

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

Implementation is not required to enable Transco to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 3(5) or the statement furnished by Transco under Standard Condition 3(1) of the Licence

Not applicable.

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

No program of works is required as a consequence of implementing the Modification Proposal.

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

If approved, this proposal would require implementation prior to 30 June 2001 as this is the latest date specified in the Network Code by which Transco must determine the MSEC quantities at each ASEP for the next capacity period.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this proposal is implemented.

17. Text

Section B – System Use and Capacity

Amend paragraph 2.2.4 to read as follows:

“N is, subject to paragraph 2.2.8 the aggregate number of days which fell in the relevant calendar month in the 36 month period ending on the 31 May in the Preceding Capacity Year.”

Amend paragraph 2.3.2(a) to read as follows:

“2.3.2(a) the five dates (**‘invitation dates’** each of which shall be a Business Day) on which applications pursuant to such invitation may be made, the last of which shall not be later than 31 July in the Preceding Year; and the period between each such invitation date shall be not less than 2 Business Day;”

TRANSITION DOCUMENT PART II

Paragraph 8.1.3 – amend to read as follows:

“8.1.3 B.2.3 In respect of the Gas Year 2001/2002:

- (1) the reference in Section B.2.3.1 to each calendar month in the Gas Year shall be deemed to be a reference to the calendar month October 2001 to March 2002 (inclusive);
- (2) by not later than 31 January 2002 Transco will invite applications for the Determined System Entry Capacity in respect of each Aggregate System Entry Point for the calendar months April 2002 to September 2002 (inclusive);
- (3) for the purposes of paragraph (2), Section B.2.3 shall apply separately in respect of applications made for Monthly System Entry Capacity for the calendar month referred to therein.

Paragraph 8.1.4 – amend to read as follows:

“8.1.4 B.2.6 In respect of the Gas Year 2001/2002:

- (1) the reference in Section B.2.6.1 to each calendar month in the Gas Year shall be deemed to be a reference to the calendar month October 2001 to March 2002 (inclusive); and
- (2) by not later than [15] February 2002 Transco will invite applications for Monthly Interruptible System Entry Capacity in respect of each Aggregate System Entry Point for the calendar months April 2002 to September 2002 (inclusive); and
- (3) for the purposes of paragraphs 1 and 2, Section B.2.6 shall apply separately in respect of applications made for Monthly Interruptible System Entry Capacity for the calendar months referred to therein.”

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:

Tim Davis
Manager, Network Code

Date: