

**Modification Report**  
**URGENT Modification Reference Number 0378**

**Delay to April - September System Entry Capacity Auction**

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

**1.Circumstances Making this Modification Proposal Urgent:**

In accordance with Rule 9.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent. The Network Code requires Transco to commence the auction of System Entry Capacity for use in April - September 2000 by 15th February. Development Work group 0371 has been debating possible changes to the auction process. However, this group has agreed that it will not be possible to finalise the development of possible changes to enable implementation in advance of 15th February. To allow for the possible incorporation of beneficial changes in this next round of auctions it is necessary to delay the start date. In order to give shippers sufficient notice of this delay, urgent procedures are appropriate.

**2.Procedures Followed:**

Transco agreed with Ofgem (and has followed) the following procedures for this Proposal;

Modification Proposal to Ofgem .....	24 January 2000
Ofgem decision on Urgency .....	24 January 2000
Proposal sent out to Industry .....	24 January 2000
Consultation period closes .....	28 January 2000
Final Report to Ofgem .....	02 February 2000

**3.The Modification Proposal:**

It is proposed that the first round of the auctions of System Entry Capacity for use in April - September 2000 will commence on Monday 6th March as opposed to Tuesday 15th February. The purpose of this proposal is to provide sufficient time for the development, evaluation and possible implementation of changes to the auction process prior to the start date for the next round. This proposal does not in itself propose any changes to the auction process other than a change of start date.

**4.Transco's opinion:**

As proposer, Transco supports the proposed delay in the start date of the monthly auctions for April to September from 15 February to 6 March. It believes that potential changes to the auction process, such as shipper determination of Entry Capacity profiles and the possible increase in capacity availability, should be afforded

sufficient time for development and possible implementation in advance of the “April - September” auction start date. It is unlikely that these developments could be finalised prior to 1st February and Transco believes a delay in the auction start date will ensure the benefits of these possible changes can be more fully evaluated prior to the auction.

5. **Extent to which the proposed modification would better facilitate the relevant objectives:**

The proposed modification will ensure that developments in the monthly capacity auctions currently being considered could be implemented in advance of the start date for the next round. Should these developments be considered to improve the efficiency of the auctions, this proposal will allow for their implementation at the earliest opportunity.

6. **The implications for Transco of implementing the Modification Proposal, including:**

a) **implications for the operation of the System:**

No such implications are envisaged.

b) **development and capital cost and operating cost implications:**

The changes to the capacity auction dates can be accommodated within the existing system and no additional costs are anticipated.

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 does not anticipate any such consequence on price regulation.

7. **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 are no anticipated consequences on the level of contractual risk to Transco.

8. **The development implications and other implications for computer systems of Transco and related computer systems of Users:**

The change to the dates of the monthly capacity auctions can be accommodated by the existing computer systems and no development work would be required.

**9. The implications of implementing the Modification Proposal for Users:**

It would allow more time for the development of potential enhancements to the auction process, however, shippers would have less time between the end of the auction and the date when capacity will be first used.

**10. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Storage Operators suppliers, producers and, any Non-Network Code Party:**

No such implications are envisaged.

**11. 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.

**12. Analysis of any advantages or disadvantages of the implementation of the Modification Proposal:**

Advantages :

- Ensure developments to the monthly auctions could be implemented in time for the first round of the April - September 2000 auctions
- Provide further time for shippers to assess capacity auction processes and determine their bidding strategies in the light of these potential developments

Disadvantages :

- Shippers would have less time to assess and, if necessary, modify their capacity holding position through the secondary market prior to April 1st.

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

Transco received nine representations from Total Gas Marketing (TGM), Shell Gas Direct (SGD), Alliance Gas (AG), British Gas Trading (BGT), Scottish and Southern Energy (SSE), AGIP UK, Quantum, TXU Europe Energy Trading (TXU) and BP Amoco (BP).

Of these, four respondents (TGM, BP, TXU, Quantum) express support for the proposal with Quantum attaching a number of caveats.

Three respondents (SGD, AG, SSE) support the principle of the proposal, but disagree with the exact date put forward by Transco.

Two respondents (AGIP, BGT) do not support the modification proposal.

Of the four respondents supporting the proposal, Quantum does so on the understanding that the changes facilitated by the delay will benefit the shipping community and end-users, and will include both the release of additional firm entry capacity and a reduction in the reserve price.

Of those shippers supporting the principle of the proposal, SSE were unable to confirm whether they supported the proposed date because of the number of unresolved issues connected with the monthly auctions and the proposed daily auctions. Two shippers suggested that a postponement of the initial round should be extended further, with AG suggesting 13 March and SGD suggesting 13 March at the earliest.

Regarding the two shippers (BGT, AGIP) not supporting the proposal, their arguments put forward are connected to the introduction of Modification Proposal 0365 (Within Day Capacity) and Modification Proposal 0371 (Shipper Determination of Entry Capacity Profiles). They express the view that implementation of both these modifications should be delayed until October 2000. AGIP argues that the industry needs to properly assess the impact of the October 1999 changes. AGIP would prefer comfort in knowing that the proper systems will be in place and operating satisfactorily to support any further change. It argues further that the additional experience and knowledge gained from the existing regime would be beneficial and that it would be better to avoid interim capacity regimes of only two months and four month durations. BGT argue that Transco is unwilling to take account of shippers' requirements for the within day market and it remains unconvinced that the proposals (Mod 0365 and Mod 0371) will lead to a reduction in costs or greater efficiency in the system.

Both shippers suggest that the monthly auctions for April - September should go ahead as originally planned under the existing regime.

Those shippers arguing for a change in the capacity auctions start date to beyond the 6th March, suggest that uncertainty remains about the format of the auctions. They believe that more time is required to devise an auction strategy following Ofgem's decisions on the within day capacity market, flexible nomination rights, availability of additional MSEC, and Shipper Determination of Entry Capacity Profiles. AG suggests an auction start date of 13 March to allow shippers 5 business days between the modification decisions and the first auction round. SGD states that despite widespread consensus among shippers that Transco should continue to make daily interruptible capacity available, Transco is pursuing attempts to limit the availability of this service. It states further that a delay in the auctions of three weeks is unlikely to give shippers sufficient time to consider what changes are appropriate to the existing format of auctions.

SSE and SGD believe that consideration should be given to how the timing of the monthly auctions will compliment the auctions of LNG, Hornsea and Rough storage services which are also likely to take place in March.

SSE also suggest a delay in conducting the auctions for June to September pending the outcome of Modification Proposal 0365 and the associated pricing consultation.

### **Transco Response:**

Transco welcomes the fact that the majority of respondents support a delay in monthly capacity auctions, if not the specific date put forward in the modification proposal.

Transco recognises that a number of issues require resolution prior to the next round of monthly capacity auctions. In proposing a change of date to 6th March, it had considered that a longer delay would have provided shippers with insufficient time to assess their capacity entitlement, and if necessary, alter their capacity positions through secondary trading in advance of 1st April.

In addition to Modification Proposal 0378, Transco has raised Modification Proposals 0371 (Shipper Determination of Entry Capacity Profiles), 0379 (Capacity Transfers between ASEPs), 0380 (Increased Availability of Monthly System Entry Capacity) and Pricing Consultation 51. Transco believes that the timetable agreed with Ofgem for these Modification Proposals and pricing Consultation will allow for possible implementation in sufficient time for the next round of auctions. However, Transco recognises that shippers would ideally prefer more time to evaluate the outcome of these processes.

Transco acknowledges the comments raised in respect of Modification Proposals 0365 and 0371 and the recent meetings of both these development workgroups have provided shippers the opportunity to discuss these points. However, Transco considers it would be appropriate to respond to these points as part of the forthcoming consultations on Modification Proposals 0365 and 0371 so that they are considered in the context of the other issues raised in the workgroup meetings.

Transco recognises shippers desire for some coordination of auction timetable with those for other services, such as storage, but does not believe that this issue should be considered in the context of this proposal.

Transco has no plans to separate the monthly auctions into two stages, for periods April-May and June-September. It does not believe this would be necessary and beneficial. Following a decision on the modification proposals described above, shippers will still be able to devise their bidding strategy for the six month period taking account of the availability of different services in later months.

#### **14. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation:**

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

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

Implementation is not required as a consequence of any proposed change in the methodology established under Standard Condition 3(5) of the statement; furnished by Transco under Standard Condition 3(1) of the Licence:

**16. Programme of works required as a consequence of implementing the Modification Proposal:**

There are no modifications required to the UK-Link Systems and therefore a programme of works would not be required as a result of implementing the Modification Proposal.

**17. Proposed implementation timetable (inc timetable for any necessary information systems changes):**

Ofgem decision expected on 4 February 2000.

April-September auctions commence on 6 March 2000.

**18. Recommendation concerning implementation of the Modification Proposal:**

As proposer of this modification, and having considered the shipper representations, Transco supports the proposed delay in the start date of the monthly auctions for April to September 2000 from 15 February to 6 March and recommends implementation of the modification proposal.

**19. Restrictive Trade Practices Act:**

If implemented, this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

**20. Transco's Proposal:**

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Director General in accordance with this report.

**21. Text:**

Transition document part II

Proposed legal text

8.10.3 B2.3 9 (4)

Replace ....*15th February*.... with ...*6th March*...

Signed for and on behalf of Transco.

Signature:

**Tim Davis**  
**Manager, Network Code**

Date:

**Director General of Gas Supply Response:**

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0378**, version **1.0** dated **02/02/2000**) be made as a modification to the Network Code.

Signed for and on behalf of the Director General of Gas Supply.

Signature:

The Network Code is hereby modified, with effect from \_\_\_\_\_, in accordance with the proposal as set out in this Modification Report, version **1.0**

Signature:

**Process Manager - Network Code**  
**Transco**

Date:

## **ANNEX**

### **Restrictive Trade Practices Act - Suspense Clause**

For the purposes of the Restrictive Trade Practices Act 1976, this document forms part of the Agreement relating to the Network Code which has been exempted from the Act pursuant to the provisions of the Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996. Additional information inserted into the document since the previous version constitutes a variation of the Agreement and as such, this document must contain the following suspense clause.

#### **1.Suspense Clause:**

- 1.1 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect:

(i) if a copy of the Agreement is not provided to the Director General of Gas Supply (the "Director") within 28 days of the date on which the Agreement is made; or

(ii) if, within 28 days of the provision of the copy, the Director gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraph 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996.

provided that if the Director does not so approve the Agreement then Clause 1.2 shall apply.

- 1.2 Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which this Agreement or such arrangement is subject to registration under the Restrictive Trade Practices Act 1976 shall not come into effect until the day following the date on which particulars of this Agreement and of any such arrangement have been furnished to the Office of Fair Trading under Section 24 of the Act (or on such later date as may be provided for in relation to any such provision) and the parties hereto agree to furnish such particulars within three months of the date of this Agreement.