TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0444

"Extend capacity period sold to 12 months in MSEC and MISEC auctions of February 2001"
Version 1.0

Date: 15/12/2000

Proposed Implementation Date: 15/01/2001

Urgency: Non-Urgent

Justification

This Modification Proposal is raised to enable consideration to be given to moving to a 12-month cycle of entry capacity auctions for both Monthly System Entry Capacity (MSEC) and Monthly Interruptible System Entry Capacity (MISEC). The present 6-month cycle was introduced as an interim measure that was intended to mitigate risk to Users whilst they became familiar with aspects of the New Gas Trading Arrangements (NGTA) that had been introduced in October 1999. It is arguable that Users now have the necessary familiarity with auction processes to enable the period offered at auction to be extended to 12 months, in line with the original intent for NGTA.

Transco believes that biannual auctions may contribute to a measure of instability for Users because the planning of annual gas production profiles may be hampered by the incomplete picture of monthly capacity held by each User over a 12 month period. Users must either secure capacity to match preplanned production profiles or be prepared to lock in gas and possibly oil production if capacity rights cannot be obtained. The uncertainties associated with the planning process and the need for Users to obtain entry capacity is perhaps demonstrated by the discontinuities in weighted average prices realised in the various auctions. This uncertainty could be reduced by offering capacity for a 12 month period.

Transco also has concerns that a biannual cycle of auctions can restrict the development time allowed for further evolution of the energy and capacity regime. That could result in business solutions that are provided in part to fit shortened lead times rather than giving due weight and attention to the underlying business issues.

Nature of Proposal

The Proposal is that effective from 15 January 2001, auctions of MSEC and MISEC should make available capacity for a 12 month period. That period will be from 1 April of the year in which the relevant auction is held through to 31 March of the following year. It is Proposed that MSEC auctions be completed by not later than 15 February and that MISEC auctions be completed by not later than 28 February.

Purpose of Proposal

Transco believes that an annual auction of MSEC and MISEC may fit better with producers needs to plan gas production profiles and that discontinuities in capacity prices can be avoided, such that the Proposal would enable a more economic and efficient operation of the pipeline system.

Consequence of not making this change

The present Network Code arrangements will continue. They provide for an auction of MSEC to be completed by 15 February 2001. In that auction capacity shall be offered for the 6 month period 1 April to 30 September 2001. A further auction of MSEC shall be completed by 31 July 2001, in which capacity shall be offered for the 12 month period 1 October 2001 to 30 September 2002. Thereafter all MSEC auctions shall be for a 12 month period and shall be completed by 31 July of each year.

The present Network Code arrangements for MISEC follow a similar life cycle, in that 6 months of capacity is offered in auctions that must be completed by 28 February, and thereafter 12 months of capacity is offered in auctions that must be completed by not later than 15 August.

Area of Network Code Concerned

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Proposer's Representative

Russell D Cooper (Transco)

Proposer

Tim M Davis (Transco)

Signature

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