

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0616

"Revision to the Standard Year for purposes of acquiring and holding Annual Monthly System
Entry Capacity"
Version 1.0

Date: 18/02/2003

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

Currently the 'Gas Year' runs from 1 October until 30 September for each year. Traditionally, this has formed the basis of a number of areas of activity including the acquisition and holding of System Entry Capacity. With the implementation of Modification 500 'Long-Term Capacity Allocation', Users are now able to acquire System Entry Capacity well into the future through Long-Term and Annual allocation/Auction processes. This raises a number of conflicts with other periods.

Transco's Price Control is based upon a 'Formula Year' of April to March, therefore issues of over/under recovery from the sale of System Entry Capacity must currently be pro-rated between periods.

Baseline System Entry Capacity is also aligned to the Formula Year, as Transco's return on assets is related to a determined level of Baseline capacity fixed for that formula year. Therefore in the Long-Term and Annual processes the amount of System Entry Capacity available is not consistent throughout the term.

A process of auctions for Annual Monthly System Entry Capacity (AMSEC) would be more appropriately timed in February or March of each year, to acquire capacity rights for the following April to March. This also has the benefit that prospective bidders will have more accurate information on expected gas flows and the programme of annual maintenance to be carried out in summer months when flows are more variable and this has led to greater volatility of availability and pricing in past processes.

Nature of Proposal

It is proposed that the AMSEC auctions are held in February of each year, from 2004, and at this time to auction capacity for the following April (Y) to March (Y+1).

This would require some interim arrangements, including the holding of a further 6 monthly MSEC auction in August 2003 in order to offer capacity for the period October 2003 to March 2004.

There would also be a transition issue of the nature of capacity offered. In order to align the processes:-

the first AMSEC (held in Feb 04) auction would make available,

- i) Baseline not previously offered, from April 04 to Sept 04
- ii) Capacity held back (20%) from the LTSEC allocation held in Jan 03 for October 04 to Sept 05
- iii) Unsold capacity from October 05 to Mar 06

the second AMSEC (held in Feb 05) auction would make available

i) Unsold capacity from April 05 to Sept 05

ii) Capacity held back (20%) from the LTSEC allocation held in Sept 03 for October 05 to Mar 06

iii) Unsold capacity from Apr 06 to Mar 07

Thereafter the processes align to offer 12 months of capacity held back from the previous LTSEC allocation and capacity unsold for 24 months

A proposed programme of the timings is attached.

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.

It is recognised that this Modification may have some impact upon the LTSEC Allocation process. In order to ensure continuity of the processes, consideration of the timing of the LTSEC process may be required, but is addressed by a separate proposal.

Purpose of Proposal

To revise the timing of the AMSEC auction process in order to align the sale of capacity with Transco's Formula year and Baseline capacity periods.

To set the timing of the AMSEC auction process to that where bidders are in position of the best available information on gas flows and maintenance for the period for which capacity is sought.

Consequence of not making this change

The various processes would continue to be out of synchronisation with both financial and baseline capacity periods. Users would also continue to acquire capacity for summer periods without the benefit of the annual maintenance plan or confirmed outcome of LTSEC processes.

Area of Network Code Concerned

Section B

Proposer's Representative

MIKE S YOUNG

Proposer

British Gas Trading Ltd

Signature

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