

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0623
"Modification to LTSEC Weak Closure Rule"
Version 1.0

Date: 14/03/2003

Proposed Implementation Date: 01/06/2003

Urgency: Non-Urgent

Justification

Section B2.2.17 of the Network Code requires that “following the submission of quarterly capacity bids on each annual invitation date in the annual invitation period Transco will as soon as reasonably practicable after 17:00 hours on each such date identify, and notify Users of, the prevailing relevant step price group” and “in the event that the relevant step price group remains identical to the prevailing relevant step price group identified in respect of bids submitted by Users by 17:00 hours on the immediately preceding annual invitation date” the Long Term System Entry Capacity auction shall close and no further bids will be permitted. This closure rule is intended to encourage Users to post bids throughout the auction process and to enable the process to close early once an acceptable degree of stability has been demonstrated.

Following the recent Long Term System Entry Capacity auctions, held in January 2003, the NT&T Workstream contemplated making some minor amendments to enhance the efficiency of the LTSEC process. Following that discussion Transco indicated that it would bring forward a Modification Proposal that would advocate:

1. Providing greater clarity in the Network Code description of how the prevailing relevant step price group is derived,
2. Changing the naming convention for the prevailing relevant step price group (sometimes referred to as the notional clearing price),
3. Reducing the sensitivity of the closure rule so that the Long Term System Entry Capacity auction is not held open by small changes in bidding behaviour between successive auction rounds.

The change in naming convention and definition could be implemented from 1 June 2003. Reducing the sensitivity of the weak closure rule would require some systems modifications that could be delivered from 1 October 2003.

Nature of Proposal

The NT&T Workstream supported, and this Proposal advocates, the refinement of the definition of prevailing relevant step price group so that it includes the step price level at which aggregate demand is less than or equal to notional supply at that step price level. A change of this nature would be in accordance with the interpretation that a number of Users had previously placed upon the Network Code text.

To address the concern, as perceived by the NT&T Workstream, and so that it is less likely that it might be construed as signalling the final price to be paid by Users who are successful in the Long Term System Entry Capacity auction this Proposal advocates that the “prevailing relevant step price group” be renamed “Stability Measure”.

The introduction of a stronger closure rule might be expected to encourage Users to bid throughout the process and therefore should tend to improve the efficiency of the auction process. The NT&T Workstream considered, and this Proposal envisages, that it would be appropriate to consider changing the closure rule to require that if the "Stability Measure" does not change in more than four individual quarters/ASEP combinations when compared with the "Stability Measure" associated with the previous auction round (in respect of the second or any subsequent round) then the auction should close. This would differ from the present arrangements to the extent that at present any changes in any quarter at any ASEP will ensure the requirement for another auction round (except for the 10th round).

Purpose of Proposal

To enable greater clarity in the rules that are applicable to the auction of Long Term System Entry Capacity and to strengthen the closure rule. Providing greater clarity in the Network Code should tend to enhance understanding and efficient application by both Users and Transco. Strengthening the weak closure rule is intended to enhance the efficiency of the auction process where the best outcome is gained if Users bid throughout the process in the expectation that the process might terminate with that bidding round.

To seek views on the threshold for the maximum number of changed Stability Measures that would determine auction closure.

Consequence of not making this change

Auctions for Long Term System Entry Capacity will be conducted in accordance with the established Network Code rules.

Area of Network Code Concerned

Section B, Chapter 2

Proposer's Representative

Russell D Cooper (Transco)

Proposer

Mike Calviou (Transco)

Signature

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