TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0682
"Recompense in the Event of Late Completion of Works for Incremental Entry Capacity"

Date: 13/02/2004

Proposed Implementation Date: 1st April 2004 (or as applicable thereafter)

Urgency: Urgent

Justification of Urgency

Transco have raised Modification 680 to propose a mechanism for recompense in the event of late completion of works by Transco for a New System Entry Point. Rather than using or modifying the Capacity Constraint Management that are currently available to Transco, they are proposing simply not to charge users for days where capacity wasn't constructed.

Given the robust nature of the RGTA Entry Capacity regime, ie the structure is well understood and the rules have been designed to support a Long Term Capacity auction process, BG considers that the Constraint Management mechanism should be the correct starting point for managing Transco's inability to make capacity available due to non-completion of Transco works.

This Modification is being raised as Urgent because we would like the industry to consider our proposal in conjunction with Transco's, which closes for representations on 24th February 2004. In addition, the Modification is required ahead of auctions where these conditions might occur.

Nature of Proposal

This Modification is designed to work where Transco are physically expanding the entry capacity capability (Baseline) at an existing or new System Entry Point.

The proposal states that when an LTSEC Auction allocation has triggered a physical expansion of entry capacity, Transco enter into a Capacity Management Agreement in accordance with Section B 2.8 of the Network Code (v3.0) with those incremental Registered Users.

Such an agreement is generated automatically, such that Transco have the ability to manage any constraints due to late completion of works and the Registered Users have defined compensation rights.

Such Capacity Management Agreement would terminate when Transco works for expansion are completed. Transco would not be able to use this agreement for any other capacity management purposes (eg selling incremental capacity at a higher price) and such agreement would terminate on the 1st anniversary of the Capacity Allocation date.

BG recognises Transco's concerns that daily capacity buyback could result in Transco being exposed to the maximum buy back prices permitted under RGTA / Gemini systems, and our proposal is that for the first 12 months of any delay, Transco's daily exposure is capped.

All the capacity allocated would be available to be surrendered to Transco under this instrument. The daily offer price would be set at 8 (eight) times the relevant Quarterly auction capacity allocated bid price. This multiplier provides an effective incentive to Transco to complete the works on time, and is related to the level that Shippers have to pay for flowing gas against insufficient entry capacity holdings (Section B2.12.3.a)

This Modification would only apply where the delivery facilities are capable of delivering gas to the Transco network. This particular aspect requires careful wording, but a Network Entry Agreement with the Terminal Operator would need to be a minimum requirement, such process not to be unduly frustrated. It would also only apply to those Registered Users who had gas capable of being delivered to the entry point, preventing compensation against speculative bidders.

For existing system entry points Transco would be able to manage entry capacity constraints through the whole range of capacity management tools. Therefore Transco may be able to accommodate additional gas flows at an existing entry point within existing capabilities or receive more competitive buyback prices through the normal tools available to it.

For new system entry points, Transco would automatically buy the full capacity allocations back under the Capacity Management (Forwards) agreement with the registered users.

In the event that Transco's works were not completed within 12 months of the Capacity Allocation Date, then the Capacity Management Agreement would be terminated and normal capacity management tools would be available to Transco. This would potentially increase the exposure that Transco faced.

Purpose of Proposal

Implementation of this Modification Proposal would enhance the incentives on Transco (and their contractors) to complete physical expansion works on time. The proposal would provide a transparent mechanism for dealing with compensation for the lack of capacity being available.

Consequence of not making this change

Users at relevant System Entry Points would be exposed to capacity charges where Transco are late in the event of the completion of expansion. Furthermore, Transco would not have any greater incentive either directly, or to pass on to their contractors, to complete the works on time. This may jeopardize the viability of new gas supply projects to the NTS.

Area of Network Code Concerned

Section B

DRAFT LEGAL TEXT

Legal Text to be developed with Transco

Proposer's Representative

Mark Dalton (BG Gas Services Limited)

Proposer

Mark Dalton (BG Gas Services Limited)

Signature

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