

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0744
"Allocation of Incremental System Entry Capacity at System Entry Points with
Descending Price Schedules"
Version 2.0

Date: 10/02/2005

Proposed Implementation Date: 25/02/2005

Urgency: Urgent

Justification

Transco completed an extended auction for System Entry Capacity at Milford Haven in December 2004. Allocation of capacity for successful bids should be completed on 10 February 2005 in order to be consistent with Network Code requirements. Consideration of bids placed has revealed an inconsistency between the Network Code requirements and the analytical model developed by Transco to determine capacity release and allocation. Transco made this model available to Users, on request, to assist those bidding in the auctions in understanding the bid process. Transco believes that the inconsistency should be resolved as soon as possible and therefore Urgent status is requested.

Transco considers that this Proposal better facilitates its Licence Amended Standard Condition 9 relevant objectives as follows:

9.1.a - "the efficient and economic operation by the licensee of its pipe-line system;" to the extent that the allocation process would take account of all bids submitted by Users in the relevant auction.

9.1.c - "the securing of effective competition between relevant shipper and between relevant suppliers;" to the extent that Users would receive a greater allocation of capacity which should tend to increase competition.

Justification for Urgent Status:

In respect of the recent Milford Haven auction the quantity of Permanent Obligated Entry Capacity will remain unchanged; however the quantity to be allocated to Users will be different if this Proposal is not approved. The affected Users have been informed that the allocations made for April - September in each of 2017-2020 (inclusive) are provisional and cannot be relied upon; they may be modified following the decision made with regard to this Modification Proposal. Urgent status would therefore reduce the period of uncertainty for those Users who have bid in the recent Entry Capacity auctions and who may have to delay other business decisions that are dependent upon the auction allocations. This situation may be particularly important to resolve in a short timescale as the ASEP affected is a New ASEP.

Agreed Timetable:

Proposal issued to Ofgem for decision on urgency	10/02/2005
Proposal agreed as urgent	11/02/2005
Circulate to Users requesting representations	11/02/2005
Representation close-out	17/02/2005
Urgent Modification Report issued to Ofgem	23/02/2005
Ofgem decision expected	25/02/2005

Nature of Proposal

Modification Proposal 0667 “Allocation of Incremental System Entry Capacity at System Entry Points with Descending Price Schedules” was raised to enable capacity allocation to be maximized in instances where Users bids are placed against a descending price schedule. The Proposal was described as follows:

“The Network Code sets out the rules for the allocation of Quarterly System Entry Capacity (QSEC) at Aggregate System Entry Points (ASEPs) made available for sale in the annual invitations for System Entry Capacity. In such invitations capacity amounts are offered for sale as incremental amounts at pre-determined prices. The amounts offered and the relevant prices, the step prices, are specified in accordance with Transco’s GT Licence and Transco’s Transportation Statement.

ASEPs can have ascending price schedules i.e. where step prices increase as the corresponding incremental amounts of QSEC offered increase or descending price schedules i.e. the step prices decrease as the corresponding amounts of QSEC offered increase.

The existing Network Code rules (B2.6) establish that when considering incremental quantities specified in the annual invitation in ascending price order the amount of capacity allocated is at the step price, “the relevant step price group” where the amount of capacity demanded is first equal to or less than that available. This rule has worked successfully for ascending price auctions, however the provisions of B2.6.5 would not facilitate a consistent allocation of capacity at an ASEP where there were a descending price schedule. Potentially, application of the present rules to descending price auctions could indicate that an inappropriately low volume should be released. Transco believes that the clause should tend towards maximizing capacity allocations such that for the purposes of capacity allocation the relevant step price group is where the amount of capacity demanded is **last equal to or less than** that available. Transco believes that the Network Code therefore needs to be amended to include this provision.”

This Modification Proposal is intended to clarify the treatment of bids in descending price auctions and better align the Network Code with the intent of Modification Proposal 0667, which we believe would also make it consistent with the analytical model made available to inform Users of how the allocation

process would be applied.

In order to better achieve the objective of tending to maximize capacity allocation it is proposed that the Network Code should be modified such that, in instances of a descending price auction, the quantities on offer should be considered in descending price order with the highest priced first (step price one) rather than in ascending incremental volume order. The price stack should also include the reserve price.

Once capacity release has been set at a given level, the final allocation would then be assessed with this volume availability and in effect the price schedule reorganized such that the zero priced quantity (reserve price) is placed at the end of a sequence of descending prices (i.e. cheapest last).

Transco believes that this Modification Proposal would enable allocations to be maximized in instances where a descending price schedule is published and Users may have placed large volume bids at the reserve price. Release of Entry Capacity would continue to be predicated on satisfaction of the relevant tests as set out in Transco's Incremental Entry Capacity Release Statement.

Proposed legal text:

Section B

Amend paragraph 2.2.10 to read as follows:

“2.2.10 Where in relation to the incremental amounts of Quarterly System Entry Capacity specified in an annual invitation the step prices specified:

(a);

(b) decrease as the incremental amount itself increases, Users may only submit a second or further Quarterly capacity bid where the ~~step~~ price applied for is less than that applying to any other bid, if the amount of Quarterly System Entry Capacity applied for in such bid is no less than that applied for under any earlier bid.”

Amend paragraph 2.2.11 to read as follows:

“2.2.11 Transco shall reject a capacity bid submitted on an annual invitation date where:

~~(a) the bid price is less than the reserve price or is not a step price;~~

~~(a)~~ (b) the requirement in paragraph 2.2.10 is not complied with;

~~(b)~~ (c) any ~~other~~ requirement of paragraphs 2.2.6 or 2.2.7 is not complied with,

and Transco may reject a capacity bid in accordance with Section V3.”

Amend paragraph 2.6.5(b)(iii) to read as follows:

“(iii) where paragraph (i) above is not applicable and paragraph 2.2.10(b) applies, the step price group or those bids at the reserve price (as the case may be), when considering the ~~incremental quantities~~ step prices and the reserve price specified in the annual invitation in ~~ascending~~ descending order, in respect of which the step price group quantity or the Reserve Price Bid Amount is last equal to or less than the Actual Available System Entry Capacity.”

Purpose of Proposal

The purpose of this Proposal is to enable the maximization of capacity allocation as originally intended by Modification Proposal and to remove an anomaly that has come to light in the recent auction of Entry Capacity at Milford Haven. This Modification Proposal, if approved, would also have the effect of bringing into line the Network Code with the Transco analytical model developed to manage the release and allocation of capacity. The reason for making this model available was to enable Users, bidding in the auction, to understand the release trigger for new capacity such that they could give an investment signal which met their future operational needs. This was considered to be consistent with an efficient release of capacity.

Consequence of not making this change

If this Modification Proposal is rejected, then Transco will allocate on the basis of existing Network Code requirements. Allocation should be possible 7-10 days after the decision on this Modification Proposal.

For 8 quarters from 2017 onwards (being April to Sept, 2017-2020), less capacity would be allocated than would be the case if this Modification Proposal was to be approved. Auction income would also be higher during this period by around £26m. The volume difference amounts to approx 7% of the maximum allocation volume.

The quantity of defined Permanent Obligated Entry Capacity is unaffected.

Area of Network Code Concerned

Section B paragraphs 2.2.10, 2.2.11 & 2.6.5(b)(iii)

Proposer's Representative

Ritchard Hewitt (Transco)

Proposer

Richard Court (Transco)

Signature

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