

Draft Modification Report
Allocation of Incremental System Entry Capacity at System Entry Points with Descending Price Schedules
Modification Reference Number 0667
Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

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.

2. Transco's Opinion

Transco, as proposer, supports implementation of the modification proposal.

Transco believes that capacity should be allocated consistently with the other relevant provisions of the Network Code and the Incremental Entry Capacity Release statement (IECR). Under the present Network Code rules an inappropriate volume of capacity could be released at ASEPs with descending price schedules. This outcome could occur because application of the existing rules could require Transco to release a lower quantity than may have been demanded by Users at other price steps. The proposal would enable Transco to discharge its primary duty as a Gas Transporter as specified in its GT licence such that it operates its pipeline system in an economical and efficient manner.

The amendment has not had any material consequences to date because in the two annual invitations for QSEC to date capacity has only been offered for sale at ASEPs with ascending price schedules. However, this does not preclude that capacity may be offered at an ASEP with a descending price schedule at any time in the future and therefore it is timely that the amendment is proposed.

3. Extent to which the proposed modification would better facilitate the relevant objectives

Transco believes that implementation of the modification proposal better facilitates Transco's relevant objectives particularly in terms of the economic and efficient operation of its pipeline system. Where capacity is to be offered for sale at an ASEP with a descending price schedule the proposed modification will facilitate the appropriate market signals thus enabling economic investment decisions to be made and therefore economic and efficient operation. In the absence of the proposed modification there would be an increased possibility that Transco would not be able to act upon the appropriate market signals resulting ultimately in increased cost to Users and restricted access to Entry Capacity.

The modification proposal could be seen to facilitate competition between shippers in that capacity availability would be maximized and would be made available economically and efficiently thereby lowering any barriers to entry that would otherwise exist.

The proposal takes account of developments in the transportation system in facilitating the efficient development of capacity at an entry point with a descending price schedule. To date capacity has only been offered for sale at ASEPs with ascending price schedules.

4. The implications for Transco of implementing the Modification Proposal , including

a) implications for the operation of the System:

There are no implications for the physical operation of the System.

b) development and capital cost and operating cost implications:

No additional operating costs are envisaged, whilst additional capital cost can be expected if the capacity allocation reflects a tendency to optimize capacity allocation, which is the intention of this proposal. Additional capital costs would normally be reflected by increased Entry Capacity Investment incentive income.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

Costs will be recovered through Transco's SO incentive.

d) analysis of the consequences (if any) this proposal would have on price regulation:

There are no such consequences.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

There are no such consequences.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Some systems development will be required to enable Entry Capacity to be released on the basis proposed. No further implications are anticipated for the related computer systems of Users.

7. The implications of implementing the Modification Proposal for Users

Transco is not aware of any implications for Users.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

Transco is not aware of any such implications.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco believes that the modification proposal is consistent with its licence arrangements to operate its pipeline system in an economic, efficient and coordinated manner.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages:

The proposal should enable Transco to make investment decisions in response to the market signals received in the annual invitations for system entry capacity

The proposal should enable capacity allocation to be optimized in a manner that is consistent with the incremental quantities identified by Transco's Incremental Entry Capacity Release statement.

Disadvantages:

Transco is not aware of any disadvantages

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations are now sought.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Implementation is not required for this purpose.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Implementation is not required having regard to any such proposed change.

14. Programme of works required as a consequence of implementing the Modification Proposal

There would not be a significant programme of works.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Circulate to Users requesting representations	01/12/03
Representations close out	15/12/03
Final Modification Report to Ofgem	19/12/03
Ofgem decision expected	31/12/03
Implementation date	05/01/04

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of this Proposal.

17. Text

SECTION B

Amend paragraph 2.6.4(b) to read as follows:

“(b) where paragraph 2.2.10(b) applies. . . is equal to the Actual Available System Entry Capacity, . . .”

Amend paragraph 2.6.5(b) to read as follows:

“(b) the “**relevant step price group**” is:

- (i) where paragraph 2.2.10(a) applies, the step price group . . . is first equal to or less than the Actual Available System Entry Capacity; and
- (ii) where paragraph 2.2.10(b) applies, the step price group, when considering the incremental quantities specified in the annual invitation in ascending order, in respect of which the step price group quantity is last equal to or less than the Actual Available System Entry Capacity;

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Mike Calviou
Commercial Frameworks Manager
NT & T

Date: