

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0667
"Allocation of Incremental System Entry Capacity at System Entry Points with Descending Price Schedules"
Version 1.0

Date: 13/11/2003

Proposed Implementation Date: 01/01/2004

Urgency: Non-Urgent

Justification

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.

The amendment has not had material consequences to date. Since the inception of the provisions for the allocation of QSEC there have been two annual invitations for QSEC and 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.

Nature of Proposal

To amend the Network Code section B 2.6.5 (b) to allow system entry points where there is a descending price schedule by, for example, inserting the relevant text (in italics)

(b) (i) where B 2.2.10(a) applies the “relevant step price group”....

(ii) where B 2.2.10(b) applies the “relevant step price group” is the step price group, when considering the incremental quantities specified in the annual invitation in ascending order, in respect of which is the step price group quantity is last equal to or less than the Actual Available System Entry Capacity;

Also 2.6.4(b) to be amended to replace the word “Aggregate” with “Available” such that 2.6.4 (b) reads “.....which is equal to the Actual Available System Entry Capacity”.

Purpose of Proposal

It is proposed that the Network Code is amended in order to make the provisions in the Network Code optimize the capacity allocation in a manner that is consistent with the incremental quantities identified by Transco’s Incremental Entry Capacity Release statement (IECR). This will 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.

Consequence of not making this change

Incremental System Entry Capacity would not be allocated consistently with the other relevant provisions in the Network Code or the IECR.

Area of Network Code Concerned

Section B

Proposer's Representative

Mark Freeman (Transco)

Proposer

Mike Calviou (Transco)

Signature

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