

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0638
"Extended LTSEC Auctions at New Entry Points"
Version 1.0

Date: 04/07/2003

Proposed Implementation Date: 01/08/2003

Urgency: Urgent

Justification

Reason For Urgency

Failure to implement the proposal in a timely manner will result in new Aggregate System Entry Points being treated in common with other established Aggregate System Entry Points in the forthcoming Long Term System Entry Capacity (LTSEC) auctions of September 2003.

Justification

The Network Code requires an auction for LTSEC to be held in September of each year. In that auction, Quarterly System Entry Capacity (QSEC) would be offered at all Aggregate System Entry Points.

Transco has recently consulted on the pricing arrangements for three new Aggregate System Entry Points: Welton, Humbly Grove and Milford Haven. Efficient auction outcomes in respect of these new locations depend, in part, on the developers (through associated shippers) being in a state of preparedness to bid for entry capacity. One particularly important contributing factor to an efficient outcome would be the efficient sizing of on-shore infrastructure to meet entry capacity demand. Transco would wish to facilitate such an outcome which is in the interest of both the wider community and specifically developers of infrastructure upstream of potential new entry points and Users who might wish to use incremental entry capacity. Efficient outcomes may be challenging to deliver in instances where there are multiple developments planned for a new Aggregate System Entry Point to be developed over a time period that does not enable information to be aggregated into a clear investment signal at a single point in time. This is most apparently the case with the present LTSEC auctions whereby bids resulting from a single ten day round of auctions are taken to provide evidence of capacity requirements.

The intention of this proposal is that for new Aggregate System Entry Points it may be possible to conduct an "Extended Initial Auction of System Entry Capacity" to establish a clearer auction signal as to likely future capacity requirements where infrastructure investment projects are envisaged but which are anticipated to have different start up dates. Information can then be aggregated over a longer period so that efficient investment can be made to underpin whatever capacity allocation arises. An extended auction may allow economies of scale to be realised by all Users who bid into an extended auction. Users will also have the opportunity to secure capacity at an initial (early) stage and a later final stage.

Transco considers that provision of efficiently sized pipelines to take gas away from new

Aggregate System Entry Points is consistent with its GT Licence obligations as well being in the wider interest. It believes that the proposal is consistent with the requirement highlighted by Transco in Transporting Britain's Energy to assist in enabling the provision of new gas supplies for the UK energy market. This ambition may best be served by establishing a process that enables demand for entry capacity at potentially new Aggregate System Entry Points from shippers to be aggregated over an extended period of time.

It is envisaged that an extended auction may be operated in circumstances where:

- The price schedule has not previously been published in the Transportation Statement and
- One or more market participants have agreed to underwrite an agreement that will have the effect of enabling Transco to fund the additional cost incurred as a result of extending the auction.

Nature of Proposal

It is proposed that the Network Code should be amended such that:

1. An Extended Auction may be operated in two stages, an interim and final stage. And will be applicable to the allocation of Quarterly System Entry Capacity only.
2. The provision of capacity through an Extended Auction will be subject to the provisions of existing paragraph B2.1 of the Network Code, which provides definitions pursuant to the allocation of entry capacity.
3. For the purposes of an Extended Auction paragraph B2.2.1 (invitation to auction) shall not apply. The new requirement shall be:
 - a. Not later than 28 days before the first invitation date for the interim stage of an Extended Auction, Transco will notify Users of the reserve prices and the step prices in respect of each applicable Aggregate System Entry Point.
 - b. The prices once published shall remain unchanged for the period of both the interim and final stages of an Extended Auction.
 - c. Transco will notify Users of the date by which the interim stage shall be completed.
 - d. The date for completion of the final stage shall be signalled at the time of the initial invitation to auction and a reminder will be issued not less than 28 days before the final stage is due to start.
4. Transco's invitation will be in accordance with existing paragraph B2.2.3 except that:
 - a. The invitation period shall be ten business days and
 - b. Available System Entry Capacity and the Reserve Price shall be published for the applicable period only (at present Capacity Year +2 to Capacity Year +16).
5. Transco will notify Users of the prevailing relevant Step Price Group in accordance with B2.2.17, but consideration of the closure provisions shall apply only to the ASEP(s) that is

subject to the Extended Auction provision. [The present provision is for consideration across all ASEPs].

6. The QSEC allocation provisions as described in paragraph B2.6 shall apply following the interim (first) bid stage except:

- a. Following an interim stage of an Extended Auction an indicative allocation only will be determined in accordance with paragraph B2.6
- b. Notification of allocation prices will be provisional only. Notification of volumes will be final.
- c. Bids cannot be withdrawn following completion of the interim bid stage, including during the final bid stage.

7. The QSEC allocation provisions as described in paragraph B2.6 shall apply following the final bid stage except:

- a. Determination of the allocation will take into account the aggregate of bids placed during the interim stage and bids placed in the final stage.
- b. If following the determination of an allocation after the final stage the resulting cleared price(s) indicates a lower price than had been indicated at the interim stage (when considering interim bids in isolation), the price indicated at the final stage shall apply.

8. Payment shall be as for existing entry capacity arrangements.

9. If following the interim bid stage where no capacity in respect of an ASEP has been allocated then the final stage of the extended auction shall not be operated in respect of the ASEP.

Purpose of Proposal

To enable an efficiently sized pipeline system to be developed to provide capacity for new Aggregate System Entry Points. The proposal is specifically designed to enable Transco to avoid having to commit to building multiple pipelines to a new Aggregate System Entry Point where an aggregation of information might otherwise provide a possibility of more efficient sale of capacity and any associated Transco infrastructure investment. The proposal might enable Users to take advantage of economies of scale at new Aggregate System Entry Points by enabling Users who bid in the interim stage to pay the costs associated with aggregated demand arising from the final stage of the extended auction.

Consequence of not making this change

Auctions for Long Term System Entry Capacity will be held in August/September of each year. There will be an increased possibility that where multiple non synchronised developments are undertaken at a new Aggregate System Entry Point, Transco might be required to build multiple pipelines at increased cost to both Users and Transco.

Area of Network Code Concerned

[Draft] proposed legal text

SECTION B: SYSTEM USE AND CAPACITY

Add new paragraph 2.2A to read as follows:

2.2A [New] Aggregate System Entry Points [and System Entry Capacity auctions]

2.2.1A For the purposes of this paragraph 2.2A:

- (a) a "**New**" Aggregate System Entry Point is an Aggregate System Entry Point in respect of which Transco has not previously held an annual invitation in accordance with paragraph 2.2 or this paragraph 2.2A;
- (b) an "**initial**" quarterly capacity bid is a capacity bid submitted on an initial annual invitation date and a "**secondary**" quarterly capacity bid is a quarterly capacity bid submitted on a secondary annual invitation date.

2.2.2A By not later than the Day falling twenty eight (28) Days before the first initial annual invitation date, Transco will notify Users of the applicable reserve prices and the step prices that will apply in respect of the New Aggregate System Entry Point for the purposes of the first annual invitation.

2.2.3A Transco will invite applications ("**first**" annual invitation) for Quarterly System Entry Capacity at the New Aggregate System Entry for each calendar quarter in Capacity Year + 2 to Capacity Year + 16 (inclusive) for such aggregate amounts of System Entry Capacity as is specified in the first annual invitation and Users may make applications for System Entry Capacity in respect of the New Aggregate System Entry Point [in accordance with this paragraph 2.2A].

2.2.4A Transco's annual invitation under paragraph 2.2.3A will specify:

- (a) the date(s) on which applications ("**initial applications**") pursuant to the first annual invitation may be made, which shall be a period of ten (10) consecutive Days, each being a Business Day, (each such date an "**initial**" annual invitation date);
- (b) the date(s) on which further applications ("**secondary applications**"), where Transco wishes to invite further applications, pursuant to the first annual invitation may be made, which shall be a period of ten (10) consecutive Days, each being a Business Day, (each such date a "**secondary**" annual invitation date);
- (c) for the New Aggregate System Entry Point, and in respect of each of [Capacity Year + 2 to Capacity Year + 16] (inclusive), the Available System Entry Capacity and the applicable reserve prices for Baseline System Entry Capacity [(in accordance with the Transportation Statement) [(the "**applicable reserve price**")]];
- (d) for the New Aggregate System Entry Point, and in respect of each of [Capacity

Year + 2 to Capacity Year + 16] (inclusive):

- (i) the relevant number of incremental capacity amounts of Quarterly System Entry Capacity greater than the Baseline Entry Capacity (the maximum incremental capacity amount being not less than an amount equal to 150% of Baseline Entry Capacity); and
- (ii) the step price payable by Users for each different incremental capacity amount were Transco to make such incremental capacity amount available,

[in each case (in accordance with the Transportation Statement);] and

- (e) the relevant number for the purposes of paragraph (d) being twenty (20) except in event of a New Aggregate System Entry Point where the Baseline Entry Capacity is less than 300,000,000 kWh/Day where the relevant number (being not greater than twenty (20) and not less than five (5)) shall be [] [set out in the Transportation Statement].

2.2.5A Where following the submission of initial applications Transco [wishes]to invite further applications for Quarterly System Entry Capacity at the New Aggregate System Entry Point Transco will:

- (a) invite secondary applications by not later than the 30 September following the last initial annual invitation date;
- (b) by not later than the Day falling twenty-eight (28) Days before the first Day on which Users may submit secondary applications [re-notify] Users of each of the secondary annual invitation date(s),

and Transco's invitation will be in accordance with paragraph 2.2.4A and in respect of which the applicable reserve price shall be the same as that applicable reserve price that applied when Users were invited to submit initial applications.

2.2.6A Users may apply for Quarterly System Entry Capacity for a calendar month in each of [Capacity Year + 2 to Capacity Year + 16] (inclusive) in respect of the New Aggregate System Entry Point on initial annual invitation dates and on secondary annual invitation dates (and a User who has not submitted an initial application shall not be prevented from submitting a secondary application where Transco invites secondary applications).

2.2.7A For the avoidance of doubt, and without prejudice to the further provisions of this paragraph 2.2.A, in relation to a first annual invitation:

- (a) paragraphs 2.2.5, 2.2.6, 2.2.8, 2.2.10, 2.2.11 and 2.2.12 shall apply;
- (b) paragraph 2.2.9 shall apply provided that an initial quarterly capacity bid may not be withdrawn on a secondary annual invitation date;
- (c) paragraph 2.2.17 shall apply for which purposes the prevailing relevant step price group shall be determined by reference to the quantities of Quarterly System Entry Capacity applied for in aggregate at the New Aggregate System Entry Point by Users up until 17:00 hours on each relevant invitation date).

- 2.2.8A Without prejudice to paragraph 2.2.9A, following the submission of initial applications in relation to the New Aggregate System Entry Point paragraph 2.6 shall apply and Transco shall allocate System Entry Capacity and Users will be registered as holding Quarterly System Entry Capacity at the New Aggregate System Entry Point in the amounts so allocated.
- 2.2.9A Where Transco invites and Users submit secondary applications in relation to the New Aggregate System Entry Point paragraph 2.6 shall [again] apply for which purposes the Reserve Price Bid Amount and the relevant step price group shall be determined by reference to initial quarterly capacity bids and secondary quarterly capacity bids and Transco shall allocate or (as the case may be) reallocate System Entry Capacity and Users will be registered as holding Quarterly System Entry Capacity in the amounts so allocated or (as the case may be) reallocated.
- 2.2.10A [For the avoidance of doubt] following the allocation of System Entry Capacity under paragraph 2.2.9A Users agree to pay by way of System Entry Charges for the Quarterly System Entry Capacity allocated the step price corresponding to the relevant step price group for the calendar quarter following the [second] application of paragraph 2.6 [irrespective of whether or not the step price is the same as the step price corresponding to the relevant step price group following the first application of paragraph 2.6 in respect of initial applications.]
- 2.2.11A [Nothing in this paragraph 2.2A shall be construed as giving rise to a requirement that Transco make available System Entry Capacity in relation to the New Aggregate System Entry Point on secondary annual invitation dates or that Transco invite Users to submit secondary applications.]

Proposer's Representative

Russell D Cooper (Transco)

Proposer

Mike Calviou (Transco)

Signature

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