

Draft Modification Report
Availability of Surrendered Entry Capacity
Modification Reference Number 0581

Version 2.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

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 Proposal states that under Network Code Modification 0559: “Changes to Buy-Back Liabilities”, the capacity neutrality driver was changed from registered monthly entry capacity to end of day firm capacity holdings with costs and revenues smeared nationally. Therefore, Users holding any form of firm System Entry Capacity at the end of the gas day will incur a share of any buy-back liability from Transco’s actions in re-acquiring Entry Capacity. As part of this development Transco has offered, with reasonable endeavours, to accept zero-priced offers to buy-back unused capacity up to 1700 hours within day. This reduces the Users potential buy-back liability.

Following implementation of Modification 0559, a Proposal has been made such that the capacity bought back by Transco should be offered by Transco for use by any User at zero cost.

The following draft business rules have been supplied by the Proposer:

Principle objective of Modification

Following the implementation of Modification 559 “Changes to Buy-Back Liabilities”, Users holding any form of firm System Entry capacity at the end of the gas day will incur a share of any buy-back liability from Transco’s actions in re-acquiring Entry Capacity. As a part of this development, Transco have offered, with reasonable endeavours, to relieve Users of any unused Entry Capacity at 17.00hrs at zero cost, in order that this liability may be reduced.

There may be circumstances, following Transco’s assessment of available capacity, where this capacity could be made available later in the same gas day. In which case Transco should be obliged to offer this capacity for use by any User. This will ensure that the maximum amount of firm capacity will continue to be available to the community and not unnecessarily restrict flow of gas on to the system.

Process

1. Following any firm capacity surrender [or buy back] [at or up to 17.00] on the gas day, Transco will continue to assess the level of firm capacity which could be made available at each ASEP. At any time if the ASEP Capability is such that an amount of available firm capacity at any ASEP is greater than that quantity sold, Transco will indicate the availability prior to the next hour bar up to 02.00 in a Capacity Allocation Period as defined at per B2.4.13(h)). This availability will be on the basis of the capacity rate and the remaining hours of the gas day in which flows can be accomplished.
2. This will be indicated in the Standard RGTA Capacity system (Auction Capacity Available screen). Any User will be eligible to accept this capacity subject to Code rules but at zero cost.
3. In the event that there are competing acceptances of this capacity at any hour bar the capacity will be allocated to each accepting User pro rated in proportion to their acceptance. (Following the procedure described at B2.7.2 (d specifically)).

2.7.2 For a relevant short term period, System Entry Capacity in respect of an Aggregate System Entry Point will be allocated pursuant to capacity bids submitted in respect of such short term period as follows:

(d) subject to paragraph (e) and paragraph 2.7.3, where each of two or more bids ("**equal priced bids**") specifies the same bid price, and the amount of relevant capacity remaining applied for in aggregate under such bids exceeds the remaining unallocated amount, the remaining unallocated amount will be allocated pro rata the amounts applied for in each such bid;

4. Any capacity allocated to a User in this process will be included in the aggregate capacity holding. This figure will be included within invoices (at zero cost) and will be the figure upon which Buy Back Liabilities will be allocated.

2. Transco's Opinion

Transco does not support implementation of this Modification Proposal.

Transco's GT Licence sets out the circumstances by which Transco is deemed to have discharged its obligation to offer baseline capacity as well as the treatment of revenues that may arise. In Transco's opinion, this Proposal is not consistent with the recently established GT Licence arrangements. In particular, the GT Licence directs revenue from all within day sales to the Entry Capacity Buy-Back Incentive. The premise of this Proposal is that the revenues that may arise from re-selling previously bought back entry capacity should be counted towards allowed revenue and therefore should be fixed at a zero price so that Transco does not receive allowed revenue twice. Modification of Transco's GT Licence would be required for this to be implemented.

The Modification proposes that capacity is released at zero price. However, if competing bids are received at the same price for a greater level of capacity than is available, the allocation would be scaled back pro-rata to the bid. The Proposal suggests that capacity would be available at a fixed, zero price and Transco believes clarity would be required prior to implementation as to whether Users would be expected to indicate the volume of capacity they are seeking and price they are willing to pay, with subsequent payment reflecting the amount bid, or whether capacity would be allocated at zero price regardless of the level of bids. In the latter case, Transco would be concerned that Users may have an incentive to overstate their demand. The former case, is, however, more consistent with present mechanisms, amounting to a zero reserve price for this category of capacity. While closer to the existing approach, Transco believes it is inappropriate to introduce such a change through the Network Code rather than the Transportation Charging Methodology, with reserve prices set in accordance with the requirements in Condition 4 of Transco's Licence.

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

In Transco's opinion, the proposed Modification would not better facilitate the relevant objectives. In particular, that the proposed allocation at a fixed zero price could provide Users with an incentive to inflate demand, and consequently would be less efficient than the established capacity release process. Daily allocation processes could become more complex and consequently less efficient if dissimilar allocation processes are expected to be operated on the same day for capacity to be used effectively at the same time.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

There is unlikely to be a change in physical operation of the System as a result of implementation of this Proposal.

b) development and capital cost and operating cost implications:

A new release process would be required to enable capacity to be offered at a fixed price and to provide a mechanism to pro-rate demand as appropriate. The release process would be expected to potentially run alongside the existing release processes and could be operated more than once on any day.

No development or capital costs have been identified at this stage. Operating costs are expected to be minimal if the proposed capacity release process can be conducted by the present complement of operational staff.

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:

Any additional System Operator costs incurred as a result of implementing this Proposal would be accounted for under the cost incentive scheme as part of Transco's Licence arrangements.

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

The Proposal identifies a treatment of revenue arising from sales of some Daily System Entry Capacity that is not consistent with the present licence arrangements. In particular, revenue accruing to the Entry Capacity Buy-Back Incentive would be changed.

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

Transco would need systems development to create the proposed release process. It is anticipated that a screen based process would be established to enable Users to input bids. A provisional estimate of the time required to deliver the necessary systems is nine months.

7. The implications of implementing the Modification Proposal for Users

The implication of implementing the Modification Proposal is that Users could be unclear as to the level of zero-priced capacity they should bid for.

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

There are no 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 not consistent with its Licence arrangements. In particular, this Proposal is not consistent with the Licence definitions of which capacity constitutes baseline capacity and revenue treatment for Daily System Entry Capacity sold within day.

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

Advantages:

- Users may take the view that they will be able to access zero-priced capacity.

Disadvantages:

- Inconsistency with Licence arrangements.
- Users could receive confusing signals on capacity availability.
- Potential inefficiency arising from incentives on Users to overstate demand.

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

Transco now invites representations to the Modification Proposal.

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

A Pricing methodology change would be required to enable the Daily System Entry Capacity identified in this Proposal to be released at a fixed price.

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

Design and build systems (9 months).
Conduct User training (1 week).
Write legal text (2 weeks in parallel) .

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

Draft Modification Report issued	7 November 2002
Close out for Representations	28 November 2002
Issue Final Modification Report	19 December 2002
Ofgem decision expected	End December 2002

16. Recommendation concerning the implementation of the Modification Proposal

Transco does not recommend implementation of the Modification Proposal.

17. Text

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:

Tim Davis
Head of Regulation NT&T

Date: