

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0587

"Prospective publication of further forward and option entry capacity information "

Version 2.0

Date: 24/09/2002

Proposed Implementation Date:

Urgency: Urgent

Justification

An active and liquid secondary capacity market is in the interests of Transco, shippers and customers. A well-functioning secondary market will lower volatility in entry capacity prices, allow existing shippers and new entrants to hedge entry capacity price risk and assist Transco in managing the costs of entry capacity constraints. All of these benefits will ultimately lead to lower costs to shippers and lower prices for end consumers.

To facilitate the development of such a market, information transparency is key. Access to information on capacity management tools is vital to enable shippers and customers to understand market dynamics. Information on the market will also facilitate new entry and greater competition in the buy-back market. This should lead to lower buy back costs over time.

Shippers and customers should also have access to this information to allow them to effectively monitor Transco's actions. Shippers and customers ultimately bear the costs of any Transco actions and need to be able to ensure that Transco is operating the system efficiently in choosing to access alternative tools.

Finally, access to this information is important to shippers as capacity management costs are used in the calculation of entry capacity overrun charges. Without access to this information, shippers cannot determine their potential exposure to entry capacity overrun charges. This will prevent shippers from managing their capacity position efficiently and may lead to higher risk premia being charged to end-users. It could also prevent shippers from checking for accuracy capacity invoices and overrun charges.

Following the implementation of modification 561, Transco now publishes some information on volumes and prices and Transco's use of capacity management tools. As part of the modification process, Transco raised concerns about releasing confidential information in the event of a small number of successful bidders at certain terminals. As a result the proposal was revised. Transco is only obliged to publish information where the number of Users with whom Transco has contracted is greater than 3.

In approving the modification, Ofgem stated that "In general terms, Ofgem believes that this proposal will provide valuable information to the market that should facilitate competition between shippers in selling back capacity to Transco and as such, should also assist in reducing buy-back costs and promoting liquidity in the secondary capacity market. In particular, by revealing prevailing market information on price and volumes for particular periods, the proposal should facilitate competitive entry into the buy-back market and the competitive re-pricing of capacity."

On the issue of confidentiality, Ofgem said “In principle Ofgem considers that publication of such information when there are only a small number of successful tenderers (i.e. below the threshold in the revised proposal) may be desirable in order to facilitate competitive entry into the buy-back market and the competitive re-pricing of capacity. The release of such information however would be subject to the removal of confidentiality restrictions in existing Transco forwards and options contracts. Ofgem would encourage further discussion of this issue by the industry for future tenders Transco may conduct.

Ofgem also believes that shippers and the wider industry and customers have a valid role to play in monitoring Transco's performance under its incentives because it is customers who ultimately pay for the costs of Transco's system operation activities. As such, Ofgem believes this proposal will better enable shippers and customers to monitor Transco's performance.”

AEP believe that more information on prices and volumes tendered should be published and that information should be published whatever the number of bidding (or successful) shippers.

AEP believes that this proposal merits urgent status. Transco has already initiated tender procedures to procure capacity management services for this winter. Subsequent tenders for capacity management services are likely to be held over the coming weeks. Rapid publication of this information will allow shippers to compete more effectively in tenders. It will also allow shippers to understand likely overrun charges this winter following Transco's tenders and manage the risk more effectively.

Nature of Proposal

For each forward tender held following the implementation of this modification, Transco should publish the following information for each ASEP and for each day of the Forward Delivery Period tendered for, within one working day of the completion of the tender:

- the volume weighted average price of forward tender offers received;
- the volume of forward tender offers received;
- the minimum price of forward tender offers received;
- the maximum price of forward tender offers received;
- the volume weighted average price of forward tender offers accepted;
- the volume of forward tender offers accepted;
- the minimum price of forward tender offers accepted; and
- the maximum price of forward tender offers accepted

For each option tender held following the implementation of this modification, Transco should publish the following information for each ASEP and for each Option Exercise Period tendered for, within one working day of the completion of the tender:

- the volume weighted average of option strike prices received;
- the volume of option tender offers received;
- the minimum of offered option strike prices;

- the maximum of offered option strike prices;
- the volume weighted average of accepted option strike prices;
- the volume of option tenders accepted;
- the minimum of accepted option strike prices; and
- the maximum of accepted option strike prices.

Transco should also notify users each Gas Day (for each ASEP) the volume of entry capacity options exercised on that Day and the weighted average strike price of the options exercised on that Gas Day.

Purpose of Proposal

This modification would, if implemented, better facilitate the relevant objectives of the efficient and economic operation of the pipeline system by facilitating new entry and greater competition in selling forward and option contracts to Transco. It would also better facilitate competition between shippers and suppliers by reducing risk as it would allow shippers to assess overrun charges on the day and to check capacity invoices.

Consequence of not making this change

Failure to publish this information will hinder the development of competition in provision of capacity management services to Transco leading to higher costs of system operation and higher costs to customers. It will also hinder the development of an actively traded secondary market in capacity, raising risks and costs to shippers and customers. Finally, it will prevent shippers assessing and understanding capacity overrun charges and lead to higher risk premia being charged to customers.

Area of Network Code Concerned

Section V

Proposer's Representative

Stephen Charles Smith (AEP Energy Services Ltd)

Proposer

Stephen Charles Smith (AEP Energy Services Ltd)

Signature

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