TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0578

"Additional Changes To Entry Capacity Buy Back Liabilities"
Version 1.0

Date: 14/08/2002

Proposed Implementation Date: 01/04/2003

Urgency: Non-Urgent

Justification

This Proposal has been raised to enable Users to consider changes to the allocation of buy-back costs and entry capacity revenues such that there is an increased incentive to trade capacity holdings against which gas is unlikely to be flowed. This would be expected to enhance liquidity in the capacity markets, which is consistent with promoting competition between shippers, and with providing appropriate signals to Transco about the value of capacity, which would be expected to assist in the economic and efficient operation of its pipeline system. This would be achieved by better targeting of costs and revenues.

This proposal is intended to facilitate improved targeting of costs and revenues from 1st April 2003 onwards. The proposal has been raised to enable Users to consider the changes ahead of the initial sale of entry capacity, applicable from 1st April 2003 onwards, to be conducted in respect of LTSEC in October 2002 and in respect of MSEC in February 2003.

Nature of Proposal

It is proposed that the following changes to the capacity buy-back neutrality driver are considered for implementation in 2003. The suggested implementation date is 1 April such that the apportionment mechanism for buy back liabilities, to be applied for a period, would be known before MSEC or longer term auctions were held for that period. The suggested changes are:

The inclusion of interruptible capacity holdings within the capacity neutrality driver, combined with a mechanism for User's to surrender their interruptible capacity;

Improved cost targeting between ASEPs. For example the creation of ASEP Groups to better facilitate targeting costs and revenues. It is envisaged that a two group model might constitute one group consisting of the "northern triangle" and one for southern ASEPs. Alternatively the targeting of all or a proportion of costs to specific ASEPs might be considered to be more cost reflective;

Targeting differing proportions of costs and revenues to "used" and "unused" capacity. For this purpose, unused capacity is considered to be capacity in excess of a User's gas allocation.

Purpose of Proposal

This proposal has been raised because Transco believes it furthers the relevant objectives set out in Standard Condition 7 of the GT Licence: economic and efficient operation of the pipeline system and promoting competition among Shippers.   The proposal is intended to increase efficiency in the buy-back process, which could lead to lower capacity management costs to be shared between Users and Transco. The efficiencies should be obtained by better targeting of costs and revenues which will increase liquidity in the capacity markets. Greater liquidity will then offer opportunities for more price competition and greater depth of buy-back offers.

Consequence of not making this change

Existing arrangements for capacity neutrality will continue, as set out in the Network Code.

Area of Network Code Concerned

Section B

Proposer's Representative

Eddie J Blackburn (Transco)

Proposer

Tim M Davis (Transco)

Signature

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