

Draft Modification Report
Revisions to entry capacity overrun charges ahead of next auctions
Modification Reference Number 0589

Version 1.0

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.

Draft Modification Report issued	7 November
Closeout for representations	28 November
Final Modification Report issued	19 December

1. The Modification Proposal

The current entry capacity overrun charges should be amended before the next set of MSEC auctions to remove the eight times multiple of monthly auction prices from the calculation and replace it with a multiple of 1.1 times the monthly auction prices. The other elements of the overrun calculation should remain unchanged.

The change to the overrun charge should take effect from 1 April 2003.

2. Transco's Opinion

Transco wishes to emphasise that maintaining an appropriate incentive on shippers to pre-book capacity is a necessary prerequisite to efficient management of the pipeline system. Capacity management provides the primary means of managing gas flow at entry and therefore its ability to manage gas flow could be impaired if the proportion of gas flowed against pre-booked capacity is diminished. Transco accepts that it is not plausible to predetermine an appropriate level for the overrun multiplier and that therefore periodic review in the light of experience is warranted.

Since 1 October 2002 an eight times multiplier has applied to the highest price paid for all firm entry capacity regardless of the primary release process (Quarterly, Monthly or Daily). Transco presumes that this proposal is intended to maintain the principle of applying a common multiple and that a literal interpretation of the proposal as applying to Monthly System Entry Capacity only is not correct.

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

The proposer argues that this Modification Proposal "would better facilitate the relevant objectives by ensuring more efficient utilisation and operation of the pipeline system. By increasing incentives to trade and decreasing incentives to hoard capacity, it will lower capacity management and trading costs and prices".

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

Provided that a positive incentive to pre-book entry capacity is maintained there will be no implications for operation of the system.

b) development and capital cost and operating cost implications:

No such implications have been identified.

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:

No costs are anticipated.

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

No consequences are anticipated.

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

No change in the level of contractual risk is anticipated.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

No implications have been identified.

7. The implications of implementing the Modification Proposal for Users

Users will be exposed to a lower level of overrun charge on days when capacity management costs are not driving the overrun charge calculation.

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

No implications are anticipated.

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

No implications are anticipated.

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

Advantages

Overrun charge will be lower on 'non-constrained' days.

Disadvantages

May lower the incentive to pre-book capacity.

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

Representations are sought.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

This proposal is not required in order to enable Transco to facilitate compliance with safety or other legislation.

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

Not applicable.

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

A programme of works has not been identified.

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

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Implementation is proposed to take effect from 1 April 2003

16. Recommendation concerning the implementation of the Modification Proposal

Transco wishes to reflect upon the arguments put forward by Users and seeks clarification of its interpretation that the proposal should apply to all firm entry capacity rather than being limited to MSEC only.

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: