

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0559

"Changes to Buy Back Liabilities"

Version 1.0

Date: 28/06/2002

Proposed Implementation Date: 01/10/2002

Urgency:

Justification

The capacity neutrality provisions in the Network Code require revenues and costs generated in the entry capacity regime to be allocated to Users according to their holdings of Monthly System Entry Capacity (MSEC). Revenues are smeared at the ASEP level, while costs are shared between shippers nationally. The liability to meet costs is based on the primary allocation of MSEC and does not reflect either trading to another User or surrender of capacity to Transco. This Proposal has been raised with a view to amending the approach such that there is an increased incentive to trade MSEC 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. In addition, the Proposal seeks to break the direct link between MSEC purchases and buy-back liabilities, hence reducing a potential distortion in the primary allocation of MSEC and hence should improve the signals generated by auctions in the interests of both promoting competition and facilitating economic and efficient operation.

Nature of Proposal

It is proposed to change the current capacity neutrality driver in the Network Code, MSEC, to end of day firm entry capacity holdings at the national level, including purchases of Monthly and Daily System Entry Capacity plus, for the avoidance of doubt, any other firm capacity products which may be introduced. The calculation of holdings would reflect firm capacity surrender and trades, being based on final holdings rather than the initial allocation. Costs and revenues generated on a day would therefore be shared based on Users' net firm capacity holdings on that day. Invoicing arrangements would be unchanged from those used at present.

It is proposed that this approach would be implemented with effect from 1st October 2002.

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.

Consequence of not making this change

The existing arrangements for capacity neutrality will continue, as set out in the Network Code. Users' would, therefore, be unable to reduce potential liabilities associated with the initial allocation of MSEC.

Area of Network Code Concerned

Section B2.13

Proposer's Representative

Heather J Lockyer (Transco)

Proposer

Tim M Davis (Transco)

Signature

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