

**TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0483**  
"MSEC Auction Quantity Revision and Capacity Incentive Adjustment"  
Version 3.0

**Date:** 01/08/2001

**Proposed Implementation Date:**

**Urgency:** Urgent

**Justification**

Urgent status is requested for this Modification Proposal to enable a resolution to be made prior to the forthcoming auctions of Monthly System Entry Capacity (MSEC). These are currently scheduled to commence on the 13th August 2001.

A separate modification has been raised (Modification Proposal 0482) that seeks views about the proposal to defer the start date of the next set of MSEC auctions to 29 August 2001.

A resolution on both this proposal and Modification Proposal 0482 is required before the 13th August to accommodate a situation in which it is decided not to implement Modification Proposal 0482

**Nature of Proposal**

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This proposal has three interlinked elements:

- a) Transco proposes that the Determined System Entry Capacity should continue to be equal to SND+10% but that the quantities offered in each auction round under the present arrangements are revised.
- b) Transco proposes to apply a revised process to determine the quantities of capacity to be made available in the fifth round.
- c) It is also proposed that the capacity incentive arrangements will be adjusted to reflect the reduced potential for incremental sales of Daily System Entry Capacity at the most highly valued ASEPs should the increased customer flexibility offered in round five generate higher capacity sales at such ASEPs.

In respect of the quantities of entry capacity, the modification would provide an assurance that larger quantities would be available in the 5th round of the MSEC auctions. It is proposed that 90% of the Determined System Entry Capacity is offered in equal sized tranches for rounds 1 to 4 of the MSEC auctions.

The residual quantity, offered in round 5, would therefore comprise a minimum aggregate quantity equivalent to 10% of Determined System Entry Capacity for all Aggregate System Entry Point (ASEPs) plus any quantities remaining unsold from the preceding auction rounds. Such quantities would then be available for bid acceptance in price order subject to limitations specified in this proposal.

The second element of the proposal would enable Transco to increase capacity availability at individual ASEPs by taking into account both individual ASEP limits and where appropriate group limits that may be applicable. The use of a group limit alongside individual maxima will be applied in the fifth auction round.

Transco envisages such an approach would apply initially only to the St Fergus, Barrow and Teesside combination of ASEPs for the period October 2001 – March 2002 and seeks respondents views on the appropriateness of such a position.

Transco envisages that implementation of this approach to fifth round quantities may increase the quantities sold in the auction at one or more terminals within the proposed St Fergus, Barrow and Teesside combination. Therefore the proposal also includes an amendment to the capacity incentive and neutrality mechanism to reflect the likely change in risk/reward arising from such change. This adjustment is designed to reflect the reduced likelihood of incremental revenue flowing into the capacity incentive and neutrality mechanism at terminals where increased levels of MSEC sales result from this proposal.

Transco proposes to specify the maximum individual ASEP availability and an aggregate limit for the total quantity to be made available at the defined combinations of ASEPs. The fifth round will then enable bids to be accepted in descending price order but subject to both the maximum individual ASEP availability and the maximum aggregate ASEP availability of the defined combination (where appropriate).

If approved, Transco proposes to publish the revised maximum individual and aggregate ASEP availabilities via an amendment to the Transportation Statement. In addition a revised invitation to participate in the auction will be published.

Should this approach be implemented Transco would declare the following availabilities in the Transportation Statement:

<b>Max availability in round 5 GWh</b>	<b>Oct 2001</b>	<b>Nov 2001</b>	<b>Dec 2001</b>	<b>Jan 2002</b>	<b>Feb 2002</b>	<b>Mar 2002</b>
St Fergus	1391	1447	1459	1493	1476	1481
Barrow	481	596	637	637	627	606
Teesside	448	493	538	549	538	504
Northern Triangle absolute max	2011	2273	2426	2472	2450	2351

This approach would facilitate the potential sale of higher levels of individual ASEP capacity than would have been the case at terminals within the defined St Fergus, Barrow and Teesside combination. Whilst the aggregate sales in this combination are limited to the same aggregate level defined within the present invitation to participate in the auctions, it should facilitate greater shipper choice via the revised fifth round approach. That additional choice for shippers has a consequence of potentially reducing incremental revenue flows into the capacity incentive and neutrality mechanism. Additionally the approach may increase the risk of buy-back. The

effects of such a change will therefore impact the likely capacity incentive and neutrality mechanism. Hence it is appropriate to consider an amendment to the incentive.

The proposal may have a significant effect on the potential to generate incremental revenue into the incentive mechanism. Specifically increased MSEC sales at a particular ASEP might be expected to reduce the potential for day ahead and within day sales. An approximate impact might be assessed from the outcome of the MSEC auctions and an appropriate adjustment made in the incentive.

The capacity incentive and neutrality mechanism could therefore be adjusted as follows:

Where actual allocation in the MSEC auctions at an individual ASEP (St Fergus, Barrow or Teesside) exceeds the maximum allocation that is possible when applying the proposed group limit on a pro-rata basis, then a monthly compensatory sum will be made available to Transco in the capacity incentive (i.e. pro-rata quantities equal the maximum capacity availability at each of St. Fergus, Barrow and Teesside as specified in the present "invitation to auction"). That amount shall be equal to the applicable Daily System Entry Capacity (DSEC) reserve price, as published in the relevant charging statement, multiplied by the incremental quantity identified above for the relevant month, multiplied by 20%. It is proposed that the monthly sum be drawn from the balance of monies received for the sale of Daily Capacity. If actual allocation at an ASEP does not exceed the pro-rata allocation then no contribution is required. Where the monthly sum is less than the aggregate amount of relevant capacity incentive revenue, which Transco would normally have re-distributed to the holders of MSEC at each ASEP (80% of incentive revenue), Transco will deduct the monthly sum from the relevant capacity incentive revenue and re-distribute the remaining amount to the holders of MSEC at each ASEP in proportion to the revenue received for Daily Capacity services at each ASEP. Should the sum not be available in its entirety in the required month then the residual sum will be rolled over to the following month.

At the end of the six-month period, if Transco has been unable to collect the sum of the monthly sums, an "ad hoc" invoice will be issued to capacity holders to facilitate the collection of outstanding amounts. This invoice will be targeted to holders of MSEC in proportion to the level of revenue for daily capacity services at each ASEP over the period in question.

## **Purpose of Proposal**

The Modification Proposal, if implemented, is expected to enable greater opportunity for shippers to secure entry capacity at the places where shippers value it most highly. This should promote shipper-to-shipper competition. Such an outcome would be achieved by ensuring that at least 10% of available MSEC is made available in the fifth round of MSEC auctions and that the available monthly entry capacity quantities are related to the anticipated physical maximum for individual ASEPs subject to a limit being introduced for the aggregate of ASEPs in respect of ASEP combinations defined by Transco. Shippers may then be able to obtain larger quantities of capacity on a competitive basis at those ASEPs where they value it most highly than would be the case if the present arrangements continue to be applied.

Should implementation of this proposal give rise to greater capacity sales at any of the affected ASEPs then an adjustment to the capacity incentive will be made to reflect the reduced scope for making available firm entry capacity at such ASEPs

**Consequence of not making this change**

If the Modification Proposal is not implemented then the present MSEC arrangements detailed in Section B of the Network Code will continue to apply.

**Area of Network Code Concerned**

Section B : System Use and Capacity

**Proposer's Representative**

Dominic J Harrison (Transco)

**Proposer**

Tim M Davis (Transco)

**Signature**

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