

**URGENT Modification Report**  
**Delay to System Entry Capacity Auction for the period 1st October 2001 to 31st March 2002**  
**Modification Reference Number 0482**  
Version 1.0

This Modification Report is made pursuant to Rule 9 of the Modification Rules and follows the format required under Rule 8.9.3.

**Circumstances Making this Modification Proposal Urgent:**

In accordance with Rule 9.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because a decision is required prior to 13 August 2001, the scheduled commencement date of the auctions for Entry Capacity over the period 1 October 2001 and 31 March 2002.

**Procedures Followed:**

Transco agreed with Ofgem (and has followed) the following procedures for this Proposal:

Issued to Ofgem for decision on Urgency	30 July 2001
Proposal agreed as Urgent	31 July 2001
Proposal issued for consultation	31 July 2001
Close out for representations	06 August 2001
Final report to Ofgem	07 August 2001
Ofgem decision expected	08 August 2001

**1. The Modification Proposal**

The Network Code currently states that Transco must complete the Monthly System Entry Capacity (MSEC) auctions by 31 August 2001. It is proposed that this date be amended to 10 September 2001.

There would be no change to the date by which the Monthly Interruptible System Entry Capacity (MISEC) auctions should be completed by, which would continue to be 15 September 2001. However, in order to allow this timetable it is also proposed that the number of working days between rounds in both the MSEC and MISEC auctions be amended from two working days to one working day.

**2. Transco's Opinion**

A number of Modification Proposals have recently been raised relating to the entry capacity auction regime (0477, 0480, 0481 and 0483). In addition, Pricing Consultation PC65 (Alternative Method of Funding Entry Capacity Constraint Management) also considers changes to the post auction revenue redistribution mechanism.

All these proposals could be considered to have an impact on the bidding strategies of auction participants and, in light of this, Transco raised this Modification Proposal in order to allow views to be expressed on the desirability of delaying the commencement date of the next set of NTS Entry Capacity auctions.

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

It is recognised that a number of Modification Proposals have recently been raised relating to the entry capacity auction regime. The proposal would allow more time for assessment of the impact of any of these Modification Proposals should they be implemented and allow Users time to incorporate these changes to the regime into their bidding strategies. This could be considered to improve the efficiency of the auctions and, in turn, further the economic and efficient use of the pipeline system and promote effective competition between Users.

**4. The implications for Transco of implementing the Modification Proposal , including**

**a) implications for the operation of the System:**

No implications are envisaged for the operation of the System.

**b) development and capital cost and operating cost implications:**

The changes to the entry capacity auction timetable could be accommodated within the existing system and no additional costs are envisaged.

**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:**

Transco does not anticipate that implementation of this Modification Proposal would create significant additional costs which it would seek to recover.

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

Implementation of this Modification Proposal would not impact on price regulation.

**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**

It is not envisaged that implementation of this Modification Proposal would increase the level of contractual risk to Transco under the Network Code. Prior to the implementation of Modification Proposal 0409 (Revision to Monthly System Entry Capacity Auction Parameters) on 1 August 2000 the auction regime operated with only one business day between rounds and therefore Transco would be able to revert back to this process.

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

The change to the dates of the entry capacity auctions could be accommodated by the existing computer systems and no development work would be required. However, there would be a requirement to make a parameter change to Transco's RGTA system to enable the number of days between auction rounds to be amended from two business days to one business day.

Transco is unaware of any implications for the computer systems of Users.

**7. The implications of implementing the Modification Proposal for Users**

Users could benefit from the additional time available to assess the impact on capacity availability of approval of any of the Modification Proposals recently raised on the auction regime.

However, it is also recognised that Users would have less time between rounds to modify their bidding strategies depending on the outcome of the previous auction round. Users would also have less time between the completion date of the MSEC auction and the date when capacity would first be used.

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

Transco does not envisage any implications of implementing the Modification Proposal for the above parties.

**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 consequences are envisaged on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party as a result of implementing the Modification Proposal.

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

**Advantages :**

Provides additional time for Users to assess the impact of changes in the auction regime following implementation of any of the recently raised proposals relating to this area.

**Disadvantages :**

Users would have less time between auction rounds to review their bidding strategies in light of the results from previous rounds.

There would be less time between completion of the MSEC auctions and 1 October 2001 which would therefore reduce the time Users have to modify their capacity holdings via the secondary market.

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

Representations have been received from the following parties :

Conoco UK Limited (Conoco)  
Powergen

Chevron UK Limited (Chevron)  
BG Group (BG)  
Shell Gas Direct Limited (SGD)  
ExxonMobil Gas Marketing (ExxonMobil)  
Scottish and Southern Energy (SSE)  
BP Gas Marketing Limited (BP)  
TXU Europe Energy Trading Limited (TXU)  
Northern Electric and Gas Limited (NEAGL)  
British Gas Trading (BGT)  
TotalFinaElf Gas and Power Limited (TFEG&P)  
TotalFinaElf Exploration UK PLC (TFE)  
Innogy  
Alliance Gas Limited (AGL)

A number of respondents express concerns over the timing of the Modification Proposals related to the auction regime that have recently been raised and the uncertainty this has created. NEAGL and Powergen warn that this uncertainty could manifest itself through bidding strategies and increase the likelihood of an escalation in bid prices. BG expresses disappointment with Transco's behaviour, which it feels has had adverse effects on the regime and is contrary to the "prospectus approach" on the release of entry capacity and the auction process, which has been advocated by a number of Users in past discussions.

Powergen is of the opinion that changes to the auction timetable and approval of related Modification Proposals close to the start of an auction make it difficult for Users to plan and gain internal sign off for their bidding strategies and suggests that greater benefit could be gained from allowing the industry to focus on supply-demand fundamentals.

BGT expresses disappointment that this proposal has been raised so close to the commencement date of the auctions. Powergen also questions why the proposals recently put forward on the auction regime could not have been raised at an earlier date and, in order to prevent the current situation from arising again, suggests that there should be a moratorium on the submission of Urgent Modification Proposals starting three months prior to the start of future auctions. BG also suggests that Transco should have raised this proposal to delay the auction at a much earlier stage, when it realised that concerns were being raised in relation to its calculations of capacity availability.

SGD draws attention to the current methodology for the over recovery revenue redistribution mechanism, which it believes is discriminatory, and expresses disappointment that a proposal to delay to the auctions was not put forward at a stage which would have allowed sufficient time for a full consultation on a licence change to be carried out, as this may have enabled a better solution to the revenue redistribution issue to be implemented.

Conoco, Powergen and SSE do not support the Modification Proposal and would prefer the auctions to be completed in line with the timetable published in Transco's invitation letter dated 29 June 2001. SSE does not believe that the proposed delay would allow sufficient time for assessment of the impact of other changes to the auction regime.

Powergen suggests that it would be more appropriate to consider the proposals for the auction regime in conjunction with discussions on the regime for April 2002 onwards and Transco's new price control. Powergen considers that this would result in a more "robust and sustainable auction regime". BG is also concerned that a further delay to the auctions may hinder progress on the development of "medium term" and "long term capacity allocation" regimes.

TFEG&P and TFE suggest there should only be a delay to the auctions if Ofgem is planning to reject all of the proposals which have been raised on the entry capacity regime, as this would then allow opportunity for a further proposal to be raised to address the problems and better facilitate the relevant objectives. TFE further clarifies that if Modification Proposal 0481 is accepted it believes there should be no delay to the auctions. However, if any of Modification Proposals 0477, 0480 or 0483 were to be accepted, as well as opposing a delay, TFE would also have to consider its position with respect to auctions going ahead at all as it believes they would be conducted under "an unsatisfactory process".

BG, SSE and BGT do not agree with the proposal to reduce the number of days between auction rounds from two to one working day. BG believes that the increase to two working days was a positive change made to the regime which is working successfully. SSE believes that it would allow insufficient time for Users to properly analyse the results of previous auction rounds, which could increase the "likelihood of panic buying" and put an upward pressure on bid prices.

BG and BGT both put forward alternative auction timetables in their response.

BG suggests that if there is to be a delay to the auction the length of the delay should be increased, such that the final round of the MSEC auction would be on 17 September 2001 and the final round of the MISEC auction would be on 21 September 2001. BG suggests that this would allow sufficient time for the industry to establish solutions to issues relating to the volume of capacity released and the treatment of any over recovery, and would also have the benefit of avoiding the holiday period.

BG also suggests that the proposed dates of all auction rounds should have been explicitly stated in the Modification Proposal and, furthermore, is disappointed that legal text was not included.

BGT suggests that a short delay to the auctions would be preferable, even if all related Modification Proposals are rejected, due to the short timescale between the date an Ofgem decision would be made on the proposals and the current start date of the auctions. BGT proposes an alternative auction timetable which would start the first round of the MSEC auction on 20 August 2001 and finish the MISEC auction on 14 September 2001. BGT supports this timetable as it would also retain two working days between rounds.

Eight respondents (Chevron, SGD, ExxonMobil, BP, TXU, NEAGL, Innogy, AGL) express support for the Modification Proposal.

Chevron, TXU, Innogy and AGL believe that this it would allow more time for Users to assess the impact of other urgent Modification Proposals relating to the auction regime and allow time to plan their bidding strategies in light of the implementation of any new measures. Innogy notes that the uncertainty in the regime is compounded by the proximity of the decision date of the Modification Proposals with the scheduled auction start date. AGL argues that it is important that there is at least one week between

the decision date and effective date to allow a reasonable amount of planning time and urges for Ofgem to make a quick decision on the proposal.

SGD's support for a delay to the auctions is conditional on a number of assumptions which it sets out in its representation. SGD requests confirmation that Transco would use this time to clarify the product being sold and provide more information on areas such as the volume of capacity made available, the expected use of Terminal Flow Advice, the likelihood of interruption, the re-occurrence of force majeure events at terminals and the likelihood of buy back. SGD draws attention to the proposal under Pricing Consultation 65 which would require Transco to make an estimate of buy back costs and suggests that Transco should provide this information even if PC65 is not implemented. SGD also requests confirmation that Transco and Ofgem will be working to ensure that Transco's legal obligations under the Gas Act and its licence obligations and competition law are all met.

### **Transco Response**

Transco understands those Users which express concern regarding the timing of this proposal. However, Transco raised this proposal in response to views expressed in recent meetings over the continuing uncertainty regarding the final form of the auctions. This delay could afford Users more time to better understand the auction process as set out in the Network Code and to formulate their bidding strategies.

Transco recognises that a period of stability is desirable prior to the commencement of the auction process and will issue its invitation to tender, and amend the charging statement if appropriate, should there be a change to the auction arrangements.

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

Implementation is not required 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 3(5) or the statement furnished by Transco under Standard Condition 3(1) of the Licence**

Implementation is not required as a consequence of any proposed change in the methodology established under Standard Condition 3(5) of the statement furnished by Transco under Standard Condition 3(1) of the Licence.

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

No modifications are required to the UK-Link Systems and therefore a programme of works would not be required as a result of implementing the Modification Proposal.

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

Transco proposes that this Modification Proposal is implemented on 8 August 2001. Parameter changes would be required to decrease the number of days between rounds from two to one. These changes

could be made prior to 29 August 2001, when it is envisaged that round one of the MSEC auction would commence.

**16. Recommendation concerning the implementation of the Modification Proposal**

Transco recommends that this Modification Proposal is implemented.

**17. Restrictive Trade Practices Act**

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

**18. Transco's Proposal**

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

## 19. Text

### TRANSITIONAL DOCUMENT, PART II

*Amend text to read as follows:*

“8.1.3 B2.3 In respect of the Gas Year 2001/2002:

- (1) the reference in Section B2.3.1 to each calendar month in the Gas Year shall be deemed to be a reference to the calendar month October 2001 to March 2002 (inclusive);
- (2) the reference in Section B2.3.2(a) to 31 August in the Preceding Year shall be deemed (for the purposes of paragraph (1)) to be a reference to 10 September in the Preceding Year;
- (3) the reference in Section B2.3.2(a) to 2 Business Days shall be deemed (for the purposes of paragraph (1)) to be a reference to 1 Business Day;
- (4) by not later than 31 January 2002 Transco will invite applications for the Determined System Entry Capacity in respect of each Aggregate System Entry Point for the calendar months April 2002 to September 2002 (inclusive); and
- (5) for the purposes of paragraph (4), Section B2.3 shall apply separately in respect of applications made for Monthly System Entry Capacity for the calendar month referred to therein.”

*Amend text to read as follows:*

“8.1.4 B2.6 In respect of the Gas Year 2001/2002:

- (1) the reference in Section B2.6.1 to each calendar month in the Gas Year shall be deemed to be a reference to the calendar month October 2001 to March 2002 (inclusive);

- (2) the reference in Section B2.6.2(a) to two Business Days shall be deemed (for the purposes of paragraph (1)) to be a reference to 1 Business Day;
- (3) by not later than 15 February 2002 Transco will invite applications for Monthly Interruptible System Entry Capacity in respect of each Aggregate System Entry Point for the calendar months April 2002 to September 2002 (inclusive); and
- (4) for the purposes of paragraphs (1) and (3), Section B2.6 shall apply separately in respect of applications made for Monthly Interruptible System Entry Capacity for the calendar months referred to therein.”

Signed for and on behalf of Transco.

Signature:

**Tim Davis**  
**Manager, Network Code**

Date:

**Gas and Electricity Markets Authority Response:**

In accordance with Condition 7 (10) (b) of the Standard Conditions of Public Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0482**, version **1.0** dated **09/08/2001**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

**Process Manager - Network Code**  
**Transco**

Date:

## Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
  - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
  - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.

2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.