

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0499
"Transitional Arrangements for Long Term Capacity Allocation"
Version 2.0

Date: 12/11/2001

Proposed Implementation Date: 01/01/2002

Urgency: Non Urgent

Justification

This Modification Proposal is required primarily to enable the quantities of System Entry Capacity offered in MSEC auctions of January 2002 to be aligned with the proportion of Output Measure quantities that have been proposed by Ofgem and which, if agreed, are expected to be specified in Transco's Gas Transporter Licence. The use of Output Measures impact upon a number of areas of the Entry Capacity regime. It is Transco's intention that enduring changes to that regime should be considered in the context of a separate Modification Proposal. However, short term effects and appropriate transitional arrangements need to be considered.

The wider changes that are being discussed to Transco's System Operator incentives create a level of uncertainty and Users may wish to consider the potential benefits of a short delay to the next Monthly System Entry Capacity allocation process. The potential use of Output Measures also has an impact upon the continuing rationale for operating a 5th round of Monthly System Entry Capacity allocation in which demand is optimised across all Aggregate System Entry Points. The use of Monthly Interruptible System Entry Capacity and "off the shelf" capacity products should also be re-considered if Output Measures are used.

Nature of Proposal

It is proposed that a number of amendments are made to the Network Code and implemented prior to the next Monthly System Entry Capacity (MSEC) auctions. The present Network Code arrangements specify that the next MSEC auctions will be completed not later than 31 January 2001. It is the intention of the Proposer that the changes, if approved should apply in relation to the notification, sale and administration of MSEC for the 1 April 2002 to 30 March 2003 capacity period.

Applicable Period of Capacity Allocation

The forthcoming Allocation of MSEC capacity applies to the 6-month capacity period 1 April to 30 September 2002. This modification proposal provides an opportunity to amend the capacity period to a 12 month duration (1 April through to 30 March 2003). Transco believes Users should have an opportunity to consider the appropriateness of this potential change.

Date for Completion of MSEC allocation.

It is proposed that consideration is given to the desirability of delaying the next MSEC auctions by 4-weeks such that the allocation process would be completed not later than 28 February 2002. Transco believes there is considerable uncertainty arising from discussions about Ofgem's

proposals for changes to Transco's System Operator incentives which might apply from 1 April 2002. Transco is uncertain of the level of clarity to be gained from a 4 week delay to the next MSEC auctions, but believes that it is appropriate that Users should be given an opportunity to express views and consider this issue. Users may wish to consider a more substantial delay than the suggested 4-weeks, but will also need to consider the appropriateness of a reduced period between completion of auctions and the start of the relevant capacity period.

Output Measures

Output Measures have been linked to Transco's Price Control and are expected to be specified within its Gas Transporter licence. It is proposed that section B2.2, which identifies the process of calculating Determined System Entry Capacity is replaced with a reference to the appropriate Output Measures (or a proportion thereof). The reference should indicate that the quantity of System Entry Capacity to be made available in each relevant month and at each Aggregate System Entry Point (ASEP) should be as indicated in the relevant table of output measures and derivatives. Users should be aware that alternative measures might need to be taken if agreed text for any forthcoming licence change is not put in place prior to the MSEC auctions. If Output Measures and the appropriate proportions to be offered for sale are not specified in time for the forthcoming allocation then Transco presumes that transitional Network Code provisions will need to be developed. These should provide for an appropriate quantity to be offered in the allocation of January/February 2002.

Auction of MSEC

It is proposed that the auction is conducted over 4 rounds in which 25% of available capacity is offered in each round. Any unsold capacity arising from rounds 1 to 3 should be carried over to round 4. It is proposed that the existing round 5 allocation arrangements are not required because the function of this round was in part intended to enable an optimisation of demand across all ASEPs. A requirement to offer capacity up to preset Output Measures is expected to remove the potential for such optimisation. The 5th round allocation is at present required to offer unsold capacity arising from earlier auction rounds, and as previously indicated, Transco believes that it would be appropriate to carry unsold capacity into the 4th auction round.

Later application for Monthly System Entry Capacity

Following the MSEC allocation process any unsold System Entry Capacity is offered on a first come first served basis with a reserve price that is applicable only to System Entry Capacity released through this particular process. Transco does not believe that this process adds significant value to the Entry Capacity regime. From 1 April 2002, capacity will be made available in the primary release up to the appropriate proportion of the Output Measure and Daily System Entry Capacity (DSEC) will where appropriate, also continue to be made available. Transco believes that the MSEC and DSEC processes should offer adequate opportunity for Users to obtain System Entry Capacity and therefore proposes that provision of this service is discontinued (section B2.4).

Monthly Interruptible System Entry Capacity (MISEC)

Transco proposes that provision of this feature of the entry capacity regime is discontinued. MISEC was created to overcome industry concerns about the methodology described within the Network Code for determining quantities of MSEC to be offered at each ASEP over the relevant

period. However as previously indicated, this Modification Proposal also contains a proposal to supersede that methodology by utilising a reference to the appropriate proportion of Output Measure quantities identified in Transco's Gas Transporter Licence. Transco believes that the use of an Output Measures based approach is intended in part to remove doubts about how System Entry Capacity is calculated. The need for MISEC as a means of countering doubts about how capacity is calculated are therefore removed and consequently Transco believes that MISEC related provisions should be deleted from the Network Code.

Purpose of Proposal

Users will benefit from this Proposal if the quantities to be offered in the next round of MSEC auctions are aligned with the forthcoming System Operator Incentives. This proposal is consistent with an intent to enable Output Measure quantities to be offered in an MSEC allocation.

Consequence of not making this change

If the Proposal is not approved then the present Network Code arrangements will continue to apply. However, The Network Code would not reflect the changes to Transco's System Operator incentives that are being discussed for use from 1 April 2002. In particular The Network Code might not reflect the quantities that Transco could be obliged to offer by its revised licence requirements.

Area of Network Code Concerned

Section B
Transition Arrangements

Proposer's Representative

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Signature