

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0423
"Waiver of two-month notice period for adjustment of NTS Commodity Charge"
Version 2.0

Date: 29/08/2000

Proposed Implementation Date: 20/09/2000

Urgency: Urgent

Justification

Auctions have been established for the release of NTS entry capacity. Under the terms of the auctions for each bid accepted the shipper purchases allocated capacity at the price associated with such bid. In aggregate such 'auction receipts' are unlikely to match the proportion of Transco's allowed revenue that has been ascribed to the services that are auctioned.

Allowed transportation revenue is determined by condition 9c of the BG group Public Gas Transporter licence. The allowed revenue is then divided between transportation services in accordance with cost reflective principles. This process therefore defines a 'target revenue' for the services associated with NTS auctions.

Pricing Consultation 60 'Re-balancing revenue raised by MSEC and other NTS Auctions' considered this issue and advocated a methodology that would use NTS Commodity Charges to become a revenue re-balancing item to correct for part of the over or under recovery between auction receipts and target revenues under certain circumstances.

Auctions will normally be completed less than two months before the start of the period of use for such service. The most effective adjustment should affect commodity charges applicable during the period associated with the service auctioned.

For the Monthly System Entry Capacity (MSEC) auctions of August 2000, the final results will not be known until early September. Less than one month will then be available between the date from which the results are known and the start date of the use of such auctioned capacity. This has occurred because the auctions were deferred, on an exceptional basis, to allow time for further discussion and development of entry capacity services. It is therefore necessary to waive the notice period if commodity charges are to be adjusted in response to the auction receipts that will be applicable in respect of October 2000 - March 2001 Monthly System Entry Capacity as defined in Pricing Consultation 60 'Re-balancing revenue raised by MSEC and other NTS Auctions'.

Nature of Proposal

It is proposed that the normal period of notice for changes to the level of NTS commodity charges should be reduced from two to one month. It is further proposed that the notice period be waived on an exceptional basis to address the revenue over-recovery associated

with MSEC and other NTS auctions associated with the October 2000 to March 2001 period.

The aim of the proposal is to facilitate a timely enactment of the post auction adjustment mechanism proposed by Transco in its recent Pricing Consultation paper PC60. The mechanism adjusts NTS commodity charges to counterbalance high or low auction income, such that in aggregate NTS revenue will broadly remain in line with allowed revenue expectations.

Purpose of Proposal

The proposal is to enable the post auction adjustment mechanism, consulted upon by Transco in Pricing Consultation PC60, to become fully effective from the start of any period in which NTS transportation services have been auctioned.

Consequence of not making this change

Two rates of Commodity charge would be necessary for the period of use of services that had been offered at auction if the auction results and other processing could not be completed more than two months prior to use of the service. One rate for a limited time during the two month notice period and another rate that takes into account of post auction adjustments after the notice period has elapsed. Post auction adjustments may also become larger, in percentage terms, because the compensatory adjustment would be calculated over a shortened time period.

Area of Network Code Concerned

Section B : System Use and Capacity

Amend paragraph 1.8.2 to read as follows :

"...not less than 2 months, or where such notice relates to a change to the level of NTS Commodity Charges not less than 1 month, before the date..."

Transition Document , Part II

Amend paragraph 8.1 to read as follows :

"B1.8.2 In respect of Pricing Consultations 60 and 61 the requirement in Section B1.8.2..."

Proposer's Representative

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Proposer

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Signature