

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0410
"Auctions of Monthly Interruptible System Entry Capacity"
Version 3.0

Date: 21/06/2000

Proposed Implementation Date: 01/09/2000

Urgency: Urgent

Justification

Following the recent auctions of Monthly System Entry Capacity (MSEC) there have been discussions amongst Users and Transco about entry capacity issues. The absence of a release mechanism for interruptible system entry capacity, other than the present day ahead release mechanism, has been identified as an area that could contribute to uncertainty for Users when planning their scheduling and capacity requirements.

This proposal outlines for consideration an allocation mechanism for Monthly Interruptible System Entry Capacity (MISEC) that would afford Users with the opportunity to obtain interruptible entry capacity at around the same time as they can acquire MSEC.

Transco considers that granting urgent status is appropriate because it is desirable for Users to understand all aspects of the entry capacity regime before formulating strategies for obtaining any categories of entry capacity.

Nature of Proposal

The proposal outlines for consideration a potential allocation mechanism for Monthly Interruptible System Entry Capacity (MISEC). That allocation mechanism would follow closely the format of the present MSEC auctions. That is a sealed, pay your bid type auction for interruptible capacity that can be utilised at a specific ASEP in a specific month. The proposed period for which MISEC would initially be sold is October 2000 through to March 2001 inclusive.

Transco would also welcome views on the desirability of auctioning an option to flow interruptible capacity. The auction of options could follow the same format as described above with the exception that an additional option fee would be payable if the option is called upon as a source of capacity.

The suggested quantities identified below and the number of auction rounds are parameters that Transco would particularly welcome comments upon, in addition to the concept of introducing the MISEC service.

MISEC Quantity

It is proposed that the quantity of MISEC offered at auction in respect of a specific month at a specific ASEP would be conditional upon the prior sale of no less than 90% of MSEC at an

ASEP. On passing that threshold the quantity of MISEC shall be equal to 60% of the total interruptible capacity amount, and the interruptible capacity amount is defined as:

1.0 times the Maximum Capacity Amount minus MSEC

Bidding

It is proposed that bids may be submitted between 08.00 hrs and 17.00 hrs on the first day of the auction for all ASEPs. The auction could be conducted over two rounds. It is proposed that there should be two business days between each round.

Under the proposal, bids may be withdrawn or amended at any stage during the period when the bid window is open. After 17.00 hrs bids would no longer be able to be withdrawn or amended. Up to 20 current bids could be submitted with respect to each ASEP for a particular calendar month in the gas year.

Bids would need to specify the following

- ASEP
- Quantity in kWh/day
- Minimum Quantity in kWh/day
- Price in pence/kWh
- The calendar month for which capacity is bid.

Allocation

It is envisaged that bid processing would take place after closure of the bid window and that the auction would be a sealed pay your bid type auction.

Assuming two auctions rounds are held, it is proposed that 50% of all available capacity would be allocated in each round.

Transco would rank all valid bids in price order and then allocate capacity on a price basis, starting with the highest priced bid and descending until all capacity has been allocated or all bids have been satisfied when the aggregate quantity of bids is less than the aggregate available MISEC.

Where the amount of remaining Monthly Interruptible System Entry Capacity to be allocated is less than that applied for under the next applicable bid, providing the amount is greater than the specified minimum of the bid, the bid would be satisfied in part. If the remaining amount is less than the specified minimum the bid would be disregarded and the next bid (in descending price order) considered. If the remaining amount is less than the minimum eligible quantity then no further allocation would take place.

Where there are a number of identically priced bids allocation would be made pro rata to the bid quantities. Where the pro rata quantity is less than the specified bid minimum that bid would be disregarded and a revised allocation made between the remaining equal priced bids. Where the pro rata amount is less than the minimum eligible amount then it is proposed that Transco would allocate such quantities.

No more than the specified percentage of the available amount would be allocated in first round and any unsold quantity from the first round would be carried forward to the final round. It would also be possible for any unsold quantity of MISEC from the final round to be made available as 'off the shelf' MISEC.

Following any allocation of MISEC Transco would expect, not later than 09.00 hrs on the Business day following each invitation date, to inform each shipper of its accepted bids, including quantity, and its rejected bids.

In addition on the Business day following each invitation date Transco would propose providing the :

- highest accepted bid price
- lowest accepted bid price
- weighted average price of accepted bids
- quantity of accepted bids per ASEP; and
- number of successful shippers per ASEP

Unsold Monthly Interruptible System Entry Capacity

It is proposed that the process for the sale of unsold monthly interruptible capacity would be the same as that applied to unsold long term firm capacity.

The allocation process would follow that set out in the Network Code section 2.4.

Under this approach, Shippers would be able to amend or withdraw bids at any time prior to closure of the bid window provided that the number of live bids did not exceed [20].

After closure of the bid window capacity would be allocated in chronological order.

Payment

The proposed transportation charge payable for MISEC would be a shipper's accepted bid price for the quantities bought in the primary auction of MISEC.

In the case of options, the transportation charge payable would be shippers' accepted bid price for the quantities bought in the primary auction of options. In addition an exercise price would be payable if a quantity of options held by a shipper was called upon on a day.

Shippers would not need to take any action to exercise an option; the process could be fully systematised.

The invoice calculation would be carried out after M+15.

Capacity Transfer

It is proposed that Interruptible capacity would be traded on the same basis as the present arrangements for firm capacity. No distinction would be required for the type of capacity traded and therefore no changes are proposed for Network Code section B5.

Interaction with day ahead interruptible capacity auctions

If this Modification Proposal were implemented, day ahead auctions of interruptible capacity would remain unchanged provided MISEC is the product auctioned.

If options are auctioned in monthly blocks, then it may be necessary for the avoidance of complexity that the day ahead auction should also become an auction of options.

It is proposed that the quantity of interruptible capacity to be auctioned at the day ahead stage would consist of an estimate of unused firm capacity that would continue to be calculated on the basis presently set out in the Network Code (2.6.10). An additional quantity of interruptible capacity could also be offered. That additional quantity might be equal to the residual quantity of interruptible capacity available after allocation of MISEC.

Transitional requirements

If the proposal contained in Modification Proposal 0409 to offer Monthly System Entry Capacity for six months is approved, then Transco considers the period of any Monthly Interruptible System Entry Capacity that is offered should be adjusted to coincide with that for Monthly System Entry Capacity.

Purpose of Proposal

This proposal has been raised to enable a mechanism to be considered which would provide for the release of entry capacity to be maximised at a level that approximates to the maximum deliverability of each entry point. The majority of the interruptible entry capacity would be offered around the time that Monthly System Entry Capacity is offered. Users would then be able to gain a greater knowledge of their entry capacity portfolio well in advance of the day of use. That should enable a greater degree of certainty with regard to capacity holdings and planned gas

flows. Users would then have increased opportunity to fine tune their portfolios through secondary market trading and finally through Transco's within day capacity release mechanism.

Consequence of not making this change

The day ahead auctions of interruptible capacity would be the only means of allocating interruptible entry capacity to Users.

Area of Network Code Concerned

Section B

Draft legal text for this Modification Proposal is attached.

Proposer's Representative

Russell D Cooper (Transco)

Proposer

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Signature

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