

Direct Dial: 020-7932-5927

21 July 2000

BG Transco, Shippers and Other Interested Parties

Your Ref:

Our Ref : Net/Cod/Mod/0410

Dear Colleague,

Modification Proposal 0410 'Auctions of Monthly System Interruptible Capacity'

Ofgem has considered the issues raised in Modification Proposal 0410: 'Auctions of Monthly System Interruptible Capacity'. Ofgem has decided to direct BG Transco to implement the modification, because we believe that this proposal will better facilitate the relevant objectives of BG Transco's Network Code.

In this letter, we explain the background to the modification proposal and give the reasons for making our decision.

Background to the proposal

In September 1999 Transco conducted the first auctions for the sale of firm entry capacity to its National Transmission System ('NTS'). The auctions provided for the allocation of monthly system entry capacity to successful bidders for a total period of 6 months from 1 October 1999. A second series of auctions for firm monthly capacity was held in March 2000. In addition to holding monthly auctions, Transco makes additional firm and interruptible entry capacity available on a day-ahead basis and conducts day-ahead capacity buy backs where necessary.

Some concerns have been expressed following the March 2000 capacity auctions that the release of interruptible entry capacity at the day-ahead stage only, does not allow enough time for users to plan and schedule their capacity requirements in relation to gas flows. It has been suggested that Transco offer a monthly interruptible product in addition to its monthly firm product.

The modification proposal

Initially under this proposal, BG Transco committed to releasing entry capacity up to maximum physical levels through a combination of monthly firm, monthly interruptible and daily interruptible capacity. The total volume of interruptible entry capacity to be sold would equal the 1 in 20 peak level of capacity less the monthly firm volume. Of this interruptible capacity, Transco proposed that 60% be sold at the monthly stage while 40% be made available at the daily stage.

It was proposed that the monthly interruptible capacity product be sold by auction following the auction of firm monthly capacity. The auction would employ the same format as the firm monthly auctions. BG Transco would not make monthly interruptible capacity available at a terminal unless 90% of the firm monthly capacity had sold out. Monthly interruptible capacity would be able to be traded between shippers in the same way as firm capacity is currently traded.

BG Transco announced to the industry that systems being developed for the monthly interruptible auction will not be available immediately and the first auctions will be for December 2000 interruptible capacity. However interruptible will be made available daily in October and November.

Following respondents' views, BG Transco adjusted the modification proposal so that the volume of monthly interruptible capacity to be made available from December 2000 will be equal to the 1 in 20 peak level of capacity less the monthly firm volume. Available daily interruptible entry capacity volumes equal to any unsold monthly interruptible plus use-it-or-lose-it volumes. In addition, BG Transco has proposed that the release of monthly interruptible capacity will no longer be constrained by reference to sales.

Respondents' views/Ofgem's views

Respondents' views and Ofgem's views on this modification have been outlined in detail in chapter 7 of the "New gas trading arrangements: A review of the new arrangements and further development of the regime. A review and decision document" issued 21 July.

Ofgem's Decision

We have decided to consent to this modification, as we believe that it better facilitates the achievement of the relevant objectives as outlined under Standard Condition 7 of BG Transco's Public Gas Transporter's licence.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Steve Smith
Director, Trading Arrangements