Draft Modification Report
Extend capacity period sold to 12 months in MSEC and MISEC auctions of February 2001
Modification Reference Number 0444

Version 4.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

The Proposal is that effective from 19 January 2001, auctions of Monthly System Entry Capacity (MSEC) and Monthly Interruptible System Entry Capacity (MISEC) should make available capacity for a 12-month period. That period will be from 1 April of the year in which the relevant auction is held through to 31 March of the following year. It is proposed that MSEC auctions be completed by not later than 15 February and that MISEC auctions be completed by not later than 28 February.

2. Transco's Opinion

Transco has raised this Modification Proposal to enable consideration to be given to moving to a 12-month cycle of entry capacity auctions for both MSEC and MISEC. The present 6-month cycle was introduced as an interim measure that was intended to mitigate risk to Users whilst they became familiar with aspects of the New Gas Trading Arrangements (NGTA) that had been introduced in October 1999.

Transco acknowledges that some Users have questioned whether such twelve month period should cover the April-March period (thereby achieving alignment with the traditional gas year). Transco believe that it is beneficial to proceed with proposal based on the April-March period which should be expected to provide greater certainty for industry players for the rest of the price control period. This might also be considered to have better alignment with proposals to sell longer term capacity on a "price control" year basis.

A 12-month cycle for entry capacity auctions will also create a longer window of opportunity for potential development of the Network Code prior to future auctions. At present Transco has initiated a programme of work to explore the possibilities of developing new auction types that could offer the potential for greater efficiency in the allocation process. Transco does not believe that the exploration could be driven to a successful conclusion in time to facilitate Industry discussion and development of new auctions before October 2000.

It is arguable that Users now have the necessary familiarity with auction processes to enable the period offered at auction to be extended to the full 12-months, in line with the original intent for NGTA. Transco acknowledges however that a number of Users may disagree with the latter proposition regarding familiarity with the auction process.

Transco notes that some shippers have suggested that it is essential that Ofgem completes and publishes the results of the investigation into the recent operation of the capacity regime, particularly in respect of recent buy-backs before a decision on this peoposal could be made. Whilst Transco considers this would be preferable, Transco is mindful that awaiting the outcome of such investigation might prohibit the possible implementation of this proposal and hence Transco believes that this Modification Proposal should be considered by participants using all the information available to them at all stages of consultation

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

Transco believes that an annual auction of MSEC and MISEC may fit better with producers needs to plan gas production profiles and that discontinuities in capacity prices could be avoided, meaning that the proposal should enable more economic and efficient operation of the pipeline system.

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

a) implications for the operation of the System:

There are unlikely to be any implications for the operation of the system.

b) development and capital cost and operating cost implications:

No development costs are required to implement this proposal and operating costs are expected to remain unchanged.

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:

No such costs have been identified.

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

No such consequences have been identified.

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

Transco does not anticipate any change to contractual risk as a result of this Proposal.

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

No development implications are anticipated.

7. The implications of implementing the Modification Proposal for Users

Users will have an opportunity to obtain 12-months of MSEC and MISEC in the auctions of February 2001. This will require Users to determine their entry capacity requirements for a longer period than at present.

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

No implications are anticipated.

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

A greater level of contractual certainty may be gained from offering entry capacity for a 12-month period. Entry Capacity Prices will be known for a full 12-month period which may be advantageous for Users and Consumers when determining gas supply contracts. The approximate levels of post-auction adjustment to the NTS commodity charge should also be known for the 12-month period.

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

Advantages :

Production profiles may be planned for a longer period than had previously been possible.

Price discontinuities between winter and summer capacity may be reduced.

Greater contractual certainty may become available to Users and Consumers.

Disadvantages :

Users may need to plan their capacity requirements for longer than at present.

The consequences of unsuccessful bid strategies may become greater for Users.

An auction period of 1 April to 31 March would conflict with the traditional gas year of October through to September. That may prove problematic with regard to shipper contracts with consumers.

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

Representations are sought regarding the content of this proposal.

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

Not applicable.

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

Not applicable.

14. Programme of works required as a consequence of implementing the ModificationProposal

Not applicable.

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

If approved, it is anticipated that this proposal could be implemented on 19 January 2001. Modification Proposal 0445 has been raised to propose a revised timetable for publication of MSEC quantities and should be considered in tandem with this proposal.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of this proposal.

17. Text

SECTION B: SYSTEM USE AND CAPACITY

Amend paragraph 2.3.1 to read as follows:

"….in the Capacity Year.".

Amend paragraph 2.3.2(a) to read as follows:

"….not later than 15th February in the Preceding Capacity Year; and….".

Amend paragraph 2.3.3 to read as follows:

"….in the Capacity Year on :".

Amend paragraph 2.3.4 to read as follows:

"(ii) the calendar month in the Capacity Year for which….".

Amend paragraph 2.3.5 to read as follows:

"….for each calendar month in the Capacity Year capable….".

Amend paragraph 2.3.7 to read as follows:

"For each calendar month in the Capacity Year:

….".

Amend paragraph 2.3.9 to read as follows:

"….for the calendar month in the Capacity Year in respect of….".

Amend paragraph 2.3.10 to read as follows:

"….as holding for a calendar month in the Capacity Year pursuant to….".

Amend paragraph 2.3.13(e) to read as follows:

"….

HC ….in the Capacity Year in which the calendar month falls.".

Amend paragraph 2.6.1 to read as follows:

"….in the Capacity Year.".

Amend paragraph 2.6.2(a) to read as follows:

"….shall not be later than 28th February in the Preceding Capacity Year; and….".

Amend paragraph 2.6.3 to read as follows:

"for a calendar month in the Capacity Year….".

Amend paragraph 2.6.4 to read as follows:

"(iii) the calendar month in the Capacity Year for….".

Amend paragraph 2.6.5 to read as follows:

"….for each calendar month in the Capacity Year….".

Amend paragraph 2.6.7 to read as follows:

"For each calendar month in the Capacity Year….".

Amend paragraph 2.6.9 to read as follows:

"….for the calendar month in the Capacity Year….".

Amend paragraph 2.6.10 to read as follows:

"….for a calendar month in the Capacity Year….".

Amend paragraph 2.6.13(e) to read as follows:

"….

MC is the greater of:

….

(a) ….any calendar month in the preceding Capacity Years;

(b) ….for the Capacity Year….".

SECTION W: INTERPRETATION

Amend paragraph 2.2.1 to read as follows:

(g) ….;

(h) "**Capacity Year**" means the period from 1st April in any year until and including 31st March in the following year.

(i) and in relation to a Capacity Year, the "**Preceding Capacity Year**" is the Capacity Year ending at the start of such Capacity Year.".

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Tim Davis
Manager, Network Code

Date: