Direct Dial: 020-7901 7437

24 January 2001

Transco, Shippers and Other Interested Parties

Our Ref : Net/Cod/Mod/0445

Dear Colleague,

Modification Proposal 0445 'Changes To Monthly System Entry Capacity Calculation For February 2001'

Ofgem has considered the issues raised in Modification Proposal 0445: 'Changes To Monthly System Entry Capacity Calculation For February 2001'. Ofgem has decided to direct Transco to implement the modification proposal, because we believe that this proposal will better facilitate the relevant objectives of 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 monthly firm entry capacity to the NTS (National Transmission System). The auctions provided for the allocation of firm entry capacity to successful bidders for a period of six months (October 1999 to March 2000). Further auctions for firm monthly entry capacity were held in March and August 2000 with entry capacity again sold for a period of six months in each auction.

This modification proposal was intended to enable the publication of monthly system entry capacity (MSEC) quantities and monthly interruptible system entry capacity (MISEC) quantities for a 12 month period from 1 April 2001 to 31 March 2002 in the event that Modification Proposal 0444, '*Extend Capacity Period Sold To 12 Months in MSEC and MISEC Auctions for February 2001'* is approved. As such, any approval of modification proposal 0445 is effectively dependent on the approval of modification proposal 0444. Modification proposal 0444 seeks to move from auctions of entry capacity for a six month period to a regime were Transco auctions entry capacity for a twelve month period.

On 24 January 2001 Ofgem rejected Modification Proposal 0444. As a consequence, both MSEC and MISEC quantities will be released via auction for a 6 month period rather than a 12 month period.

Currently, the Network Code stipulates that Transco must determine monthly entry capacity quantities not later than 30 June in the preceding year. As a consequence under the Network Code as it is currently drafted the quantities of capacity to be released in the forthcoming MSEC and MISEC auctions will not be updated to take account of gas flows onto the NTS that have occurred after 30 May 2000. This Network Code modification proposal is

also intended to ensure that MSEC and MISEC quantities are determined on the basis of more up to date information on gas flows.

The modification proposal

The modification proposes that the Network Code should be amended to specify that MSEC and MISEC volumes should be determined by the 31 December of the year proceeding the entry capacity year (defined pursuant to Modification Proposal 0444 as the period 1 April in any year to 31 March the following year). However, the modification also proposes that a transitional arrangement be implemented for the forthcoming capacity period such that quantities are determined not later than 15 January 2001.

In addition the modification proposes that the allocation of capacity to each ASEP should be based on historic gas flows for a 36 month period ending on 30 November in the preceding year prior to the entry capacity year.

Respondents' views

A number of respondents opposed Modification 0445 to the extent that it proposed the release of monthly quantities for the 12 month period commencing 1 April 2001.

However, a number of respondents whilst opposing Modification 0444 indicated their support for Modification 0445. In particular some indicated their support for the proposal on the basis that it provides for the determination of monthly quantities on the basis of the most recent information available. One shipper however indicated that it was nevertheless important that Transco publish monthly quantities at least 2 months before the commencement of the auctions. Others supported 0445 in relation to the capacity release for the forthcoming auctions on the basis that they would occur for a 6 month capacity period.

One respondent outlined its concern that the determination of MSEC and MISEC quantities by 31 December each year prevents Transco from taking account of the results of the BPA process. As such, this respondent suggests a number of solutions including deferring the annual auctions to October 2001, deferring the release of monthly quantities until the results of the BPA process can be incorporated or changing the BPA timetable itself.

One shipper outlined its concern that the quantities currently published for the year October 2000 to September 2001 are inaccurate as they do not take account of Transco's maintenance programme.

The revised modification proposal

In the light of the views expressed by Network Code participants with respect to modification proposal 0444 and Ofgem's decision to reject this proposal, modification proposal 0445 has been revised such that it's acceptance is no longer dependent upon an acceptance of Modification 0444. The revision, if accepted, establishes a transitional regime whereby Transco determines the MSEC and MISEC quantities by 25 January 2001 for the auction of capacity for the 6 month period of 1 April 2001 to 30 September 2001. The proposal continues to provide that the allocation of capacity to each ASEP should be based on historic gas flows for a 36 month period ending on 30 November in the preceding year prior to the entry capacity year.

Ofgem's View

Ofgem supports the revised modification proposal 0445 on the basis that it enables the publication of MSEC and MISEC quantities to occur prior to the commencement of the auction. Ofgem also agrees with the views expressed by respondents that MSEC and MISEC quantities should be based upon the most up-to-date available information on gas flows.

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 Transco's Public Gas Transporter's licence. Specifically, Ofgem believes that the use of the latest historic information available to determine MSEC quantities prior to the commencement of the auction will better facilitate the efficient and economic operation of the pipeline system.

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,

Mark Feather
Head of RGTA