

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0564

"Amendment to period of Summer Capacity Auctions to Six Months"

Version 1.0

Date: 05/07/2002

Proposed Implementation Date:

Urgency: Urgent

Justification

This Modification Proposal would allow for shippers to bid for capacity for two six-month periods instead of the 12 month (or 24 month) period proposed by Modification Proposal 0549. There is considerable change being considered or proposed which may affect shippers' valuations of capacity and confidence in the product. An initial six-month auction would give time for further changes to be considered and more certainty to be given in time for a second set of auctions. If not implemented, no further change to the regime should be considered or implemented before 1 October 2003, to do otherwise would create windfall gainers and losers.

Nature of Proposal

Two separate 6 month allocations are held for entry capacity for Gas Year 2002/03. In summer 2002, the auction for capacity for October 2002 to March 2003 would be held. The auction for April 2003 to September 2003 would be held in February 2003. It is envisaged that longer term auctions would cover annual or longer periods commensurate with the Gas Year (October to September).

Purpose of Proposal

Modification Proposal 0549 "Summer 2002 Capacity Auction" noted that under the current Network Code rules the forthcoming allocation of MSEC would apply to the 12-month capacity period 1 October 2002 to 30 September 2003. It further raised the possibility of having an allocation process which covered a 24-month duration (1 October 2002 through to 30 September 2004). Views were sought on this.

Views were not sought on whether a 6-month auction should be held. In spite of this, 6 of the 16 respondents supported a 6-month auction. We consider it appropriate that a 6-month option is fully considered and consulted upon. Transco supported the majority opinion but it may have been that if the potential for a 6-month auction was proposed, the majority would have been different.

There is considerable uncertainty regarding the entry capacity regime at present with the licence conditions for Transco's price control and related system operator incentives remaining to be finalised. Related documents including the incremental entry capacity release statement (IECR), procurement guidelines (PGs), system management principles statement (SMPS) and system management services data methodology statement (SMSDM) still in draft form.

There is still industry uncertainty about revenue flows once the licence conditions are finalised with the suggestion that there could be further pricing change for October and continuing lack of clarity regarding over-recovery. Discussions are continuing on potential changes to the smearing of buy back costs.

Shippers require at minimum 10 working days between final agreement to the allocation processes (including any related pricing changes) before entering the auctions. Given the tight timescales, it is not possible for the uncertainties and change currently being considered and proposed to be resolved. A 6-month auction would allow for a reasonable time to progress issues in time for the auctions for summer 2003 capacity.

Consequence of not making this change

If this Proposal is not approved then the next auctions will be for 12 months. Any change and improvements to the regime which could affect valuations could only be implemented for 1 October 2003. Otherwise, there is the potential for changes to artificially create winners and losers amongst shippers which undermines competition. Before the auctions for summer 2003 capacity, Transco's licence conditions should be finalised and further change can be considered with these in mind.

In previous decisions made by Ofgem regarding auction periods (eg Modifications Proposals 0350, 0409, 0444 and 0465), it has referred to the uncertainties faced by shippers and need to assess changes before capacity is sold. Uncertainties faced by shippers could be considered to be greater than ever given the uncertainties regarding Transco's licence conditions, related documents and pricing changes.

This proposal furthers the Relevant Objectives by ensuring effective competition between shippers by ensuring certainty over the longer term and allowing for changes consistent with the efficient discharge of Transco's licence conditions can be implemented more quickly once the licence is finalised.

Area of Network Code Concerned

Section B

Proposer's Representative

TANYA Jean Morrison

Proposer

Shell Gas Direct

Signature

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