

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0628

"Revision to Credit Cover required in respect of participation in Auctions and Allocations of System Entry Capacity"

Version 1.0

Date: 16/04/2003

Proposed Implementation Date: 01/07/2003

Urgency: Non-Urgent

Justification

Modification Proposal 500 put in place the current arrangements where Users acquire rights to System Entry Capacity (SEC). Although this primarily introduced the concept of Long Term System Entry Capacity (LTSEC), it also revised the arrangements for Monthly and Daily System Entry Capacity (MSEC, DSEC and DISEC).

Modification Proposal 500 also amended the level of credit cover, which Users would be required to provide in order to participate in these processes.

Section B2.2.15 states this level as follows:-

Where at 17:00 hours on the first Business Day of a calendar month in relation to a User the sum of:

- a. the aggregate System Entry Charges payable by the User in respect of its Registered Quarterly Firm System Entry Capacity for each Day in the twelve (12) calendar months commencing from the first Day of the following calendar month ("relevant months"); and
- b. the User's Relevant Code Indebtedness at such time, exceeds 85% of its Code Credit Limit Transco shall not later than five (5) Business Days after the first Business Day of the calendar month inform the User.

One of the objectives of the Long-Term process was to enable users to indicate to Transco where additional investment in the system was required through a financial commitment to purchase incremental quantities of SEC. On the basis that Transco would receive sufficient signals from the process to invest in providing incremental volumes of System Entry Capacity, some additional securitisation of this commitment was deemed to be necessary.

A number of Users have been concerned about the necessity of this measure as part of the long term process. The level of security held at the time of acquiring the right to use the capacity bears no relationship to the risk up to the time of use of the capacity.

Additionally, following the experience of the initial LTSEC process, Transco have received insufficient signals from the process to justify any obligated incremental capacity or investment in additional pipelines. Therefore, it is apparent that this extended level of security is not required in practice.

This measure will serve solely to increase costs to Users in providing security to the level of the cost of capacity held for 12 months ahead.

Nature of Proposal

It is proposed that this additional level of credit cover be removed from the Entry Capacity processes. It is proposed that the standard level of credit cover for transportation debts (63 days) is sufficient for the purpose of acquisition of SEC also.

Purpose of Proposal

To remove the inclusion of :-

"the aggregate System Entry Charges payable by the User in respect of its Registered Quarterly Firm System Entry Capacity for each Day in the twelve (12) calendar months commencing from the first Day of the following calendar month ("relevant months")"
from the calculation where it is added to the value of "Relevant Code Indebtedness"

This proposal serves to facilitate the Transporter's relevant objectives by facilitating competition in acquisition of System Entry Capacity. By removing these impediments to competition, it is also intended to assist in maintaining an efficient and economic system in that Users actual requirements for System Entry Capacity will be more complete.

Consequence of not making this change

Users will be required to hold credit cover at unnecessarily high levels. This will incur unnecessary additional costs for all Users wishing to acquire SEC in any form. These costs may ultimately be borne by consumers.

The requirement to hold this level of credit cover may deter some users from committing to their full requirements for SEC. This may further dampen any signals for investment which are generated from the process. In some cases this requirement could act as a barrier to participation in the Long Term Entry Capacity Allocation Process.

Area of Network Code Concerned

Section B

Proposer's Representative

Mike Young (BG Trading)

Proposer

Mike Young (BG Trading)

Signature

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