TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0695

"Entry Capacity Allocation where Demand Equals Supply"
Version 1.0

Date: 13/05/2004

Proposed Implementation Date: 01/08/2004

Urgency: Non-Urgent

Justification

The Network Code sets out the rules for the allocation of Quarterly System Entry Capacity (QSEC) at Aggregate System Entry Points (ASEPs) made available for sale in the annual invitations for System Entry Capacity. In such invitations capacity amounts are offered for sale as incremental amounts at pre-determined prices. The amounts offered and the relevant prices, the step prices, are specified in accordance with Transco's GT Licence and Transco's Transportation Statement.

The Incremental Entry Capacity Release Methodology Statement (IECR) requires that the applicable quantity for release should be at the highest price step where demand exceeds supply which is intended to maximize the capacity to be released. However, the Network Code requires that the Relevant Step Price Group which defines the Network Code quantity to be released should be (for ascending price schedules) the step price group when considering the incremental quantities specified in the annual invitation in ascending order, in respect of which the Step Price Group Quantity is first equal to or less than the Actual Available System Entry Capacity. For descending price schedules the relevant step price group is where the amount of capacity demanded is last equal to or less than that available.

At present it is considered that the Network Code capacity allocation rules adequately cater for scenarios where demand for supply is elastic and where demand is equal to supply. However where demand is inelastic (i.e. demand is constant over a number of price steps) and demand is also equal to supply at a price step it is considered that the present rules could seek to allocate capacity at a relevant step price group that does not appropriately match the price signal where demand equals supply. This situation is most likely to arise at New Entry Points where only one shipper is bidding for capacity.

It is considered that both the Incremental Entry Capacity Release Methodology Statement (IECR) and the Network Code should reflect that allocation should occur where demand equals supply i.e. where the signal for demand of capacity meets perfectly the supply available at the highest price step. The IECR is being clarified to deal with this point in a parallel review.

Nature of Proposal

To amend Network Code Section B2.6 to allow allocation of System Entry Capacity at the point where demand equals supply at the relevant step group that reflects the demand for capacity.

Purpose of Proposal

It is proposed that the Network Code is amended in order to make provisions in the Network Code optimize capacity allocation. This will enable Transco to discharge its primary duty as a Gas Transporter as specified in its GT Licence such that it operates its pipeline system in an economical and efficient manner.

Consequence of not making this change

System Entry Capacity may not be allocated consistently with the other relevant provisions of the Network Code or the IECR.

Area of Network Code Concerned

Section B

Proposer's Representative

Russell Cooper (Transco)

Proposer

Richard Court (Transco)

Signature

.....