

**Modification Report**  
**Zero Reserve Price for Within-Day Sale of Daily System Entry Capacity**  
**Modification Reference Number 0630**  
Version 1.0

This 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**

It is proposed that the Network Code should identify that two separate reserve prices will apply for allocation of Daily System Entry Capacity (DSEC). The established reserve price methodology will continue to apply for reserve prices that form part of any DSEC allocation at the day ahead stage (gate closure before 06:00am) when the allocation is conducted day ahead rather than at the within day stage. A new reserve price methodology, established by Pricing Consultation PC76 will be applied when a DSEC allocation is conducted at 06:00 on the day or at any time during the Gas Day. For the purposes of this proposal the timing of when an allocation is conducted is determined as the time at which gate closure occurs.

**2. Transco's Opinion**

Transco supports implementation of the Proposal. Implementation would satisfy the Pricing Methodology defined as a result of the Pricing Consultation PC76 process, and would thereby enable Transco to discharge its obligations under the SO Licence arrangements.

A Transco offering of obligated entry capacity through an auction in which all baseline capacity is released or was offered in a zero priced auction, which is described as a clearing allocation in the GT Licence, will ensure that any revenue associated with the release of incremental obligated capacity above the baseline level can contribute to the Capacity Buy Back Incentive

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

Transco considers that implementation of the Proposal would be consistent with Transco's discharge of its Licence obligations, and consequently enable Transco to optimise the release of entry capacity allocation. This may better facilitate User access to system entry capacity thereby better facilitating competition between Users. This may also better facilitate the efficient and economic operation of the pipe-line system.

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

**a) implications for the operation of the System:**

Transco anticipates that implementation of this Modification Proposal would allow Transco to optimise within-day entry capacity allocation which could have beneficial consequences for operation of the system.

**b) development and capital cost and operating cost implications:**

Transco anticipates computer system costs of the order of £10,000.

**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:**

Any additional SO costs would be shared with Users through operation of the internal cost element of the SO incentive scheme arrangements.

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

This Modification Proposal to the Network Code supports new transportation arrangements contained within Pricing Consultation Paper PC76.

**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 anticipates that implementation of the Modification Proposal would have no such consequence.

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

The current RGTA system and entry capacity aspects of Gemini will be affected by implementation of this Modification Proposal. It is anticipated that Gemini will be delivered on 1st November with delivery including the zero reserve requirement for within-day capacity sales. Between the proposed effective date of this Proposal and implementation of the Gemini system, Transco would be able to intervene to amend the appropriate RGTA data table to reset the reserve prices for the Gas Day in advance of any within-day sale of daily system entry capacity.

Of the two respondents that commented on User's system implications (BGT, SCP), neither considered that the likely development and implementation costs would be extensive.

**7. The implications of implementing the Modification Proposal for Users**

Transco considers that implementation of the Proposal will result in more complex arrangements for the release of within day entry capacity but that this should not increase User's administrative burden. Respondents support the proposed benefit of efficient and effective entry capacity allocation, and raise no significant implementation or ongoing concerns.

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

Transco has not been made aware of any such implications.

**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**

Implementation of this Modification Proposal would support the regulatory framework established by Transco's Licence arrangements.

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

Advantages:

1. Transportation charge methodologies are supported by Network Code business rules;
2. Transco is able to comply with its Licence obligations;
3. Entry Capacity allocation can be optimised under SO Licence arrangements.

Disadvantages:

1. More complex arrangements are required for entry capacity release.

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

Transco received a total of 3 representations in response to this Proposal:

British Gas Trading (BGT)  
Powergen UK Plc (POW)  
Scottish Power UK Plc (SCP)

Of these, two respondents (BGT, POW) express support for the implementation of the Proposal, and one provides comment with qualified support (SCP).

There was a view across all respondents that the Modification Proposal should further the relevant objectives by promoting the effective allocation of within day Daily System Entry Capacity.

#### Reflect the Value Attached by Users

One respondent (BGT) reflected that the DSEC product attracted different User values dependent upon the timing of acquisition, and that it was appropriate to recognise this difference by applying the proposed zero reserve price to the within day capacity product.

Transco Response:

Transco recognises that Users might attach different values to entry capacity depending upon when it is released.

#### Risk to Transco Revenue

Two respondents (BGT, SCP) raised a concern that Transco entry capacity revenue could be reduced where Users postpone their capacity purchase until within day to take advantage of a zero reserve price, with the effect that Transportation charge re-balancing within year could become more likely. BGT considered the risk not to represent a serious reservation to the Proposal since it believed this approach would lead to Users potentially being unable to secure entry capacity and as such was unlikely to be adopted by Users as a primary acquisition strategy. Similarly, SCP considered that the likely quantities of within day DSEC to not be significant enough to make a substantial difference to capacity allocation / revenue recovery.

Transco Response:

Transco agrees with those respondents who observed that there is the potential for a User to defer capacity purchase so as to be able to take advantage of a zero reserve price. Transco considers that limited levels of competition might be one factor that leads Users to defer bidding in the expectation that capacity can be gained at or close to the reserve price. It is this factor that may lead to expectations of reduced transportation revenue arising from sales of entry capacity. However, Transco considers the likelihood and impact on Transportation revenue of this situation to be minimal since Transco notes views expressed by Users that they expect to continue to demand the majority of their entry capacity requirement well in advance of the gas day.

#### Implication for Reserve Prices Generally

One respondent (SCP) suggested the industry be wary of the implications for other reserve prices to ensure that abundant and cheap entry capacity is not subsidised by customers as a result of increased transportation costs.

Transco Response:

Transco considers that this Proposal if implemented should allow compliance with its GT Licence obligation to offer baseline entry capacity through a Licence defined “cleared” allocation i.e. sold out or offered with a zero reserve price. Transco does not believe that a wider implication, in the context of reserve prices at specific ASEPs or auction timing, should be drawn from this specific proposal in response to Licence SO incentive changes.

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

No such requirement exists in respect of the Modification Proposal.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence**

This Proposal is intended to give effect in the Network Code to pricing proposals raised within Pricing Consultation Paper PC76 and which were intended to take effective from 1st October 2003.

**14. Programme of works required as a consequence of implementing the Modification Proposal**

The required system changes, should this Modification Proposal be implemented, have been specified by Transco within the Gemini system delivery anticipated for implementation on 1st November 2003. Current systems will be managed to enable a within-day auction with a zero reserve price to take place from the proposed effective date of this Modification Proposal until delivery within Gemini.

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

Draft Modification Report circulated - 12 June 2003  
Consultation period ends - 3 July 2003  
Final Modification Report issued - 11 July 2003  
Ofgem decision expected - early August 2003  
Systems implementation (initial) - 1st October 2003  
Systems implementation (Gemini) - 1st November 2003  
Effective date for implementation of Proposal - 1st October 2003

**16. Recommendation concerning the implementation of the Modification Proposal**

**17. Restrictive Trade Practices Act**

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

**18. Transco's Proposal**

This Modification Report contains Transco's proposal to modify the Network Code and Transco now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

## 19. Text

### SECTION B - SYSTEM USE AND CAPACITY

Add new Section B.2.4.13.(J).

B.2.4.13.(J)

"the **"reserve price"** shall mean:

(i) in respect of Daily System Entry Capacity applied for and allocated prior to 06:00 on the Day for which it was applied for, the reserve price for Unsold System Entry Capacity (in accordance with the Transportation Statement); or

(ii) in respect of Daily System Entry Capacity applied for and allocated after 06:00 hours on the Day for which it was applied for, zero."

Signed for and on behalf of Transco.

Signature:

**Nigel Sisman**  
**Development Manager, Gas Balancing**  
**NT & T**

Date:

**Gas and Electricity Markets Authority Response:**

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0630**, version **1.0** dated **11/07/2003**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

**Process Manager - Network Code**  
**Transco**

Date:



## Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
  - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
  - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriateprovided that if the Authority does not so approve the Agreement then Clause 3 shall apply.
2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.