

**Draft Modification Report**  
**Short term six month auctions**  
**Modification Reference Number 0625**  
Version 2.0

This Draft 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**

The Proposer stated :

"It is proposed that the AMSEC auctions are changes to being held every six months: in February for April to September entry capacity; and, in August for October to March entry capacity. To avoid overlap of auctions, LTSEC auctions will be held in September.

For the 2003/4 formula year, the timetable would then be as follows:

August 2003	- MSEC for October 2003 to March 2004 (all baseline entry capacity)
	- AMSEC for October 2004 to September 2005 (unsold from January 2003 auctions)
September 2003	- LTSEC for October 2005 to September 2017
February 2004	- MSEC for April 2004 to September 2004. "

## **2. Transco's Opinion**

Transco recognises the Proposer's argument that holding MSEC auctions covering capacity periods of six months shortly before the start of such periods may enable auction participants to gain more up to date information in respect of the NTS maintenance schedule before their last opportunity to acquire MSEC entry capacity in either a summer (Apr - Sep) or winter (Oct - Mar) period. Additionally the Proposal affords the opportunity for entry capacity purchases in August for each month in the Gas Year starting in the October of the next of the calendar year.

The proposal to offer April to September entry capacity in an auction to be held in February appears to replicate the now familiar experience since the start of RGTA that the first MSEC auctions for summer capacity are completed close to the start of the gas flow period. Furthermore, in an August MSEC auction the Proposal would require that the succeeding six month period (October to March) should be offered and in addition 12 months of capacity from the following October, but not the intervening six month period from April to September. In Transco's view this could create uncertainty and complexity in the MSEC auction process. It is not clear what benefit is obtained by not affording Users the opportunity to acquire entry capacity in the MSEC auctions in August for the summer period of the next calendar year. This could affect the perceived value of MSEC for the April to September period relative to other periods as MSEC for this period would be reserved for the

February allocation. Users would need to consider how their portfolios might be managed in this circumstance.

Transco also has concerns with the interaction the Proposal would have with Modification Proposal 0616 (Revision to the Standard Year for Annual MSEC) should it be implemented, because this Proposal is based upon a Gas Year which would be out of step with the concept of a Capacity Year as put forward in Modification Proposal 0616.

In addition, this proposal is not capable of implementation if Modification Proposal 0617 (Revision to the Standard Year for LTSEC) is implemented because the duration of MSEC offered in accordance with this Proposal, if implemented, would partially overlap the capacity period offered at the LTSEC auction, as described in Modification 0617. The result of an August MSEC auction would need to be known before the residual baseline quantities could be calculated in advance of the September LTSEC auction.

Transco does not support implementation of the Proposal because Transco considers it inappropriate to only offer MSEC for the summer period in auctions very close to the gas flow period.

Transco envisages no interaction with the operation of the electricity regime.

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

The Proposer does not state how implementation would better facilitate the relevant objectives.

In Transco's view, although auction participants would arguably have access to better information, thus improving the efficiency of the auctions, the release of MSEC for a discontinuous or staggered period could impede the efficiency of the auctions thus acting to the detriment of competition between Users.

### **4. The implications for Transco of implementing the Modification Proposal , including** **a) implications for the operation of the System:**

Transco has not identified any implications for the operation of the System.

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

Any increase in operating costs would be expected to be insignificant. Capital cost would be incurred for the development of the RGTA Capacity System.

#### **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:**

The costs would be met by allowed revenues for such purposes.

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

Transco envisages no such consequences.

**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 envisages no such implications.

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

Some development work may be required to the RGTA Capacity System to accommodate the release of MSEC over two separate time periods.

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

Users would participate in MSEC auctions held every six months rather than on an annual basis.

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

No such implications are anticipated.

**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**

No such consequences are anticipated.

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

Advantages :

Participants in MSEC auctions would have access to more up to date information.

Users would have greater certainty in forecasting their capacity requirements.

Consequences of unsuccessful bid strategies is reduced.

Disadvantages :

Introduces possible uncertainty in MSEC auction process.

Could raise implementation difficulties if Modification Proposals 0616 & 0617 were to be approved.

Anticipated reduction in number of MSEC auctions is not delivered.

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

Representations are now sought as part of the Draft Modification Report.

**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**

No such requirement exists in respect of the Modification Proposal.

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

As no changes to Transco's UK Link system are envisaged, a programme of works will not be required.

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

The development of an implementation timetable is subject to the Ofgem decision on the Proposal.

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

Transco does not support implementation of the Proposal.

**17. Text**

*Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report*

Signed for and on behalf of Transco.

Signature:

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

Date: