

**Modification Report**  
**LTSEC for New Entry Points**  
**Modification Reference Number 0622**  
Version 2.0

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 following first publication of a schedule of step prices for a new Aggregate System Entry Point (ASEP) in Transco's Transportation Statement, a Long Term System Entry Capacity (LTSEC) auction would normally commence within 60 business days. The Network Code would continue to require that a LTSEC auction is held not less than 28 days after Transco has notified Users of the reserve and step prices that would apply in respect of each ASEP. Hence, normally a LTSEC auction would be conducted commencing between 28 and 60 business days after the first publication of step prices for a new ASEP and would afford Users the opportunity to purchase capacity at all ASEPs.

However, the above requirement might generate LTSEC auctions in quick succession. Thus, the extra LTSEC auction triggered by the production of the schedule of step prices for a new ASEP should not take place if such publication occurs within 100 business days of the first day of the month in which the annual LTSEC auctions would take place. This requirement would be necessary to ensure that sufficient time is available between LTSEC auctions to determine the result of the first auction and publish the quantities that may be available in a subsequent auction.

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

Transco supports implementation of the Modification Proposal. The Network Code requires that an auction of LTSEC be held in August of each year. In the August auction, Quarterly System Entry Capacity would be offered at all ASEPs. Should Modification Proposal 0617 'Revision to the Standard Year for the purposes of acquiring and holding Long Term System Entry Capacity' be implemented, the LTSEC auctions would be conducted in September of each year.

Following a recent consultation on the establishment of a LTSEC price schedule for three prospective new ASEPs, it has become apparent that if Transco were to offer LTSEC as part of the existing LTSEC auctions, this could represent a delay in the planning and development of the new ASEPs. Developers might prefer to have the opportunity of gaining entry capacity at an early stage in order to better manage the risks associated with developing the assets upstream of the new ASEP. Transco believes that System Entry Capacity should be offered close to the time that new step prices have been published. This might avoid unnecessary delay and risk in the development of assets upstream of new ASEPs, the establishment of which should assist in maximising gas supply options and therefore promote gas supply security in the UK energy market.

The Modification Proposal also put forward a number of options regarding how and when

such a LTSEC auction would be conducted. Following consideration of the comments received, Transco proposes the following:

1. The additional LTSEC auction required for the potential new ASEP would only offer System Entry Capacity at the new ASEP.
2. The LTSEC auction would commence within a 28-60 day window following the publication of a schedule of step prices for a new ASEP.
3. The LTSEC auction defined by the above shall not take place if the normal annual LTSEC auction should commence within 100 days of publication of the scheduled step prices in respect of the new ASEP.

No impacts are anticipated on the electricity transmission system.

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

Transco believes that the holding of LTSEC auctions close to the date when it publishes step prices for a new ASEP would facilitate the development of new entry points. It would provide the opportunity to allocate entry capacity at an early stage of developing the upstream infrastructure to support the delivery of gas onto the System at the new ASEP. Providing the opportunity for Users to procure entry capacity at this stage should assist developers of upstream infrastructure and thereby increase the likelihood of the new infrastructure and the availability of appropriate capacity in the transmission system being completed in a timely manner. Such an outcome should increase the gas supply options available both to UK Shippers and thereby better promote security of supply. The increased diversity of gas supply sources would therefore further both the economic and efficient operation of the System and competition between Users.

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

Implementation of the Proposal would facilitate the connection of new entry points to the System thus encouraging new gas supply availability which may enhance security of supply and improve the economic and efficient operation of the System.

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

Conducting an additional LTSEC auction would be administered by the RGTA Capacity System with no additional development work required. The resourcing requirements for the proposed auction would lead to a minimal increase in operating costs.

**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:**

No additional costs have been identified.

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

No impact is anticipated.

**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**

There is not expected to be any change in the level of contractual risk as a result of implementation of this Proposal.

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

No such implications are envisaged in respect of Transco's computer systems. Transco has not been made aware of any implications for Users' computer systems.

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

Users would be given the opportunity to bid for LTSEC at new ASEPs at a time that may be outside the standard annual LTSEC schedule.

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

Developers of new ASEPs will be provided with greater certainty that an LTSEC process will be operated close to the time when new prices are published by Transco in its transportation statement. Transco believes this will better facilitate the planning and development of infrastructure upstream of any new ASEPs.

**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 envisaged.

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

Advantages: provides the opportunity for developers of infrastructure upstream of new ASEPs, via their nominated Shippers, to acquire long term firm entry rights to the NTS thus reducing the potential for delay in the development of the infrastructure associated with new ASEPs.

Disadvantages: could introduce possible complexity by running additional LTSEC auctions.

**11. Summary of the Representations (to the extent that the import of those**

**representations are not reflected elsewhere in the Modification Report)**

Representations were received from the following nine parties :

ScottishPower	(SP)
TotalFinaElf	(TFE)
Shell Gas Direct	(SGD)
British Gas Trading	(BGT)
Powergen	(PG)
ExxonMobil	(Exx)
Scottish & Southern Energy	(SSE)
BP Energy	(BP)
Statoil (UK)	(Stat)

Four respondents (SP, PG, BGT & BP) expressed support for the Proposal, three (SGD, TFE & Stat) did not support the Proposal, and two (Exx & SSE) gave no overriding view.

**General**

One respondent (SSE) stated that it recognised the potential benefits associated with the Modification Proposal, by way of reduced delay and reduced risk to developers of not securing capacity for new ASEPs. It commented, however, that there was no information within the report to clarify the extent of the issue, how material any delay or risk might be and the expected number of additional auctions as proposed, suggesting that such information be included in the Final Modification Report.

One respondent (Stat) argued that the Proposal would complicate the annual auction process by requiring Shippers to bid for capacity in multiple auctions instead of one simple annual auction for Long Term capacity.

While recognising the need for a system to deal with new entry points, one respondent (SGD) considered that the proposals were unduly prescriptive and may not cater for all potential situations. It suggested that any new auctions should be timed to be in line with participants' requirements, and that they could raise modifications to this effect. The same respondent commented that it was efficient to restrict the additional auctions if they were too close to the timing of the annual LTSEC auctions, but that this could be considered as part of the consultation on the Proposal. Furthermore, it argued, decisions on whether to include all ASEPs, or just the new ASEPs, could be considered for each case allowing the option of market participants to raise alternative proposals to suit their requirements. This approach, it suggested, would offer a more flexible approach to be taken to holding additional auctions. It further suggested that there could also be merit in considering holding additional LTSEC auctions for specific existing entry points when circumstances warranted this.

While acknowledging the purpose of the Modification Proposal, one respondent (TFE) disagreed that an LTSEC auction should be held at the earliest opportunity once the schedule of step prices for a new ASEP has been published. It argued that once the schedule has been published, the developers should have the information they need to determine the likely cost of entry capacity at the proposed ASEP. The LTSEC process for incremental capacity was

reasonably clear and, as such, developers should be confident that the appropriate level of capacity would be made available provided, when the auction is held, bids are made at the required level and duration.

The same respondent suggested that every effort, therefore, should be made to publish the schedule at the earliest opportunity, irrespective of the period between such earliest publication date and the next proposed LTSEC auction date. It recommended that the price schedule should reflect both a realistic minimum level of capacity together with a fit for purpose spread of volumes that reflects industry needs.

The same respondent added that the Industry had also recognised that significant planning and preparation would need to be undertaken once the schedule is published and therefore the LTSEC auction should continue only on an annual basis.

### **Transco Response**

Transco welcomes the majority support expressed for the Proposal and the acknowledgement that implementation would provide Users with the opportunity to secure LTSEC at an early stage in the development process. Transco recognises that this is likely to be of benefit to developers.

Transco acknowledges that if this Modification Proposal was not implemented, a potential terminal operator might reach an agreement with a Shipper so that a Modification Proposal relevant to each new entry point could be raised as and when required. However, an agreement between a developer and a Shipper might not be reached in a timeframe that would enable a proposal to be raised, consulted upon, implemented and then an auction to be run, all within the project management timescales for establishing a new entry point. Therefore, Transco considers it preferable to establish certainty where possible in the process so that both developers and Shippers would better understand the process and lead times. It believes that this approach does not rule out the possibility of further Modification Proposals in the future that might be intended to meet specific Shipper/developer needs.

While recognising that publication of the step prices to be offered should provide a level of certainty, Transco is aware that this might not provide developers with sufficient assurance to progress development. The ability to procure entry capacity in a timely manner might therefore be considered to increase the likelihood of upstream infrastructure investment that might improve the diversity of gas supplies and therefore the better functioning of the trading arrangements. Developers may also desire certainty in respect of the volumes held for different time periods, which could only be appreciated following allocation of the entry quantities.

### **Specific Points**

#### **All ASEPs or new ASEPs only**

Four respondents (SP, Exx, PG & SSE) suggested that LTSEC should be offered at the new ASEP alone, with a number basing their view on the possible confusion that could arise from offering LTSEC at existing ASEPs at the additional auction. One respondent (SP) included the condition that any additional LTSEC auctions should be restricted to the new ASEP

providing there were no significant implications for capacity volumes at other entry points; a view that was shared by SGD.

One respondent (BP) commented that additional auction(s) for existing ASEPs would place an additional burden on bidder's resources and would unnecessarily increase uncertainty faced by bidders formulating their capacity acquisition strategies (by virtue of the introduction of unplanned additional opportunities to acquire capacity at existing ASEPs). It also commented that capacity for new terminals would in any case subsequently be offered at the same time as for existing terminals in the scheduled annual LTSEC auctions.

Although opposing the proposal to offer LTSEC only at the new ASEP, one respondent (BGT) observed that if LTSEC were only offered for the new ASEP, Shippers would have further opportunities to bid for LTSEC at existing ASEPs in subsequent LTSEC auctions.

### **28-60 window rule**

Five respondents (Exx, TFE, BGT, PG & BP) agreed with the suggested 28-60 day window rule. One respondent (PG) requested that as much notice as possible was given to all interested parties. A further respondent (SP) stated that it did not necessarily feel that a 28-60 day window was ideal, but given that it was difficult to time the auction to a specific date due to the processes involved, it believed the rule was as good a determinant as any.

### **100 day Window**

Five respondents (Exx, TFE, BGT, SP & BP) considered the proposed 100 day rule to be appropriate.

One respondent (Exx) also added that, in certain circumstances, the 2 month delay in Transco finalising allocations may present an unreasonable risk for Shippers associated with the development of the new ASEP.

One respondent (SSE) stated that the 100 day rule only appeared to exclude auctions that would be due to take place within 100 days of the first day of the month in which the next planned annual LTSEC auction was due to take place. It suggested a similar cut-off for all auctions for new ASEPs throughout the year, to prevent numerous auctions in quick succession. SP added, however, that the infrequency of new entry points being added would minimise the effects of any increases in complexity arising from the proposed changes.

### **Other Points**

One respondent (SSE) requested clarity on whether the new auctions would be selling previously unsold capacity, or bringing forward capacity from future auctions, and the likely impact on allowable revenue, incentives and charges.

One respondent (Exx) suggested that criteria be introduced to determine the reasonableness of the request for a special auction, such as that the Shipper associated with the development would be required to raise an appropriate modification proposal. It argued that there should be no distinction in the proposed process between new entry points and major developments connecting into an existing entry point.



One respondent (Stat) did not agree that there was any benefit in allowing new terminals to auction capacity at different times from existing ASEPs, as Transco did not have to physically provide capacity at a terminal. A commitment to sell capacity, it further argued, did not translate into physical investment under Transco's Gas Transporter Licence, and therefore the auctioning of new capacity could take place as part of the existing auctions.

## **Transco Response**

Transco acknowledges the support expressed to the proposition that LTSEC auctions that are held outside the annual (August) schedule should be limited to new ASEPs only. Transco believes that Shippers would have adequate opportunity to obtain entry capacity at other entry points during the existing LTSEC auctions. Therefore, Transco recommends that LTSEC auctions envisaged by this Proposal should only offer for sale System Entry Capacity at the relevant new ASEP(s).

Transco notes the majority support for retaining the 28-60 business day rule and therefore recommends implementation of this aspect of the Proposal.

Transco notes, and agrees with, the suggestion that the 100 day rule is also included in all auctions for new ASEPs to avoid multiple auctions in quick succession. Transco considers that sufficient time needs to be allowed between auctions to enable the results of the first auction to be determined and published before commencing a second LTSEC auction.

The new entry points that this Proposal addresses have a baseline capacity allocation of zero. Incremental revenues from such capacity sales may contribute to the Capacity Buy Back Incentive (for non-obligated incremental capacity) or the Capacity Investment Incentive (for obligated incremental capacity).

### **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)**

Transco proposes that implementation of this Modification Proposal should occur no later than 1 June 2003, to allow sufficient time to arrange the auction invitation process prior to the proposed commencement of an additional LTSEC auction in June 2003.

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

Transco recommends 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

Draft proposed legal text:

### SYSTEM B: SYSTEM USE AND CAPACITY

*Amend paragraph 2.2.1 to read as follows:*

2.2.1 Without prejudice to paragraph 2.2.18, by:

- (a) not later than....

*Add new paragraphs 2.2.18 and 2.2.19 to read as follows:*

2.2.18 In relation to an Aggregate System Entry Point where Transco has not previously invited applications for System Entry Capacity from Users in accordance with this paragraph 2.2, Transco will, unless the circumstances in paragraph 2.2.19 prevail:

- (a) notify Users of the:
  - (i) reserve prices and the step prices that will apply in respect of the Aggregate System Entry Point for the purposes of the first invitation;
  - (ii) the calendar months in respect of which applications for Quarterly System Entry Capacity will first be invited and the aggregate quantities of Quarterly System Entry Capacity in respect of which applications may be made; and
- (c) not earlier than twenty-eight (28) and not later than sixty (60) Days after notifying Users under paragraph (a), Transco will invite applications for Quarterly System Entry Capacity for such aggregate amounts as notified under paragraph (a).

and such an invitation shall be deemed to be an annual invitation in relation to which the relevant provisions (in respect of the relevant quantities of Quarterly System Entry Capacity) of this Section B2 shall apply.

2.2.19 The invitation referred to in paragraph 2.2.18 shall not take place in the event that were it to take place the date on which reserve prices and step prices would have been published in the Transportation Statement falls less than one hundred (100) Days before the first day of the month in which Transco reasonably expects Users will be able to make applications for System Entry Capacity in accordance with paragraph 2.2 at all Aggregate System Entry Points pursuant to the next annual invitation.

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 **0622**, version **2.0** dated **23/05/2003**) 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 **2.0**.

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 appropriate

provided 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.