

Draft Modification Report
Summer 2002 Capacity Auction
Modification Reference Number 0549

Version 1.0

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

It is proposed that a number of amendments are made to the Network Code and implemented prior to the next Monthly System Entry Capacity (MSEC) auctions. If unchanged the Network Code requires that the next MSEC auctions will be completed not later than August 2002 and that the quantities to be offered should be over a 12 month period and be based on the SND + 10% methodology. In addition to the MSEC auctions, the Network Code provides for Monthly Interruptible System Entry Capacity (MISEC) and Unsold Long Term Firm (ULTF) to be made available.

Completion Date

It is proposed that the allocation process of the next MSEC auctions should be completed by 31 July 2002. This will have a number of benefits if Modification Proposal 0500 is to be implemented. It will ensure a reasonable time period is available for the Long Term Capacity Allocation systems to be tested and operated and for a rolling MSEC process to be operated subsequently.

Applicable Period of Capacity Allocation

The forthcoming allocation of MSEC capacity applies to the 12-month capacity period 1 October 2002 to 30 September 2003. During Capacity Workstream discussions a number of industry parties have discussed the merits of an allocation that covers a 24-month duration (1 October 2002 through to 30 September 2004). This modification proposal provides an opportunity to amend the capacity period and views on this aspect are sought.

Initial NTS SO Baseline Entry Capacity

It is proposed that transitional rules are introduced to enable a proportion of NTS SO baseline entry capacity to be offered. The quantities would be 100% of the NTS SO baseline entry capacity for the 12-month period from 1 October 2002 and if capacity is offered for a 24 month period, 80% of the NTS SO baseline capacity for the 12-month period from 1 October 2003. For clarity a table of relevant initial NTS SO baseline capacities can be found on Table A2 of Ofgem's proposed licence modifications (Transco Price Control and NTS SO Incentives 2002-7). If this Modification Proposal is implemented the above baseline quantities would be published in Transco's transportation statement.

Auction of MSEC

It is proposed, consistent with the February 2002 MSEC auction, that the auction is conducted over 4 rounds in which 25% of available capacity is offered in each round. Any unsold capacity arising from rounds 1 to 3 should be carried over to round 4. It is proposed that the existing

round 5 allocation arrangements are not required because the function of this round was in part intended to enable an optimisation of demand across all ASEPs. A requirement to offer preset quantities of capacity is expected to remove the potential for such optimisation. The 5th round allocation is at present required to offer unsold capacity arising from earlier auction rounds, and as previously indicated, Transco believes that it would be appropriate to carry unsold capacity into the 4th auction round.

Later application for Monthly System Entry Capacity

It is proposed that the MSEC allocation process for release of unsold System Entry Capacity as identified in B2.4 is discontinued for capacity to be used from 1 October. It is anticipated that if approved, Modification Proposal 0500 will introduce a rolling MSEC allocation that is intended to replace the present allocation process for unsold system entry capacity. Continuation of the present process after the summer MSEC allocation could therefore create difficulties in migrating to the proposed rolling MSEC process. If Modification Proposal 0500 is not implemented then Transco would expect to raise a further Modification Proposal to introduce a rolling MSEC allocation prior to 1 October 2002.

Monthly Interruptible System Entry Capacity (MISEC)

Transco proposes that provision of MISEC is discontinued. This aspect had previously been removed on a transitional basis by Modification Proposal 0499 (for the period 1 April to 30 September 2002). MISEC was created to overcome industry concerns about the SND based methodology described within the Network Code for determining quantities of MSEC to be offered at each ASEP. However, as previously indicated, this Modification Proposal also contains a proposal to supersede that methodology by utilising a reference to the appropriate proportion of initial NTS SO baseline entry capacity quantities which Ofgem proposes should be identified in Transco's Gas Transporter Licence. Transco believes that the use of an initial NTS SO baseline entry capacity measure is intended in part to remove doubts about how available System Entry Capacity is calculated. The need for MISEC as a means of countering doubts about how capacity is calculated are therefore removed and consequently Transco believes that MISEC provision should be removed from the Network Code.

2. Transco's Opinion

Transco supports implementation of this Modification Proposal. This Modification Proposal primarily seeks to align the quantities of system entry capacity to be offered in the MSEC auctions in July 2002, with the Baseline Capacities that have been proposed by Ofgem and which, have been included in Ofgem's recently proposed modifications to Transco's Gas Transporter Licence. Transco recognises that the use of Baseline Capacity impacts on a number of areas within the Entry Capacity Regime. Transco also supports implementation of the proposed changes to auction design by removing the obligation to run a fifth auction round and to offer MISEC.

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

Transco considers that this Proposal would better facilitate the relevant objective of the efficient discharge of its licence obligations. Transco is also of the opinion that the 5th

round and MISEC provisions are inconsistent with the principles underpinning the formulation of Baseline Capacity measures and therefore could provide inefficiencies if they were to remain in the Network Code, discouraging economic and efficient operation of the system.

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

This modification proposal will, if implemented align the Network Code arrangements with the System Operator Incentives proposed by Ofgem. In particular the Network Code will reflect the quantities that Transco would be obliged to offer by its licence requirements were the Licence modification proposal to be implemented.

b) development and capital cost and operating cost implications:

There are no such 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:

There are no such costs anticipated.

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

There are no such implications 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

Transco does not believe there are any such consequences.

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

There are no development implications.

7. The implications of implementing the Modification Proposal for Users

Transco would welcome user's views on the implications of implementing this modification proposal.

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

Transco is unaware 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

Transco is unaware of any such consequences.

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

Advantages:

The Modification Proposal will align the Network Code with Ofgem's final proposals for System Operator incentives.

The Modification proposal is consistent with an intent to enable Baseline Capacity to be offered in an MSEC allocation.

Disadvantages:

No disadvantages anticipated.

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.

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

Implementation is not required to facilitate compliance with any such legislation.

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

Implementation is not required having regard to any proposed change in the methodology established under Standard Condition 4(5) of the statement furnished by Transco under Standard Condition 4(1) of the Licence.

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

There are no such works required.

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

Draft Modification Report 24 May 2002

Close out for representations 18 June 2002
Final Modification Report 21 June 2002
Ofgem decision expected 27 June 2002

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this proposal be implemented.

17. Text

DRAFT LEGAL TEXT

MODIFICATION 0549

8.1.3 B2 In respect of the calendar months October 2002 to [] (inclusive) (“relevant month”):

- (1) Section B2.2 shall not apply and for the purposes of Section B2.3:
 - (a) references to Determined System Entry Capacity in respect of an Aggregate System Entry Point and each relevant month shall be treated as a reference to the amount of System Entry Capacity identified as the [Output ASEP Quantity] for the Aggregate System Entry Point and the relevant month set out in Transportation Statement ;
 - (b) the reference in Section 2.3.1 to each calendar month in the Gas Year shall be treated as a reference to each relevant month;
 - (c) Transco’s invitation under Section 2.3.2 shall specify four dates, the last of which shall not be later than [31 July 2002] and the amount of System Entry Capacity that will be available on the first three invitation dates shall be an amount equal to 25% of the amount of System Entry Capacity determined in accordance with paragraph (1); and on the fourth date shall be an amount equal to such amount of System Entry Capacity that remains available after [allocation] in accordance with Section 2.3 following the third invitation date.
- (2) Sections B2.6 and B2.7 shall not apply.

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:

Tim Davis
Head of Regulation NT&T

Date: