

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0549
"Summer 2002 Capacity Auction"
Version 1.0

Date: 15/05/2002

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

This Modification Proposal is required primarily to ensure the quantities of System Entry Capacity offered in Monthly System Entry Capacity (MSEC) auctions of summer 2002 are the quantities specified in recently proposed modifications to Transco's GT Licence. In the absence of any change the Network Code requires 110% of Seasonal Normal Demand to be offered. In addition, a number of changes to the detailed arrangements for the sale of MSEC are proposed.

Nature of 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 during August 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 expected to 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.

Purpose of Proposal

Users will benefit from this Proposal if the quantities to be offered in the next round of MSEC auctions are aligned with the forthcoming System Operator Incentives. This proposal is consistent with an intent to enable initial NTS SO Baseline entry capacity quantities to be offered in an MSEC allocation.

Consequence of not making this change

If the Proposal is not approved then the present Network Code arrangements will continue to apply. However, the Network Code would not reflect the quantities that Transco could be obliged to offer by its revised licence requirements.

Area of Network Code Concerned

Section B
Transition Arrangements.

Proposer's Representative

Russell D Cooper (Transco)

Proposer

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Signature

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