

## Network Code Modification Proposal No: 0490

**Short title:** Adjustment to ASEP Capacity Revenue Neutrality calculation

**Date:** 21<sup>st</sup> August 2001

**Proposed Implementation Date:** 29th August 2001

**Urgency:** Urgent

**Justification:**

Transco are due to hold the MSEC and MISEC entry capacity auctions commencing Wednesday 29<sup>th</sup> August 2001. However, the implementation of Modification 481 has introduced the anticipation of very high within day buy back costs. Transco estimate these to be between £24m and £113m for the six months from October 2001 due to the release of excessive ASEP capacity via Modification 481. This Modification requires urgent status to improve the cost targeting of any buyback costs for the forthcoming auctions.

**Nature of Proposal:**

The existing capacity incentive mechanism apportions daily revenues and costs between Transco and Shippers on a 20:80 ratio each month, subject to Transco's monthly cap of £416,000. This is subject to Transco's Modification 488 which would see a suspension of their neutrality exposure, effectively placing all capacity surrender (buyback) costs onto MSEC holders at all ASEPs.

This Modification seeks to change the apportionment of these buyback costs to a more cost reflective basis, reducing the extent of existing cross-subsidies between constrained and unconstrained ASEPs. This Modification does not alter the apportionment of any incremental daily sales revenues and improves the symmetry between the two mechanisms.

Capacity Incentive Costs incurred on a Day should be apportioned between Shippers as follows:

50% of Effective Capacity Entitlement at the Constrained ASEP(s). (This includes MSEC, MISEC (where applicable), effective DAI and WDF entry capacity).

Plus

50% apportioned across all ASEP MSEC entry capacity (as at present).

These costs would be targeted to Users holding the effective capacity on a Day, rather than the initial relevant User of the capacity calculated on a Monthly basis. There may be Systems implications in this area.

**Purpose of Proposal:**

To improve the cost redistribution of capacity surrender charges between Users. This Modification proposal is independent of the outcome of Transco's Modification 488. If the existing mechanism is retained, then effectively the split would be 20% Transco; 40% Constrained ASEP (all effective capacity) and 40% all ASEP MSEC. Otherwise, the basis outlined above would become effective.

It is relevant to apportion costs to the holders of the capacity on a Day rather than the initial capacity holder. The current mechanism may inhibit the secondary market in capacity trading.

It is also relevant to apportion the costs over all effective capacity at the end of the Day at the constrained terminal rather than just the MSEC capacity. This is demonstrated by the fact that Transco often have to buy back capacity that has been released at the day ahead stage, either firm or interruptible.

The proposal apportions a higher proportion of capacity surrender costs to the ASEP where Users are able to surrender capacity. This seeks to improve the cost redistribution whilst still recognising the substitutability of entry capacity between certain ASEPs.

**Furthering relevant objectives:**

To improve the economic and efficient distribution of Capacity Surrender costs between Users by reducing the cross-subsidy between constrained and unconstrained capacity holders. The re-apportionment of costs should also improve secondary market trading of entry capacity.

**Consequences of not making this change:**

The entry capacity auctions continue as defined within the Network Code and as may be amended by Modification 488.

It is likely that Relevant Users holding ASEP MSEC entry capacity will pay a multiple of their bid price in Relevant Capacity Costs. This is discriminatory and may distort the bidding behaviour in the primary auction.

**Area of Network Code concerned:** Section B

**Identity of Proposer's representative:** Alex Barnes

**Proposer:** Mark Dalton

**Company:** BG Gas Services Limited