

**Draft Modification Report**  
**Transition Arrangements for Long Term Capacity Allocation**  
**Modification Reference Number 0499**

Version 1.0

This Draft Modification Report is made pursuant to Rule 8.9 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. The present Network Code arrangements specify that the next MSEC auctions will be completed not later than 31 January 2001. It is the intention of the Proposer that the changes, if approved should apply in relation to the notification, sale and administration of MSEC for the 1 April 2002 to 30 March 2003 capacity period.

**Applicable Period of Capacity Allocation**

The forthcoming Allocation of MSEC capacity applies to the 6-month capacity period 1 April to 30 September 2002. This modification proposal provides an opportunity to amend the capacity period to a 12 month duration (1 April through to 30 March 2003). Transco believes Users should have an opportunity to consider the appropriateness of this potential change.

**Date for Completion of MSEC allocation.**

It is proposed that consideration is given to the desirability of delaying the next MSEC auctions by 4-weeks such that the allocation process would be completed not later than 28 February 2002. Transco believes there is considerable uncertainty arising from discussions about Ofgem's proposals for changes to Transco's System Operator incentives which might apply from 1 April 2002. Transco is uncertain of the level of clarity to be gained from a 4 week delay to the next MSEC auctions, but believes that it is appropriate that Users should be given an opportunity to express views and consider this issue. Users may wish to consider a more substantial delay than the suggested 4-weeks, but will also need to consider the appropriateness of a reduced period between completion of auctions and the start of the relevant capacity period.

**Output Measures**

Output Measures have been linked to Transco's Price Control and are expected to be specified within its Gas Transporter licence. It is proposed that section B2.2, which identifies the process of calculating Determined System Entry Capacity is replaced with a reference to the appropriate Output Measures (or a proportion thereof). The reference should indicate that the quantity of System Entry Capacity to be made available in each relevant month and at each Aggregate System Entry Point (ASEP) should be as indicated in the relevant

table of output measures and derivatives. Users should be aware that alternative measures might need to be taken if agreed text for any forthcoming licence change is not put in place prior to the MSEC auctions. If Output Measures and the appropriate proportions to be offered for sale are not specified in time for the forthcoming allocation then Transco presumes that transitional Network Code provisions will need to be developed. These should provide for an appropriate quantity to be offered in the allocation of January/February 2002.

#### Auction of MSEC

It is proposed 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 capacity up to preset Output Measures 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

Following the MSEC allocation process any unsold System Entry Capacity is offered on a first come first served basis with a reserve price that is applicable only to System Entry Capacity released through this particular process. Transco does not believe that this process adds significant value to the Entry Capacity regime. From 1 April 2002, capacity will be made available in the primary release up to the appropriate proportion of the Output Measure and Daily System Entry Capacity (DSEC) will where appropriate, also continue to be made available. Transco believes that the MSEC and DSEC processes should offer adequate opportunity for Users to obtain System Entry Capacity and therefore proposes that provision of this service is discontinued (section B2.4).

#### Monthly Interruptible System Entry Capacity (MISEC)

Transco proposes that provision of this feature of the entry capacity regime is discontinued. MISEC was created to overcome industry concerns about the methodology described within the Network Code for determining quantities of MSEC to be offered at each ASEP over the relevant period. However as previously indicated, this Modification Proposal also contains a proposal to supersede that methodology by utilising a reference to the appropriate proportion of Output Measure quantities identified in Transco's Gas Transporter Licence. Transco believes that the use of an Output Measures based approach is intended in part to remove doubts about how 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 related provisions should be deleted from the Network Code.

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

This Modification Proposal primarily seeks to align the quantities of system entry capacity offered in the MSEC auctions in January 2002 with the proportion of Output Measure quantities that have been proposed by Ofgem and which, if agreed, are expected to be included in Transco's Gas Transporter License. Transco recognises that the use of Output Measures impacts on a number of areas within the Entry Capacity Regime. Although enduring changes should be considered in the context of a separate Modification Proposal in Transco's opinion the short term effects and appropriate transitional arrangements need to be considered. Transco reminds respondents that discussion of the completion date for the next MSEC auction is now subject to Modification Proposal - 0505 - Delay to the January 202 MSEC Allocation.

## **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 by ensuring that MSEC quantities are in line with forthcoming licence requirements. Transco is also of the opinion that 5th round and MISEC provision are inconsistent with the principles underpinning formulation of output measures and therefore could provide inefficiencies if they were to remain in the Network Code.

## **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 Operators requirements proposed under the license changes for the System Operator Incentives, that are currently being discussed for use from 1 April 2002. In particular the Network Code will reflect the quantities that Transco would be obliged to offer by its revised license requirements.

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

No such costs are anticipated.

### **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:**

Transco does not anticipate that the implementation of this Modification Proposal would create costs that it would seek to recover.

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

Transco is unaware of any 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 is unaware of any such consequences.

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

Transco is unaware of any such implications.

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

Users will benefit from this proposal if the quantities to be offered in the next round of the MSEC auctions are aligned with the forthcoming System Operators Incentives. This Modification Proposal is consistent with an intent to enable Output Measure quantities to be offered in an MSEC allocation.

**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 proposed license changes for the System Operator Incentive.
- The Modification proposal is consistent with an intent to enable Output measures to be offered in an MSEC allocation.

Disadvantages :

- An extended delay to the next MSEC allocation may create a level of uncertainty for Users.

**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 would facilitate Transco's compliance with revised Licence obligation.

**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 with regard to any such Proposal.

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

No such program of works is required.

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

The timetable of action consequent upon implementation is set out elsewhere in this report.

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

Transco recommends implementation of the Modification Proposal.

**17. Text**

**Transition Document Part II**

Delete Paragraphs 8.1.3. to 8.1.9. inclusive.

Replace as follows:

8.1.3. B.2. In respect of the calendar months April 2002 to September 2002 (inclusive):

- 1) Delete Section B.2.2. provided that the reference in Section B.2.3.d. shall remain. The Determined System Entry Capacity to be available at an Aggregate System Entry Point in respect of the calendar months April 2002 to September 2002 (inclusive) shall be the figure identified as the relevant [Output Measure] for the ASEP contained with [condition] of the Transco Licence;
- 2) the reference in Section B.2.3.1. to each calendar month in the Gas year shall be deemed to be a reference to the Calendar Months April 2002 to September 2002 inclusive;
- 3) the reference in Section B.2.3.2.(a) to five invitation dates shall be deemed to refer to four invitation dates and by not later than 28th February 2002 Transco will invite applications for the Determined System Entry months April 2002 to September 2002;
- 4) with reference to Section B.2.3.2.(a), any unsold Monthly System Entry Capacity on the first three invitation dates shall be added to the amount of Monthly System Entry Capacity to be sold on the fourth invitation date.
- 5) Delete Section B.2.3.2.b.(ii).;
- 6) For the purposes of paragraph (3), Section B.2.3. shall apply separately in respect of applications for Monthly System Entry Capacity for the calendar months referred to therein;
- 7) Delete Section B.2.3.3.b.;
- 8) Delete Section B.2.3.7.b;
- 9) Delete Section B.2.4.;
- 10) Delete Section B.2.6.;
- 11) Delete Section B.2.7.'
- 12) Delete Section B.2.11.3.ii.; and Sections B.2.11.3.(iv).;

***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**  
**Manager, Network Code**

Date: