

May 2002 Monthly Report

May Report Version 1.0

Reference:

17/05/02

Modification Proposal 0500 - Long Term Capacity Allocation

Issues for Consultation

This note has been issued following direction from the May Modification Panel. It is intended to summarise the issues for consultation in Modification Proposal 0500 and in particular to identify any further issues for consultation or changes that may have arisen following recent discussions of how to take the "best of" modification Proposals 0500 and 0508. In addition to the central proposition of developing a Long Term Entry Capacity process the Draft Modification Report for 0500 sought views on the following specific aspects.

- i. The appropriate duration for which Entry Capacity should be made available. The default period is deemed to be thirteen years.
- ii. Consider if a quarterly block of Entry Capacity continues to be preferable to an annual allocation.
- iii. Should Transco indicate a range of twenty marginal costs that in aggregate will indicate the cost of providing up to 150% of Baseline Capacity.
- iv. Should the present off the shelf process be replaced by the proposed rolling MSEC allocation?
- v. Is a five day bid period for Quarterly System Entry Capacity and a single day for the Monthly system Entry Capacity Allocations appropriate?
- vi. Respondents to the Modification Report should be invited to comment on the appropriateness of setting the threshold for Daily Interruptible System Entry Capacity at 10% of the relevant Baseline Capacity.

Recent Discussion

Further consideration to the above questions for consultation may best be give in the light of recent discussions. In addition an issue of transparency and early gate closure is also presented for consideration.

Some additional discussion has suggested that an allocation period of 15 years rather than 13 would appear to offer a satisfactory time horizon for most Users. Closely linked to this issue is the point at which a transition is made from Monthly System Entry Capacity (MSEC) auctions to the proposed LTSEC allocation. In early drafts Transco had proposed that years 1 to 4 should be offered through an MSEC auction and that the LTSEC allocation should be conducted for year 4 onwards. Following discussion and review the business rules have been amended to bring the

transition point forward so that LTSEC allocation could be utilised from year 3 onwards. - **Views are sought on this aspect**

The use of quarterly or annual blocks of firm capacity has been further discussed, particularly in the context of how best to produce investment signals and how to fit within the construct of the licence. – **Views continue to be sought on this aspect**

Provision of greater transparency in the LTSEC allocation has been discussed during RGTA workstream meetings. This aspect has recently been given further consideration with the intent of providing Users with an opportunity to respond to aggregate demand signals. Transparency could simply be achieved by publishing aggregate demand information for each price step at the end of each business day. Users would then have an opportunity to consider the aggregate signal and adjust their demands if appropriate. Thus affording Users with an opportunity to switch demand between locations or re-price demands. Unfortunately it is possible for Users to avoid giving any information by not posting demands until the final day or indeed a certain amount of mis-information could be issued at an early stage. In order to overcome these concerns it is necessary to consider how rules can be created to encourage the provision of timely and truthful information. In order to achieve that it is generally considered that a threat of early closure to the process is necessary so that each User has an incentive to minimise risk by bidding truthfully.

The business rules have therefore been amended to reflect a process whereby gate closure (cessation of the allocation process) could be implemented early if the clearing price levels, for every period offered do not change over two consecutive bid days. In this instance closure would be invoked at the end of the second bid day. If clearing prices do not remain unchanged for two consecutive days then the process would continue through to the end of the final bid day. - **Views are sought on the merits of offering greater transparency and of introducing a process to enable early gate closure.**

Further discussion has suggested that consideration should be given to extending the LTSEC allocation to a ten day bid period. - **Views continue to be sought on this aspect.**