

0500: Supplementary Consultation
"Long Term Capacity Allocation"
Version 1.0

Please Note:-

Published to the web as a General Communications Notice & issued via e-mail to the community, on 2 July 2002 on behalf of Heather Lockyer with a consultation close-out by end of the day on Monday 8 July 2002.

Consultation not covered by 'normal' Nemisys functionality, with responses via e-mail & facsimile but not Nemisys web submission.

Dear Colleague,

Modification Proposal 0500 Supplementary Consultation.

At the Modification Panel meeting of 20 June Transco indicated that it was considering a supplementary consultation upon aspects of Modification Proposal 0500. Consequently Panel members agreed to extend the date at which Modification Reports are required for both Modification Proposal's 0500 and 0508 by 23 business days.

The issue of concern to Transco is reflected in a number of shipper representations and concerns the effects of pro-rating during the allocation process. It is arguable that pro-rating could create circumstances that provide User's with an incentive to overstate their demand in order to take advantage of pro-rating effects. This may lead to an escalation of individual overstatements therefore distorting aggregate demand.

Transco has sought to minimise reliance upon pro-rating by creating incremental steps that are comparatively small, that is they are each equal to 2.5% of baseline capacity. However, it is possible that other approaches can be taken. One such approach that was discussed with the industry during development of Modification Proposal 0500 is to allocate capacity at the price step at which demand is less than or equal to supply. All successful bidders would then be allocated whole and would pay the cleared price for the step at which the allocation cleared. In this approach if demand is less than supply then there remains an unallocated quantity that would be carried over to subsequent allocations (planned to occur on an annual basis). Pro-rating would only remain necessary if a step cannot be identified at which supply exceeds or is equal to demand.

In the present approach capacity is fully allocated at the step where demand is less than or equal to supply and then any unallocated quantities are pro-rated to the extent that bidders have remaining unsatisfied demand at the price step from which the supply level is derived. In this instance the cleared price is consistent with the step at which the supply level is derived.

Transco wishes to briefly consult upon the appropriateness of modifying the allocation process to remove pro-rating in instances where supply is greater than demand. Responses are requested by close of business on 8 July. For clarity revised business rules for the allocation process are attached.

Yours sincerely

Tim Davis
Head of NT & T Regulation

Revised business rule for Modification Proposal 0500 LTSEC allocation.

1. If the aggregate quantity of valid bids placed at the first price is less than the quantity identified in the transportation statement (no less than OSELL), then all valid bids will be accepted for that ASEP and [quarter] / [year].
2. When considering each ASEP and [quarter] / [year], if the aggregate quantity of valid bids is greater than the quantity identified in the transportation statement (no less than OSELL), after taking into account previously allocated capacity then Transco will allocate additional quantities of entry capacity subject to the criteria set out in its IECR statement. In such circumstances:
3. Transco will determine the quantities to be allocated from the published increments.
4. Starting at the reserve price level and progressing through each subsequent price step Transco will identify the (allocation) step where demand is less than or equal to the supply identified in rule 3. Capacity will be allocated to all valid bids at this step and at the prevailing price for that step.
5. If no price step can be identified at which demand is less than supply at the clearing price then the supply level identified in rule 3 will be allocated on a pro-rated basis to all valid bids at the highest priced step.