

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0498
"Capacity Forward & Option Entry Capacity Management"
Version 1.0

Date: 12/11/2001

Proposed Implementation Date: 01/04/2002

Urgency: Non-Urgent

Justification

Ofgem has made a series of initial proposals for Transco System Operator Incentives to be effective from 1 April 2002. The proposals include a System Operator buy-back incentive. This is intended to incentivise economic and efficient buy back of entry capacity. In order to facilitate this, forward contracting for entry capacity buy back has been discussed. Transco agrees that it is desirable for it to have available a wider range of tools and additional flexibility to procure and deploy more efficient entry capacity management.

Transco envisages that, in line with Ofgem Proposals, Procurement Guidelines and Balancing Principles documents will be developed which will define the approach that Transco will use to procure and deploy such tools respectively. This proposal assumes that both documents will be developed and implemented for 1 April 2002 and that they will operate along side the Network Code.

This proposal would enable Transco to manage the entry capacity regime using a wider range of contractual tools designed to facilitate the opportunity to mitigate buy back exposure and potentially to forward contract. Decisions between contracting forward and buying back capacity in the prompt market would in essence be subject to Transco's risk management processes.

A choice of tools and when to contract for those tools could enable Transco to achieve more efficient and economic entry capacity management. This will provide both shippers and Transco with rewards if a more efficient outcome is gained in the context of the System Operator buy-back incentive.

Forward contract tools could also provide Transco with market based signals regarding when to schedule maintenance on its NTS.

Nature of Proposal

Transco anticipates that it will continue to have available the present daily capacity buy-back process described in section B2.9 of the Network Code. In addition it believes that it would be appropriate to develop alternative mechanisms, including forward and options contracts, for

entry capacity management. Both new tools would be operated under the auspices of the Procurement Guidelines.

Transco believes that it would be potentially inefficient for the range of capacity management tools available to it to be enabled through differing contractual and governance routes. Transco therefore proposes that all entry capacity management tools should be procured and deployed under the auspices of the Procurement Guidelines and Balancing Principles respectively. If agreed, this would require the present Entry Capacity buy-back process to be removed from the Network Code.

It is further proposed that the Network Code should be amended to enable changes in Users holdings of Entry Capacity as a result of it transacting with Transco for one or more of the aforementioned capacity management tools to be registered on the UK-Link System. Registration of such transactions is necessary to enable accurate calculation of overrun charges, section I liabilities, and each Users share of buy-back liabilities.

A further change is also proposed to enable fees (payments to shippers) for relinquishing capacity arising from an agreed entry capacity management transaction to be registered on capacity invoices.

It is intended that, if agreed, the revised processes should be in place for 1 April 2002.

Purpose of Proposal

The development of additional capacity management tools should provide Transco with a greater choice from which to manage risks associated with the entry capacity regime. Forward contracting might enable Transco to manage entry capacity at more favourable prices than are available on a prompt basis. The choices offered by forward contracting might also facilitate more prudent timing of system maintenance. The Proposal would enable the use of such tools under the auspices of the proposed Procurement Guidelines and will enable the outcome of transacting for such tools to be fed back to the required Network Code processes.

Consequence of not making this change

If the Proposal is not agreed then the present daily buy-back process will remain the only tool available, for entry capacity management.

Area of Network Code Concerned

B2.9

Proposer's Representative

Russell D Cooper (Transco)

Proposer

Tim M Davis (Transco)

Signature

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