

Direct Dial: 020-7901-7437

26 January 2001

Transco, Shippers and Other Interested Parties

Our Ref : Net/Cod/Mod/0453

Dear Colleague,

Modification Proposal 0453 'Revision to NTS entry capacity auction timetable 2001'

Ofgem has considered the issues raised in Modification Proposal 0453: *'Revision to NTS entry capacity auction timetable 2001'*. Ofgem has decided to direct Transco to implement the modification, because we believe that this proposal will better facilitate the relevant objectives of Transco's Network Code.

In this letter, we explain the background to the issues raised in the modification proposal and give the reasons for making our decision.

Background to the proposal

In September 1999, Transco held an auction for the sale of entry capacity for a period of six months (1 October 1999 to 31 March 2000). The rules and timing of the monthly capacity auctions were set out in Modification 350 *'Auction of Monthly System Entry Capacity and Capacity'*. The first auction for monthly entry capacity commenced on 8 September 1999. Modification 350 also stipulated that the next auction for entry capacity would take place on 15 February 2000, for a further six-month period.

However, due to a number of significant changes proposed to the capacity regime prior to the commencement of the second round of auctions, modification 0378 *'Delay to April – September Entry Capacity Auction'* was raised. This modification sought to delay the start of the second round of auctions until 6 March 2000 in order to give the industry sufficient time to consider changes to the auction process. We subsequently directed Transco to accept the modification.

It was envisaged that the third round of monthly capacity auctions would be completed by 31 July 2000. Once again however, primarily due to the results of the March 2000 auctions, a number of modification proposals were raised which proposed to modify the capacity regime. This led Ofgem to accept Transco's modification 0399, *'Delay Monthly Capacity Auction to April – Summer 2000'* which advocated a delay to the completion of the third round of six monthly auctions from 31 July 2000 to 31 August 2000. Ofgem felt this would allow shippers time to evaluate changes to the capacity regime.

Currently, under Transco's network code, the forthcoming round of monthly system entry capacity (MSEC) auctions are scheduled to be completed by no later than 15 February 2001. However, data outlining the quantities of monthly system entry capacity ('MSEC') to be made

available in the auction, was only released by Transco on 25 January 2001, following Ofgem's decision on modification 0445, '*Changes To Monthly System Entry Capacity Calculation For February 2001*'.

The modification proposal

The modification proposes that the auction for monthly system entry capacity for the period 1 April 2001 to 30 September 2001 should be delayed from the original start date of 30 January 2001 to not earlier than 13 February 2001. The modification also proposes a consequential delay to the monthly interruptible system entry capacity ('MISEC') auctions. In addition the modification suggests that Transco should bring forward its industry presentation of the summer maintenance programme prior to the start of the auctions.

Respondents' views

A clear majority of respondents supported the implementation of this modification proposal. Of those supporting the proposal, most commented that there was insufficient time to formulate bidding strategies as information on MSEC quantities was not released until 24 January 2001.

Some respondents argued that, in view of this, the inability to formulate rational bidding strategies would result in panic-bidding, increased uncertainty and distortions in the auction results. One respondent, in supporting the proposal, also suggested that the auctions should be delayed until such time as MISEC quantities are published, as these quantities are critical to the valuation of MSEC.

A number of respondents also supported the proposal that Transco should bring forward its industry presentation of summer maintenance prior to the start of the auctions.

One of the respondents expressing opposition to the modification expressed concern that a further modification proposal will be required, as any delay would result in insufficient time to allow notification of any change in the NTS commodity charge. This respondent also commented that there is sufficient time for participants to prepare for six-month auctions and that a further delay would cause uncertainty.

Ofgem's View

Ofgem recognises shipper concerns regarding the very short time scale between the release of MSEC quantities and the commencement of the monthly auctions. Ofgem therefore supports the modification proposal delaying the start of auction to allow shippers sufficient time to prepare bidding strategies.

Ofgem also notes Transco's undertaking to endeavour to bring forward the date of its presentation of the summer maintenance programme and agrees with the views expressed by respondents that the details of this programme should be released in advance of the auctions.

Ofgem's Decision

In order to ensure that the industry has sufficient time to consider the recently released MSEC quantities and formulate their bidding strategies, Ofgem has therefore decided to consent to this modification.

In particular, Ofgem believes that by allowing participants sufficient time to develop their bidding strategies, a delay to the auctions will better facilitate the securing of effective competition between relevant shippers and between relevant suppliers.

Accordingly therefore, Ofgem has decided to consent to this modification, as we believe that it better facilitates the achievement of the relevant objectives as outlined under Standard Condition 7 of Transco's Public Gas Transporter's licence.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

Mark Feather
Head of RGTA