

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0372

SHORT TITLE: Charging for Daily Capacity Services

DATE: 11 Nov 1999 **PROPOSED IMPLEMENTATION DATE:** asap

URGENCY: Not Urgent

NATURE OF PROPOSAL:

It is proposed to change the Network Code so that auctions for Daily System Entry Capacity (DSEC) and Interruptible System Entry Capacity (ISEC) are conducted as 'pay-as-bid' sales rather than at a uniform (lowest) clearing price.

PURPOSE OF PROPOSAL:

RGTA modification 0314 extended the prevailing arrangements for release of daily capacity services. Daily System Entry Capacity and Interruptible System Entry Capacity is sold by auction to highest price bidders but the auctions are then subject to a clearing price based on the lowest accepted bid. The RGTA arrangements also introduced market related overrun charges such that the overrun charge rate is linked to the prices paid for capacity for a day. The potential therefore exists for a shipper to bid a high price for capacity and thereby set a high overrun charge rate. Under a clearing price auction there is only a low risk that the shipper will actually pay the price that has been bid. Moving to a pay-as-bid auction will reduce the likelihood that a shipper might 'spike' the overrun mechanism.

Clearing price auctions were retained for daily capacity sales as this was the prevailing mechanism for daily services before RGTA. However, auctions for Monthly System Entry Capacity are pay-as-bid as are auctions for storage services. The auctions for daily capacity services are therefore inconsistent with other auctions across the regime and this proposal would bring them into alignment.

The arrangements introduced under modification 0314 were intended to incentivise Transco performance in relation to release of daily capacity services. The incentive is based on revenue maximisation and it was anticipated that revenue would be maximised when capacity availability was maximised. However, a situation can arise where the revenue maximisation is satisfied by an allocation that is less than the physical availability and the allocation of more capacity would significantly depress the clearing price. At present Transco seeks ensure that capacity availability is maximised even if this reduces the revenue received. This not only impacts Transco revenue under the incentive mechanism but also reduces the amount of revenue to be shared by holders of Monthly System Entry Capacity.

The proposed change will help align the commercial incentive mechanism with the original intention of RGTA, that is to maximise daily capacity availability. Greater access to capacity

will promote competition between shippers for gas supply by ensuring that shippers have access to the physical capability of the System and no artificial commercial constraints are introduced.

CONSEQUENCE OF NOT MAKING THIS CHANGE:

It will remain possible for shippers to set a high overrun charge through submitting a very high bid price with little risk of paying the price bid. The daily auction processes will remain inconsistent with other auctions in the regime and may be incompatible with future capacity markets.

Transco will continue to face a potential conflict in satisfying the incentive to maximise revenue through the daily auction processes and achieving an allocation of all available capacity to meet shippers requirements. This may lead to a shortage of capacity and consequent undesirable commercial outcomes for shippers. Alternatively, Transco will not optimise revenue generation and the revenue share amount for Transco and shippers will be reduced.

AREA OF NETWORK CODE CONCERNED:

Section B, 2.9.3 (iii) and 2.9.3 (iv)

Change wording to refer to pay-as-bid

IDENTITY OF PROPOSER'S REPRESENTATIVE: Eric Fowler

PROPOSER: TIM DAVIS

SIGNATURE:

POSITION: Manager, Network Code Development

COMPANY: Transco

MODIFICATION PANEL SECRETARY'S USE ONLY

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