

Network Code Modification Proposal No. 0361

Short Title: Compensation for end dating of firm St. Fergus entry capacity rights

Date: 4 October 1999

Implementation Date: as soon as possible

Urgency: Non Urgent

Justification:

The new capacity regime results in Transco appropriating at no value users previously booked entry capacity to the extent that their annual booking extends beyond 1 October 1999. This appropriation of rights is required so that the new auction regime acts as a clean break from the previous system.

At the time of the St. Fergus constraints, shippers had various options open to them where they had insufficient capacity after scale back: shippers could purchase additional capacity on the secondary market either through the BGT auction or over-the-counter; they could keep gas that was to be delivered into St. Fergus in the ground and if necessary bring gas in at another terminal; or they could book additional yearly tranches of capacity from Transco. The shippers that took this last option of booking a further years tranche acted at a time when no decision had been taken as to what would happen to their capacity rights with the introduction of the RGTA process. They acted in good faith on the understanding that their booking rights would be honoured.

Transco, by virtue of the delays to its NTS capacity and maintenance programme, were not operating an economic and efficient system at the point that these annual bookings were made and this was reflected in the compensation they had to pay under modification 287. Transco were forced into replacing an inefficient system, as is reflected in the failure of Transco to come up with viable alternatives to the regime in spite of repeated requests from Ofgas. They did not accede to Ofgas' concept of auctions until May 1999, i.e. well after these annual bookings were made.

The new capacity regime gives entry capacity a market value - this acknowledges that a different value is placed on entry capacity at different times of the year. Historically, a premium value has been placed on winter capacity due to the seasonality of demand. This is demonstrated by the secondary market for entry capacity which has seen St. Fergus capacity traded for free on some days in the winter. It therefore follows that the appropriated capacity volumes are worth more than the value set out in Transcos Transportation Statement; conversely, summer capacity values are worth less.

This means that where companies have made annual bookings that cross the gas year, they have on average "overpaid" for the capacity they have booked up to 1 October and that this

overpayment is compensated for by obtaining “cheap” capacity from 1 October until the end of the booking.

Compensation is required for the end dating of capacity rights as this historic form of compensation is no longer available. Therefore companies that responded to the constraints by booking additional annual tranches have been discriminated against.

Nature of Proposal:

Companies with shoulder month bookings of entry capacity should receive compensation from Transco.

This should be calculated as follows:

$$C = V_i * (P_c - P_i)$$

Where:

“C” is the daily compensation payable by Transco to the relevant user

“V_i” is the daily volume booked as part of the original annual booking

“P_c” is the average of the cleared prices arising from the four auctions of firm capacity for the relevant month

“P_i” is the price of the original annual booking

How this proposal facilitates the relevant objective:

The correct level of compensation is achieved for the delays in implementing an economic and efficient capacity system as the proposal offers a market rate of compensation for having effectively overpaid for capacity up to the end of the gas year.

Proposer: Duncan Neale

Position: Head of Risk Management

Company: Quantum Gas Management PLC

Proposal No.: 0361

Date: 04/10/1999