Direct Dial: 020-7932-6337

2 November 2000

Transco, Shippers and Other Interested Parties

Our Ref : Net/Cod/Mod/0434

Dear Colleague,

Modification Proposal 0434 'MISEC – Defer Auction Date By 2 Weeks whilst Maintaining Effective Date'

Ofgem has considered the issues raised in Modification Proposal 0434 *'MISEC – Defer Auction Date By 2 Weeks whilst Maintaining Effective Date'*. 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 modification proposal and give the reasons for making our decision.

Background to the proposal

In September 1999 Transco conducted the first auctions for the sale of firm entry capacity to its National Transmission System ('NTS'). The auctions provided for the allocation of monthly system entry capacity to successful bidders for a total period of 6 months from 1 October 1999 to 31 March 2000. A second series of auctions for firm monthly capacity was held in March 2000. In addition to holding monthly auctions, Transco makes additional entry firm and interruptible capacity available on a daily basis and conducts capacity buy-backs on the gas day where necessary.

Some concerns were expressed following the March 2000 capacity auctions that insufficient capacity was being made available in the monthly auctions and that the release of interruptible entry capacity at the day-ahead stage only did not give users enough time to plan and schedule their capacity requirements in relation to gas flows. It was therefore suggested that Transco offer a monthly interruptible product in addition to its monthly firm product.

As a result Transco raised Modification 410 '*Auctions of Monthly Interruptible System Entry Capacity'.* The modification, which was accepted by Ofgem in July 2000 allowed for the sale of monthly interruptible entry capacity in addition to monthly firm entry capacity, for the period 1 October 2000 to 31 March 2001. The total amount of capacity made available (firm plus interruptible on a monthly and daily basis) will equal the maximum capability of the NTS (1 in 20 peak).

However, due to systems development problems experienced by Transco, the monthly interruptible product could only be made available for the period 1 December 2000 to 31 March 2001. In the meantime, Transco agreed to release the full interruptible quantities, as specified in Modification 410, though only on a daily basis until 30 November 2000. The auctions of monthly interruptible capacity were due to be completed by 10 November 2000, with an effective date of 1 December 2000.

Since the acceptance of Modification 410, Transco has been undertaking intensive testing of the RGTA system for the MISEC product. Following concerns that testing would not be completed in time for the 7 November auction commencement date, Transco raised two

modification proposals that contained different options for alternative arrangements to be made for the timing of the auctions and the release of the MISEC product. The first of these proposals, Modification proposal 434, provides for a two-week delay to the auctions. The second of these proposals. Modification proposal 435 *MISEC – Defer Auction effective date of the MISEC service',* provides for a month delay to both the auctions and the effective release date of the MISEC product.

Transco subsequently withdrew modification proposal 435 on 1 November 2000.

The modification proposal

It is proposed that the MISEC auction date be delayed for two weeks whilst retaining the existing 1 December effective start date for the monthly interruptible product. The proposal would defer the commencement of the auctions to 21 November 2000.

Respondents' views

The majority of respondents were in support of a two week delay to the monthly interruptible auctions to allow testing to be completed. In outlining their support several shippers indicated that they would prefer that the auction date was deferred by two weeks as this would ensure the maintenance of the effective date of 1 December 2000 for the release of the MISEC. In this context shippers contended that a delay of one month to both the MISEC auctions and the effective date of the release of MISEC, as proposed in Modification 435, would be inappropriate as shippers had developed their monthly firm bidding strategies on the basis that the MISEC product would be released from 1 December 2000.

One shipper qualified its support for the modification on the condition that Transco can guarantee that the RGTA system would be fully operational by the deferred auction dates.

Some shippers indicated that if full system testing was not completed by the delayed auction date then manual contingencies should be used. One respondent believed that any contingency arrangements should be based on fax technology rather than on e-mail, as fax technology was more robust.

Two respondents indicated their preference for the implementation of the arrangements outlined in Modification 435. One shipper indicated that it supported Modification 435 on the basis that it will provide more time to complete systems testing and allow a suitable period between the completion of the auctions and the implementation of the MISEC service. Another shipper suggested that the benefit of an extra two weeks of testing beyond that proposed in Modification 434 wouild provide added confidence to users when the MISEC system is implemented.

One respondent indicated that if there are any risks associated with the readiness of the MISEC systems then the auction should be delayed by at least a month, particularly in circumstances where manual contingencies have not been discussed or practised with shippers.

Ofgem's View

Ofgem considers that a delay to the MISEC auctions will allow Transco additional time to complete the testing of their systems, and therefore will ensure that the potential for errors in the auction process will be minimised.

Ofgem however wishes to express its disappointment that the auctions need to be delayed particularly as this will provide participants with only minimal time between the completion of the auction and the release of the MISEC product.

Ofgem's Decision

Taking all the considerations above in to account, we have decided to consent to this modification, as we believe that it better facilitates the relevant objectives outlined under Standard Condition 7 of the Public Gas Transporters' licenses. In particular, Ofgem believes that this proposal facilitates the achievement of an efficient and economic operation of Transco's pipeline system, because if the auctions were to be conducted prior to the completion of system testing there is a potential for errors to occur which could lead to an incorrect allocation of interruptible capacity.

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