

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No 0507.
"Abolition of Entry Capacity Reserve Price"
Version 1.0

Date: **3 December 2001**

Urgency: **URGENT**

Justification

Norsk Hydro (UK) Limited believes there is no continued justification for a reserve price in Monthly System Entry Capacity (MSEC) auctions at competitive terminals.

Previous MSEC auctions have, in the main, resulted in minimum accepted bid prices above reserve prices. This has tended to contribute to levels of over-recovery by Transco against target NTS revenue from the sale of entry capacity.

Reserve prices distort price signals from auctions as they raise the level at which shippers start to compete for capacity.

Although reserve prices were initially established in order to provide some protection to Transco's revenue stream, the levels of over-recovery have proved such a protection mechanism to be unnecessary.

Exceptions should be made for entry points where no competition exists (historically less than 5 bidding shippers). At these terminals the present methodology should be maintained whereby reserve prices are set by a discount to the relevant LRMC price.

Nature of Proposal

Norsk Hydro (UK) Limited proposes that reserve prices are removed for entry points where historically competition exists which should be determined by an excess of five active bidders.

Purpose of Proposal

To remove distortion from the MSEC auction process at competitive terminals and to minimise the potential over-recovery of NTS entry capacity revenue.

Consequence of not making this change

Maintaining reserve prices at competitive terminals increases the chance of potential over-recovery through MSEC price auctions. Any over-recovery leads to revenue redistribution, which may be discriminatory between sectors of the UK gas market, and in particular those shippers that move gas to the NBP and those that ship to end-users. This potential discrimination

will persist even if an NTS use of system charge along the lines proposed in PC 70 – NTS System Operation Transportation Charges is introduced.

Area of Network Code Concerned

Section B: Applicable Monthly Reserve Price

Proposer's Representative

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