

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0625

"Short term six month auctions"
Version 1.0

Date: 03/04/2003

Proposed Implementation Date:

Urgency: Non-Urgent

Justification

With Transco's new price control and related incentives, a new entry capacity regime which included the ability for shippers to purchase entry capacity rights up to 15 years ahead was introduced. To cater for Transco's requirement to have sufficient time to react to the market signals provided, long term rights are only offered 2 years ahead. For the immediate 2 years, pay-as-bid auctions continue for fixed amounts of capacity; these amounts being limited to that unsold in the long term auctions and that held back for the short term.

The long-term auctions provide shippers the opportunity to purchase capacity in line with their long term contracts and/or upstream investment projects. Short term purchases reflect the need to adjust holdings in line with more up-to-date information on supplies and other market information.

Replacing the current annual auctions with six-monthly auctions would provide a better approach. Shippers would then be in a position to purchase entry capacity reflecting better information so that the price signals that come out of short term auctions are more accurate reflections of market conditions. Six month auctions would also allow shippers to have the benefit of information on Transco's indicative annual maintenance programme when bidding. Annual auctions for the formula year would not capture the benefit or best information, as flows for the following Gas Year are unlikely to be confirmed as early as February. Six month auctions provides for both scenarios.

Entry capacity for the following year unsold from previous long term auctions can continue to be offered in annual strips.

Nature of Proposal

It is proposed that the AMSEC auctions are changes to being held every six months: in February for April to September entry capacity; and, in August for October to March entry capacity. To avoid overlap of auctions, LTSEC auctions will be held in September.

For the 2003/4 formula year, the timetable would then be as follows:

August 2003	- MSEC for October 2003 to March 2004 (all baseline entry capacity)
	- AMSEC for October 2004 to September 2005 (unsold from January 2003 auctions)
September 2003	- LTSEC for October 2005 to September 2017
February 2004	- MSEC for April 2004 to September 2004

Purpose of Proposal

To have six monthly auctions in for entry capacity available for sale for the immediately proceeding year.
To ensure that the MSEC auction process is designed for when bidders are in position of the best available information on gas flows and maintenance for the period for which capacity is sought.

Consequence of not making this change

The Network Code relevant objectives would not be furthered as market signals from the AMSEC auctions would not be efficiently reflect market conditions, promoting competition between shippers.

Area of Network Code Concerned

Section B

Proposer's Representative

Tanya Morrison (Shell Gas Direct Ltd)

Proposer

Tanya Morrison (Shell Gas Direct Ltd)

Signature

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