TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0682

"Recompense in the Event of Late Completion of Works for New Entry Point Capacity"
Version 1.0

Date: 25/02/2004

Proposed Implementation Date: 01/04/2004

Urgency: Urgent

Justification

Transco have raised Modification 0680 to propose a mechanism for recompense in the event of late completion of works by Transco for a New System Entry Point.

Rather than using or modifying the Capacity Constraint Management that are currently available to Transco, they are proposing simply not to charge users until the capacity is constructed. Given the robust nature of the Entry Capacity regime, ie the structure is well understood and the rules have been designed to support a Long Term Capacity auction process, BG considers that the Constraint Management mechanism is the correct starting point for managing Transco's inability to make capacity available due to non-completion of Transco works.

This Modification is raised as Urgent because we would like the industry to consider our proposal in conjunction with Transco's which closes for representations on 24th February 2004. In addition, the Modification is required ahead of commitment to certain new entry capacity auctions and associated agreements.

Nature of Proposal

This Modification is designed to apply where Transco have allocated Long Term System Entry Capacity following a decision to physically construct such System Entry Capacity in relation to a new System Entry Point.

The proposal states that when an LTSEC Auction allocation has triggered a physical network extension and connection to provide such entry capacity, Transco enter into a Capacity Management Agreement in accordance with Section B 2.8 of the Network Code (v3.0) with those incremental Registered Users.

In the case of new System Entry Points a Capacity Management Agreement is generated automatically, so providing Transco the ability to both signal and manage any constraints due to late completion of works whilst providing the Registered Users with defined compensation rights that represent a proportion of the losses likely to arise to each such User and which could be viewed as a suitable incentive for timely completion of the works. The need for such compensation at new entry points was identified in Ofgem's views on Transco's proposals on New Entry terminals to Transco's National Transmission system, June 2003.

Such Capacity Management Agreement would terminate when Transco works for expansion are completed. Transco would not be able to use this agreement for any other capacity management purposes (eg selling incremental capacity at a higher price to WDF bidders) and such agreement would terminate on the 1st anniversary of the Capacity Allocation date.

BG recognises Transco's concerns that daily capacity buyback could result in Transco being exposed to the maximum buy back prices permitted under RGTA / Gemini systems, and our proposal is that for the first 12 months of any delay, Transco's daily exposure would be pre-set.

BG propose that all the capacity allocated would be available to be surrendered to Transco, and the daily offer price would be set at 8 (eight) times the relevant Quarterly auction capacity allocated bid price. We propose that this would also be subject to a further cap to the level of the expected losses or costs caused to the shipper by the delay in provision of capacity. This multiplier provides an effective incentive to Transco to complete the works on time, and is related to the level that Shippers have to pay for flowing gas against insufficient entry capacity holdings (Section B2.12.3.a).

In the event that Transco's works were not completed within 12 months of the Capacity Allocation Date, then the Capacity Management Agreement would be terminated and normal capacity management tools would be available to Transco. This would potentially increase the exposure that Transco faced.

Purpose of Proposal

Implementation of this Modification Proposal would provide a transparent incentive on Transco to complete the works on time whilst offering Registered Users a form of liquidated damages that approximates some proportion of the estimated losses likely to arise for each such User.

Consequence of not making this change

Users at relevant new System Entry Points would be exposed to capacity charges where Transco are late in the completion of the pipeline expansion. Furthermore, Transco would not be exposed to any transparent or measurable incentive to complete or procure the completion of the works on time. In the absence of such arrangements (or equivalent arrangements) the development of new projects that provide for new supplies of gas to the NTS may be placed in jeopardy.

Area of Network Code Concerned

Section B

Proposer's Representative

Mark Dalton (BG Group)

Proposer

Mark Dalton (BG Group)

Signature

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