

Draft Modification Report
Extension of the QSEC auction timetable for 2005
Modification Reference Number 0030

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

The Proposer stated that :

“It is proposed that the time period for undertaking the 2005 Quarterly NTS Entry Capacity auction (“QSEC auction”) be extended from 1 September 2005 - 30 September 2005 to 1 September 2005 - 30 November 2005.

The purpose of this Proposal is to provide additional flexibility in the timescales for undertaking the QSEC auction such that the conclusions of Ofgem’s consultation on the Unit Cost Allowances (UCAs) for System Entry Points (“Gas transmission – new NTS entry points, reserve prices in auctions and unit cost allowances (UCAs) – Consultation document”, May 2005, 139/05) may be known prior to issuing the QSEC auction invitation. In accordance with Transportation Principal Document Section B2.2, this invitation must be issued at least 28 days prior to commencing the QSEC auction, which in turn is conducted over a period of 10 consecutive business days during September. This means that the annual QSEC invitation must be issued by 19th August without changes to the auction timetable. This Proposal therefore seeks to cater for the following:

- Ofgem’s final proposals on UCAs are not available by 19th August 2005; and/or
- Ofgem’s final proposals require further industry consultations to establish new auction prices for System Entry Points; and / or
- any other related circumstance that would affect auction prices,

without impacting the timescales for undertaking the annual and rolling Monthly NTS Entry Capacity that follow the QSEC auctions. It is recognised that further changes to auction timescales for Capacity Year 2005/06 may be required dependant on the Ofgem’s final proposals on entry UCAs.

If this Proposal were not implemented in the timescales identified, Transco NTS would be obliged to undertake the QSEC auctions in September potentially without clarity on entry UCAs or in the knowledge that UCAs are to be revised.”

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

The Proposer stated that :

“Transco NTS considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

- in respect of paragraphs A11.1(a), the Proposal would enable auction participants to provide informed investment signals to Transco NTS, which would better facilitate the efficient and economic operation of the NTS pipeline system; and
- in respect of paragraph A11.1(d)(i), the Proposal ensures that the QSEC auctions can be held as close as possible to the existing UNC provisions for holding QSEC auctions and, by ensuring that these auctions are held in a timely fashion, facilitate the securing of effective competition between shippers.”

The Proposer also stated that :

“..this Proposal enables auction participants to better understand the investment signals they provide to Transco NTS to better facilitate its broader obligations to develop an efficient and economic pipeline system;”

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

The Proposer stated that no such implications would be expected.

No adverse implications in respect of industry fragmentation have been identified.

Views would be welcome if any party believes there would be any such implications.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal , including

a) implications for operation of the System:

The Proposer stated that it did not believe this Proposal, if implemented, would adversely affect the operation of the System.

Views would be welcome, from parties, regarding any implications relating to the operation of their respective systems.

b) development and capital cost and operating cost implications:

The Proposer suggested that this Proposal, if implemented, would have negligible cost implications.

Views from the parties would be welcome.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

The Proposer stated that it “does not believe this Proposal, if implemented, requires it to recover any additional costs.”

d) analysis of the consequences (if any) this proposal would have on price regulation:

The Proposer has not identified any such consequences.

Views would be welcome if any party believes there would be any such consequences.

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

The Proposer stated that it “believes that the Proposal reduces the contractual risk that it is exposed to by providing additional limited flexibility in the QSEC auction arrangements for 2005 to accommodate wider industry developments.”

Views would be welcome if any party believes there would be any such consequences.

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

The Proposer does not envisage any such consequences.

Views would be welcome if any party believes there would be any such implications.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

The Proposer has not identified any such implications.

Views are sought regarding the implications of implementing the Modification Proposal for Users.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Views in respect of such implications are invited.

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

Views would be welcome if any party believes there would be any such consequences.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

The Proposer has identified the following :

Advantages

- it would enable the 2005 QSEC auctions to proceed in a timely fashion once there is clarity in the parameters that are to be used for setting auction prices;
- it would enable auction participants to better understand the investment signals they provide to Transco NTS to better facilitate its broader obligations to develop an efficient and economic pipeline system;
- it would postpone making any further changes to the broader auction framework, should the Authority’s decisions require this, until there is a clear case to do so.

Disadvantages

- Implementation of this Proposal would increase the uncertainty in the timing of the next QSEC auctions. However, the Proposer suggested that this would be a necessary step following the Authority's decision to potentially revise the UCAs for existing entry points. Furthermore, the Proposal sought to limit this uncertainty by retaining a finite time period in which the QSEC auctions for existing System Entry Points must be held and that these revised arrangements would only be in place for the 2005/06 Capacity Year.
- In the event that this Proposal were to be implemented and the auctions were undertaken beyond September, there may be an impact on the timescales from which Transco NTS would allocate incremental NTS Entry Capacity, particularly if the bids received materially differ from the central case assumptions contained within the Transporting Britain's Energy document.

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations are now sought.

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required for this purpose.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any such proposed change.

14. Programme for works required as a consequence of implementing the Modification Proposal

The Proposer has not identified any programme of works.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

The Proposer has suggested that this Proposal should be implemented on 12 August 2005.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

Views would be welcome if any party believes there would be any such implications.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18. Proposed Draft Legal Text

In Transition Document - Part IIC – Transition Rules,

Insert the following as new paragraph 1.1, and renumber existing paragraphs accordingly:

"1.1 TPD Section B: System Use and Capacity

1.1.1 TPD Section B2.2.1(d)

- (a) Notwithstanding TPD Section B2.2.1(d) (which requires that Transco NTS will invite, and Users may make, applications for Quarterly NTS System Entry Capacity during the month of September in each Capacity Year), for the Capacity Year commencing on 1 April 2005 Transco NTS will invite, and Users may make, applications for Quarterly NTS Entry Capacity in respect of each Aggregate System Entry Point for the periods specified in TPD Section B2.2.2(b) no earlier than 1 September 2005 and no later than 30 November 2005."

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive Joint Office of Gas Transporters

Signature:

Date :