

Pricing Consultation Paper PC72

Daily System Entry Capacity Floor Prices

1. Introduction

Transco's Transportation Charging Methodology presently allows for floor prices for Daily System Entry Capacity (DSEC) to be set using the same methodology as is used for determining Monthly System Entry Capacity (MSEC) floor prices but using a 50% discount to the LRMC-based adjusted administered charge rate.

Ofgem's Final Proposals for Transco's NTS SO Incentives indicated that "Transco's obligation to offer the baseline capacity for sale should end at the day ahead stage provided all such capacity has been offered for sale in a market that has been allowed to clear". In its decision letter regarding Network Code Modification Proposal 0507, Ofgem states that it "will be proposing modifications to Transco's licence as part of the Ofgem's SO Final Proposals that will require Transco to offer unsold capacity in a market that it is allowed to clear. Under these proposals, Transco will be provided with discretion in choosing what that market will be, provided the obligation is satisfied prior to the start of the gas day."

On the assumption that such modifications to Transco's licence will be made, and to meet the proposed obligation with effect from 1 April 2002, Transco proposes to amend its Transportation Charging methodology such that floor prices for Daily System Entry Capacity are set to zero.

2. Discussion

Ofgem has indicated that it will be proposing modifications to Transco's licence that will require Transco to offer unsold capacity in a market that it is allowed to clear and that, under these proposals, Transco will be provided with discretion in choosing what that market will be, provided the obligation is satisfied prior to the start of the gas day.

Transco considers that by auctioning DSEC with zero floor prices it will meet the requirement to offer unsold capacity in a market that it is allowed to clear. The present methodology for determining such reserve prices was established by PC62. At the time of that consultation, several shippers were in favour of setting the DSEC floor prices to zero. However, Transco considered that having DSEC floor prices considerably lower than MSEC floor prices could lead to the possibility of a switch in bidding behaviour away from MSEC. Although such a possibility could still occur, Transco considers that the requirement to offer capacity in a market that it is allowed to clear is best met from 1 April 2002 by having zero floor prices for DSEC.

While Transco initially proposes modifying its Transportation Charging Methodology such that the Daily Capacity Market has zero floor prices and hence is necessarily allowed to clear, Transco would welcome views on whether this proposed obligation might be better met through an alternative approach.

3. QUESTION FOR CONSULTATION

Transco invites views on the proposal to amend its Transportation Charging Methodology with respect to the calculation of floor prices for Daily System Entry Capacity such that, with effect from 1 April 2002, they are all zero. Transco would also welcome respondents' views on alternative approaches to meeting the proposed obligation that all previously unsold baseline capacity should be offered for sale in a market that is allowed to clear.