

1. **Transco’s Initial proposal**

Transco proposed the introduction of two new entry capacity services: A daily capacity service with a floor price of eight times the daily rate of annual capacity charges, and a daily secondary capacity service with a floor price of zero. Both services would be offered on the day before the gas day through a tender process.

2. **Summary**

In total there were ten responses:

| | |
|-------------------------|------|
| AGAS | AGAS |
| AGIP (UK) | AGIP |
| British Gas Trading | BGT |
| BP Gas Marketing | BP |
| Enron | E |
| Mobil Gas Marketing | MGM |
| National Power | NP |
| Scottish Hydro-Electric | SH |
| Shell Gas Direct | SGD |
| United Gas Services | U |

All respondents supported the introduction of a daily capacity service. Eight respondents (AGAS, AGIP, E, MGM, NP, SH, SGD & U) supported the proposed introduction of a secondary capacity service, with two (BGT & BP) opposed.

3. **Summary of responses**

Floor price for daily capacity services

The recent implementation of Modifications 244(a) and 247(a) has aligned both the flexibility and entry overrun multipliers at eight. This decision has overtaken the pricing consultation paper which had assumed an overrun multiplier of sixteen. All respondents intimated a need to revise the daily capacity service floor price in the light of the changed overrun multiplier. A number of different floor prices were proposed, from two times up to six times. The table below summarises the different views. All respondents perceived a need to maintain sufficient differential from the overrun charge to encourage take up of the service.

Numbers of respondents favouring various floor prices

| | 6x to 4x | 4x | 2.5x | 2.0x |
|----------------------------|----------|----|------|------|
| Favoured daily floor price | 3 | 4 | 1 | 1 |

Floor price for secondary capacity services

Six respondents (AGIP, E, MGM, NP, SGD & U) supported the proposal for a floor price of zero. One shipper (SH) proposed a floor price of 0.3 times the daily rate, suggesting this would maintain liquidity in the secondary market during the summer months. An opponent of the proposal (BGT) also put forward the view that a floor price of zero would undermine the secondary market for capacity and proposed that if the service was to be introduced then a floor price of 0.5 times the daily rate would be appropriate. This would both maintain a market for annual capacity and provide some contribution to the cost of service. Another opponent of the secondary service (BP) maintained that creation of the service, with a floor price of zero would create an incentive not to book firm annual entry capacity. They proposed that secondary capacity should not be sold if there is spare primary capacity.

4. Transco's response

Transco agree that the floor price multiplier for the daily entry capacity service now needs to be lower than initially proposed. Transco also note that the most frequently suggested replacement is four.

Based on Transco's analysis of weather/demand models and a reduced floor price multiplier of four, the income from annual entry capacity bookings may fall to 94% of maximum potential. This is slightly under Transco's original forecast of at least 95%. There remain a number of other uncertainties including the revised overrun multiplier of eight and actual weather conditions that will also impact upon income recovery. Given the other uncertainties a floor price multiplier of four is reasonably close to Transco's original target.

The precise interaction of the proposed daily services and the existing annual service cannot be known in advance. The floor price multiplier for daily capacity and the overrun multiplier should ensure that annual capacity continues to be bought. The secondary capacity service can only become available when shippers book but do not use, or trade on, their primary capacity holdings.

Transco had indicated in the consultation paper that any income gained from the secondary capacity service would be redistributed to shippers. The most appropriate method of handling increased income from the secondary capacity service is to measure the income from this service and all other transportation services against the Transco formula controls. Any over or under recovery can then be dealt with through the K over/under recovery mechanism.

5. Final Proposals

Taking into account the views of respondents, Transco propose the following changes

to the charging regime, which will be used in the Network Code modification process for development of daily capacity services.

- 1. A daily entry capacity service should have a floor price of four times the daily rate of annual capacity charges applicable at each entry point.**
- 2. A daily secondary capacity service should have a floor price of zero.**
- 3. Income from both services will be counted as Transportation revenue.**
- 4. Both services will be sold through a tender process, with shippers liable to pay the market clearing price for successful bids.**