

## **TRANSCO PRICING DISCUSSION PAPER PD9**

### **Introduction of Tolerance Auctions and Associated Floor Prices**

#### **INTRODUCTION**

Network Code Development Workgroup 373 is considering the introduction of a Tolerance Service which may have effect from 1st April 2000. The proposed Service envisages the introduction of auctions to facilitate an efficient primary allocation of the product. If this proposal is implemented, the Development Workgroup does not support the application of positive reserve prices in such auctions, and hence the minimum bid price would be zero.

#### **BACKGROUND**

A Tolerance Service would assist shippers in securing relief from System Marginal Cashout Prices by enabling the purchase of required tolerances from either a primary tolerance market or via secondary market trading. Such tolerances would replace the existing Imbalance Tolerance Quantities which are presently based on shipper physical flows on the system. The proposed quantities of tolerance released would generally be no greater than those currently available.

Shippers would be able to purchase tolerance either on the primary market from Transco or via the secondary traded market. Transco has offered to provide IT systems to facilitate both the initial allocation of tolerances to shippers via auctions and the recording of secondary market transactions. Shippers net positions in respect of the tolerances will then be used to calculate individual shipper imbalance cashout positions.

#### **PROPOSAL**

To facilitate an efficient allocation, it has been suggested to Development Workgroup 373 that the primary release of tolerance would be via auction, with successful bidders paying "as bid" and with the auction having a minimum bid price of zero.

#### **RATIONALE**

The introduction of auctions for this service will add to the group of charges potentially determined by market value rather than the cost reflective principles specified in Transco's PGT Licence and used for other charges.

Tolerances are presently allocated on the basis of individual shipper flows and the charges are effectively bundled into other transportation service elements. The proposed Service will permit each shipper to indicate the value it attaches to such tolerances. It is proposed that there should be no constraint on this valuation and hence that the minimum bid price in the auctions should be zero.

#### **QUESTION FOR DISCUSSION**

**Respondents' views are invited on the proposal that if, and when, the Tolerance Service auctions envisaged by Network Code Development Workgroup 373 are implemented, there should be no positive reserve prices in those auctions.**