

TRANSCO REPORT ON DISCUSSION PAPER PD9

Introduction of Tolerance Auctions and Associated Floor Prices

1. TRANSCO'S INITIAL PROPOSAL

In Discussion Paper PD9 Transco proposed that there should be no reserve prices for the envisaged introduction of auctions for a tolerance service, and hence the minimum bid price should be zero.

2. SUMMARY OF RESPONSES

There were eight responses to PD9, seven from shippers and one from a producer. All of the respondents supported the proposal that, if a tolerance service is introduced, there should be no reserve prices.

2.1 Level of Floor Price

Comments Received

All but one respondent gave unqualified support for the proposal to have no positive reserve prices if a tolerance service were to be introduced. One shipper would have preferred to see reserve prices based on the LRMC capacity analysis results but recognised that this was difficult to calculate and therefore had no objection to a minimum bid price of zero at this stage.

Transco's Response

Transco is pleased that the proposal to have a minimum bid price of zero if a tolerance service is introduced has received unanimous support. Transco agrees that it would be difficult to calculate a cost-reflective floor price based upon the present LRMC analysis.

2.2 Other Issues

Comments Received

Two respondents commented on other issues related to the possible introduction of the tolerance service as envisaged by Network Code Modification Proposal 0373. One shipper considered that the possible introduction of a market solution to the issue of balancing tolerances was unlikely to generate true market values for the service if after the day trading of tolerances was not allowed. Another shipper thought that revenue received from the tolerance service should affect only the level of NTS capacity charges in the following year and should not be treated as other transportation revenue with regard to under- or over-recovery.

Transco's Response

Transco notes the other issues raised related to the possible introduction of a tolerance service. Transco considers that these issues are outside the scope of this discussion paper and are best considered as part of the Network Code Modification process alongside other issues relating to the possible introduction of a tolerance service.

3. FINAL PROPOSAL

Transco proposes that if, and when, the Tolerance Service auctions envisaged by Network Code Modification Proposal 0373 are implemented, there should be a minimum bid price of zero in those auctions.