

CODE MODIFICATION PROPOSAL No. 0118
"Entry Capacity Transfers in the Constrained Period"
Version 2.0

Date: 11/09/2006

Proposed Implementation Date: 01/02/2007

Urgency: Non Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf)

National Grid NTS seeks this Modification Proposal to proceed direct to consultation in accordance with Section 7.3 of the modification procedures in the UNC.

Nature and Purpose of Proposal (including consequence of non implementation)

- National Grid NTS is obliged under its Gas Transporter Licence to use all reasonable endeavours to offer for sale a baseline level of capacity at each Aggregate System Entry Point (ASEP) in at least one clearing allocation. This provides certainty to Users of the available capacity amounts, but does not allow the flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that has not been sold) to be reallocated to where Users value it most once the baselines have been set at the start of a price control.
- A simple example of this issue is where there are two ASEPs using the same part of the system with potentially a high degree of substitutability. Users at one ASEP may not wish to purchase the full amount of baseline capacity, whereas Users at the other ASEP may wish to purchase capacity above the baseline set for that ASEP. Where this occurs within the constrained period, Users that desire capacity above the baseline level have to rely upon National Grid NTS releasing non-obligated capacity. This is typically not possible without creating significant buy back risk where National Grid NTS still has an obligation to sell the remaining unsold capacity at the other ASEP.
- Ofgem have therefore proposed as part of the Transmission Price Control Review (TPCR) that an obligation is placed on National Grid NTS to take all reasonable steps to facilitate, where requested, the trading of capacity between ASEPs.
- In anticipation of such a Licence change it is therefore proposed that an amendment is introduced within the UNC that allows the transfer of capacity between ASEPs in the constrained period. An overview of the proposal is set out below: -
- In the event that any ASEP sells out for any month in the following Capacity Year (Apr Y+1 – Mar Y+1) as part of the Annual Monthly System Entry Capacity (AMSEC) auction in Capacity Year Y, National Grid NTS will hold another pay as bid auction, the Annual Monthly Transfer System Entry Capacity (AMTSEC) auction. Such sold out ASEPs are referred to as Recipient ASEPs.

- The AMTSEC auction will allow Users to bid at Recipient ASEPs for such sold out months (the “Transfer Period”) for any unsold capacity at ASEPs (referred to as “Donor ASEPs”) within the same NTS Entry Transfer Zone (as stated in the AMTSEC invitation tender) at a 1:1 exchange rate, subject to a nodal maximum for each Recipient Node that will be determined in advance of the auction. Such nodal maxima will be determined in accordance with principles set out in the Incremental Entry Capacity Release Methodology Statement to limit the increase in buy back risk as a result of such potential capacity transfers.
- Bids in the AMTSEC auction will be allocated in price order (highest price first) by transferring capacity from Donor ASEPs within the NTS Entry Transfer zone starting with the Donor ASEP with the lowest reserve price. Bids at each Recipient ASEP must meet the reserve price for that Donor ASEP as used in the AMSEC auction.
- An invitation to participate in the AMTSEC auction will be issued at least 14 days prior to the invitation date and will include information identifying the qualifying Recipient and Donor ASEP(s), the relevant months(s), the amount of transferable capacity for each month and any nodal maxima.
- Where capacity is transferred via the allocation of bids in the AMTSEC auction, National Grid NTS considers it would meet its obligation to release such amounts of baseline capacity at the relevant Donor Node(s) from which capacity was transferred.
- Due to the timescales involved in progressing this Proposal, a transitional timetable is proposed for 2007 ahead of operation of the enduring timetable from 2008 onwards:
- The following Transitional arrangements are proposed;
- The AMSEC auction would continue to be held in February (as currently in UNC);
- AMTSEC auction invitation would be issued within 30 days of implementation of this Proposal or completion of the 2007 AMSEC auction, whichever is the later;
- The AMTSEC auction would be held within 14 days of issuance of the AMTSEC invitation;
- The Transfer Period would only include any relevant month within the Capacity Year 2007/08 (i.e. April 07 to March 08) from the month after the month in which the AMTSEC auction is undertaken.
- The enduring timetable which would apply from 2008 onwards would be as follows;
- January Y - AMSEC auction held (with invitation issued 28 days in advance)
- February Y - AMTSEC auction invitation issued
- March Y - AMTSEC auction held and allocations completed
- April Y+1 – March Y+1 - Capacity transfers effective for relevant months

National Grid NTS believes that if this Proposal were not to be implemented then it could lead to sterilization of baseline levels of entry capacity, and possibly result in gas being stranded offshore due to insufficient capacity being available at the affected ASEPs.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

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

- in respect of Standard Special Condition A11 paragraph 1(a), the Proposal would provide Users the opportunity at sold out ASEPs to seek to procure unsold capacity at other ASEPs within the same NTS Entry Transfer Zone. This could result in the avoidance of sterilization of capacity and stranding of gas offshore, and thereby better facilitate the efficient and economic operation of the NTS pipeline system;
- in respect of Standard Special Condition A11 paragraph 1(c) (the efficient discharge of the licensee's obligations under this licence), the Proposal may meet the proposed Licence obligation on National Grid NTS to take all reasonable steps to facilitate, where requested, the trading of capacity between ASEPs, in the event that such a Licence obligation is implemented;
- in respect of Standard Special Condition A11 paragraph 1(d), the Proposal would promote the securing of effective competition between relevant Shippers by use of a pay-as-bid auction for the allocation of any unsold capacity with an NTS Entry Transfer Zone.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

a. Proposed implementation timetable

b. Proposed legal text

c. Advantages of the Proposal

National Grid NTS considers that this Proposal:

- would allow flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that has not been sold) to be reallocated to where Users value it most once the baselines have been set at the start of a price control;
- allow Users the opportunity to secure additional capacity, in excess of an ASEPs baseline, therefore allowing gas flows onto the system that may otherwise be prevented;
- may avoid the potential sterilization of entry capacity and hence costs being inefficiently incurred.

d. Disadvantages of the Proposal

National Grid NTS notes that this Proposal, if implemented:

- would introduce a further auction into entry capacity arrangements. However, National Grid NTS considers that the benefit in affording Users the opportunity to secure additional capacity on a competitive, non-discriminatory basis, than would otherwise be the case, justifies the creation of an additional auction;

- may reduce the unsold level of capacity available at the Donor ASEP(s) in the within year entry capacity auctions. However, National Grid NTS believes the transfer of monthly capacity would be an economic and efficient release of entry capacity based on User demand for capacity;
- may not meet the desire from some Users for more extensive entry transfer arrangements, such as allowing transfers between NTS Entry Transfer Zones. National Grid NTS considers that such approaches will take significant development time and extensive system changes, and may not result in any additional capacity transfers beyond those that may result from implementation of this Proposal. However, National Grid NTS considers that this Proposal should not prevent such more extensive arrangements being considered by the industry.

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

National Grid NTS believes that this Proposal, if implemented, may enhance security of supply by allowing Users the opportunity to obtain additional capacity at sold out ASEPs than would otherwise be the case.

f. The implication for Transporters and each Transporter of implementing the Modification Proposal, including

i. implications for operation of the System

National Grid NTS does not believe this Proposal, if implemented, would adversely affect the operation of the System. By optimizing the release of entry capacity within NTS Entry Transfer zones, this Proposal would provide a greater opportunity to ensure gas supplies can be delivered where demand is in excess of an ASEPs baseline capacity.

ii. development and capital cost and operating cost implications

National Grid NTS believes this Proposal, if implemented, would have cost implications related to the delivery of the required system changes, operation of the additional auction, calculation of the local maxima and publication of information.

In addition, the Proposal, if implemented, may avoid the potential sterilization of entry capacity and hence costs being inefficiently incurred.

iii. extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs

National Grid NTS believes that this Proposal, if implemented, would require it to recover the costs associated with the system development and operating costs through the Transmission Price Control Review.

iv. analysis of the consequences (if any) this proposal would have on price regulation

National Grid NTS does not believe this Proposal, if implemented, would have any consequences on price regulation.

g. 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

National Grid NTS believes that the Proposal has no impact on the level of contractual risk of each Transporter.

h. 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

National Grid NTS envisages that this will have an impact on the UK Link System if this Proposal were to be implemented.

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

National Grid believes that this Proposal would not increase the level of contractual risk on Users.

Code Concerned, sections and paragraphs

UNC Transition Document, Part IIC

UNC TPD Section B

Proposer's Representative

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Proposer

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