

CODE MODIFICATION PROPOSAL No. 0036
"Limitation of incremental capacity offered in QSEC auctions"
Version 1.0

Date: 13/07/2005

Proposed Implementation Date: 15/08/2005

Urgency: 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/2752_Urgency_Criteria.pdf)

Transco NTS requests Urgent status in respect of this Proposal on the basis that the proposed revisions need to be in place and effective before invitations are issued for the next long-term auctions for quarterly system entry capacity ("the QSEC auctions"). In accordance with the provisions of the UNC, the invitation letter for these auctions must be issued by 19 August 2005. It is recognised that this could be later were Modification Proposal 0030, "Extension of the QSEC auction timetable for 2005", to be implemented, however the timetable for Modification Proposal 0030 does not allow this to happen until at the earliest 4 August 2005, which would not allow sufficient time for this Proposal to be considered.

Transco NTS believes that without these provisions being in place prior to issuing the invitations for the next QSEC auctions there could be an adverse commercial impact on Transco NTS and Users (and also, therefore, to end consumers) as a result of potentially high buy-back costs at specific Aggregate System Entry Points (ASEPs).

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

Transco NTS is obliged to offer for sale in a QSEC auction incremental capacity with the maximum amount not being less than 150% of the NTS SO Baseline Entry Capacity. This could, however, be inconsistent with the requirements of Transco NTS's Incremental Entry Capacity Release (IECR) Methodology Statement, which it prepares in accordance with Special Standard Condition C18 of its Transporter's Licence. It is therefore proposed that it be clarified within the UNC that incremental amounts should be consistent with any relevant provisions of the IECR statement.

Indeed, Transco NTS has proposed, and Ofgem has approved, that the IECR be amended to allow Transco NTS some flexibility pre-auction to not release incremental capacity to Users when certain criteria are met; specifically when Transco NTS assesses prior to a capacity release that it may be unable to physically deliver all or part of the incremental capacity within a three-year lead time. Under these circumstances, the total level of buy-back costs at the affected ASEP is likely to be higher, than would otherwise be the case, if the incremental capacity is offered for sale and would be above that considered to be efficient and economic. While Transco NTS would be partly exposed to the buy-back costs in accordance with the incentive arrangements in

its Transporter's Licence, the capacity neutrality arrangements would result in all Users funding a significant proportion of these costs, which could ultimately be passed on to consumers.

In the event that the IECR criteria are met, Transco NTS would specify a revised lead-time to be applied to all or part of the capacity to be released at the affected ASEP in the QSEC auction invitation, otherwise the default minimum of 150% of the NTS SO Baseline would apply for each relevant capacity year in the QSEC auction.

Transco NTS believes this Proposal must be implemented prior to issuing invitations for the next QSEC auction, which, in accordance with the provisions of TPD Section B2.2, must state the amount of capacity that is available for each relevant capacity year. However, if this Proposal were not implemented in the timescales identified, Transco NTS believes it and other Users could be exposed to inefficient levels of buy-back costs.

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

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

- in respect of Standard Special Condition A11 paragraph 1(a), the Proposal would better facilitate the economic and efficient operation of the NTS pipeline system by not releasing incremental capacity that is likely to result in buy-back costs being incurred by both Transco NTS and Users above that which would be considered to be economic and efficient.

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

a. Proposed implementation timetable

Transco NTS requests that the Authority considers the following timetable:

Proposal sent to Ofgem requesting Urgency	13/07/2005
Ofgem grant Urgent status	15/07/2005
Proposal issued for consultation (5 working days)	18/07/2005
Close out of representations	25/07/2005
Urgent Modification Report issued (5 working days)	01/08/2005
Modification Panel decide upon recommendation	08/08/2005
Revised Urgent Modification Report issued to Ofgem	09/08/2005
Ofgem decision expected	15/08/2005

b. Proposed legal text

Transportation Principle Document Section B

Amend paragraph 2.2.3(c)(i) to read as follows:

- (i) the relevant number of incremental amounts (each being for a different amount) of Quarterly NTS Entry Capacity greater than the Baseline Entry Capacity (the maximum incremental amount being the lower of (1) an amount not less than an amount equal to 150% of NTS SO Baseline Entry Capacity and (2) an amount determined by the application of Transco NTS's Incremental Entry Capacity Release Statement) (each amount an "**incremental capacity amount**"); and

Amend paragraph 2.2.18(d)(v)(1) to read as follows:

- (1) the relevant number of incremental capacity amounts of Quarterly NTS Entry Capacity greater than the NTS SO Baseline Entry Capacity (the maximum incremental amount being the lower of (1) an amount not less than an amount equal to 150% of NTS SO Baseline Entry Capacity and (2) an amount determined by the application of Transco NTS's Incremental Entry Capacity Release Statement); and

c. Advantages of the Proposal

Transco NTS believes that this Proposal, if implemented, would ensure consistency in the determination of incremental capacity amounts between UNC and the IECR Methodology Statement. This would therefore prevent the release of incremental capacity via the QSEC auction invitation that Transco NTS is likely to be unable to physically deliver within the typical 3 year investment lead time and avoid the generation of buy-back costs above that considered to be efficient and economic.

d. Disadvantages of the Proposal

Transco NTS recognises that this Proposal may limit the amount of incremental capacity released in the QSEC auctions. However, Transco NTS believes that this is necessary where this is in accordance with specific circumstances set out in the IECR Methodology Statement.

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

Transco NTS does not believe this Proposal, if implemented, would adversely impact upon security of supply, operation of the Total System, or industry fragmentation.

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

i. implications for operation of the System

Transco NTS does not believe this Proposal, if implemented, would adversely affect the operation of the System.

ii. development and capital cost and operating cost implications

Transco NTS considers that this Proposal would reduce the potential increase in buy backs costs it may incur above that which would be considered to be economic and efficient. However, if Transco NTS did not release incremental capacity, it may limit its opportunity to earn entry capacity investment incentive revenue under Special Condition C8B Part 2 paragraph 14(5) of its Transporters Licence.

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

Transco NTS does not believe this Proposal, if implemented, requires it to recover any additional costs.

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

Transco 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

Transco NTS believes that the Proposal reduces the contractual risk that it is exposed to by reducing the volume of capacity that it is required to offer for sale in limited circumstances.

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

Transco NTS does not envisage any 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

Transco NTS considers that this Proposal would reduce the potential increase in buy backs costs incurred by Users above that which would be considered to be economic and efficient.

Code Concerned, sections and paragraphs

UNC Transition Document, Section B

Proposer's Representative

David Adlam (National Grid Transco - UKT)

Proposer

Paul Roberts (National Grid Transco - UKT)

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