

**CODE MODIFICATION PROPOSAL No. 0118A**  
"Entry Capacity Transfers in the Constrained Period"  
Version 1.0

**Date:** 26/10/2006

**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](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf))

This proposal is raised as an alternate to Modification Proposal 0118 and consistent with the Modification Rules (6.4.1) should proceed through the Modification process in parallel with the original proposal.

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

**Background**

The current arrangements in gas entry oblige National Grid Gas NTS (NGG NTS), 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 has the benefit of providing certainty to Users of the available capacity amounts, but does not currently 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 and thus avoiding sterilising capacity.

This inflexibility may be illustrated in the example where Users at one ASEP may not wish to purchase the full amount of baseline capacity, whereas Users at another 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 NGG NTS releasing non-obligated capacity close to the gas day with no guarantee this capacity will come to market.

Ofgem has proposed, as part of the Transmission Price Control Review (TPCR), that obligations on NGG NTS be introduced for the substitution of capacity between entry points. Under these proposals, unsold baseline capacity could be allocated to where it is most in demand after each long term capacity allocation. The substitution obligation requires NGG NTS to carry out "all reasonable" transfers of capacity between entry points and reduces the reliance on regulators setting baseline levels, reinforcing the role of the market.

For the short term entry regime Ofgem proposed an obligation to offer capacity transfer rates to shippers who request them to facilitate the transfer of unsold capacity (known as transfer facilitation) and sold capacity (known as capacity trade facilitation) between entry points.

For clarity, it should be noted that this proposal relates to the constrained period.

Ofgem's preferred approach for the transfer facilitation for the short term entry regime includes the following obligations:

- NGG NTS to respond to any requests from any shipper, prior to an auction, for an exchange rate to operate in that auction between a pair of entry points. This would allow a shipper to participate in an auction at one point to purchase capacity for use at another point. NGG NTS would, after the auction, make the transfer of capacity in accordance with the established exchange rate.
- Ofgem's current view is that NGG NTS be allowed to charge shippers its reasonable costs of producing an estimate of an exchange rate - which could then be refundable in the event that capacity is subsequently purchased. If more than one shipper is requesting the same exchange rate calculation NGG NTS should share the costs between them in a non-discriminatory fashion. One possible arrangement is that the charges made to a shipper for this capacity should be netted off the charges for any capacity sold to the shipper in an auction in accordance with this transfer rate.
- In setting any exchange rates NGG NTS should act in accordance with a methodology which they will have to develop and maintain in a transparent fashion. This methodology will have the objectives of:
  1. reflecting the physical possibilities of transferring capacity about the network;
  2. facilitating competition between gas shippers, suppliers and others associated organisations;
  3. being non-discriminatory, and
  4. being transparent.

In anticipation of such a Licence change, NGG NTS proposed that an amendment is introduced within the UNC that allows the transfer of capacity between ASEPs in the constrained period (Code Modification Proposal 0118). A key feature of this proposal is to restrict the transfer of capacity to between ASEPs contained within the same NTS Entry Transfer Zone i.e. intra zonal transfers and not allow for an exchange rate to operate between a pair of entry points located in different zones i.e. inter zonal transfers, as proposed by Ofgem. Details of NGG NTS' approach and zone configuration can be found in NGG NTS document "Entry Capacity Transfers in Constrained Period – Proposed Model" dated 21st August 2006 and is available on the Joint Office web site.

We believe that NGG NTS's interpretation of how the substitution of capacity obligations should be implemented falls well short of taking all reasonable steps to facilitate, where requested, the trading of capacity between ASEPs. We consider that the original proposals are unduly simplistic, disproportionately reduce the buy back risk for NGG NTS and restrict the potential for economic and efficient operation of the network and restrict the effective competition between shippers.

However, as we believe that certain aspects of Mod 118 should be retained, we have incorporated our proposals in the original proposal to create the alternate proposal 0118A. We believe that these points, where related to the changes which this proposal supports, better facilitate the relevant objectives.

### **Alternative Mod 118A**

CSL believes that to deliver the substitution of entry capacity objectives for the constrained

period, it will be necessary to introduce a regime that allows greater flexibility in the transfer arrangements than those currently outlined in the proposal submitted by NGG NTS.

In order to provide this greater flexibility, Mod 118A proposes that, in keeping with the first bullet point above, any unbooked baseline capacity at any ASEP is made available to all other ASEPs where capacity is sold out and where transfers are physically achievable, with appropriate tranches and exchange rates to be established by NGG NTS.

It is important that whatever analysis is carried out that there is a clear starting point for capability. Within the constrained period, with no opportunities to increase capability this should be SO baseline capacity as this is an accepted indication of system capability. However, in order to make full use of available capability throughout the network, it is important that where current capability exceeds the new TPCR baseline figures that this too is made available to ASEPs where capacity is demanded.

Whilst accepting that there will be nodal capacity limits, the process for setting of these limits must be sufficiently flexible to allow the maximum utilisation of the network.

An overview of the proposal, based on the original proposal, is set out below: -

In the event that any ASEP sells out i.e. within 10Gwh of baseline, for any month in the following Capacity Year (Apr Y+1 – Mar Y+2) in addition to the Annual Monthly System Entry Capacity (AMSEC) auction in Capacity Year Y, NGG 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 or between NTS Entry Transfer Zones (as stated in the AMTSEC invitation tender) at the exchange rate as specified in the AMTSEC tender, 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 (IECRMS) to limit the increase in buy back risk as a result of such potential capacity transfers. The methodology for establishing the exchange rate should also be included in the IECRMS. These principles will maximise the potential for utilising all surplus capacity. Provision will be made to permit the nodal maximum of specified ASEPs to be exceeded where it can be demonstrated that buy-back risk will not be significantly increased as a result of allowing a rebalancing of nodal maxima as a result of this action.

Bids in the AMTSEC auction will be allocated in price order (highest value/unit first) by transferring capacity from Donor ASEPs 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, CSL believes that this would mean that NGG NTS has met 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

The Proposer believes that if this Proposal were not to be implemented then it could lead to sterilization 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**

The Proposer considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in NGG NTS's 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 both from within the same NTS Entry Transfer Zone or across NTS Entry Transfer Zones. This will result in the avoidance of sterilisation 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 NGG NTS to take all reasonable steps to facilitate, where requested, the trading of capacity between all 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 or across any NTS Entry Transfer Zones.

**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**

The Proposer considers that this Proposal:

- would allow maximum 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 ASEP's baseline, therefore allowing gas flows onto the system that may otherwise be prevented;
- will avoid the potential sterilization of any entry capacity and hence costs being inefficiently incurred.

**d. Disadvantages of the Proposal**

NGG NTS notes that this Proposal, if implemented:

- would introduce a further auction into entry capacity arrangements. However, The Proposer 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, The Proposer believes the transfer of monthly capacity would be an economic and efficient release of entry capacity based on User demand for capacity;

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

The Proposer believes that this Proposal, if implemented, will enhance security of supply by allowing Users the opportunity to obtain additional capacity at sold out ASEPs than would otherwise be the case making the entry capacity more resilient and thereby creating a more flexible transportation system.

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

**i. implications for operation of the System**

The Proposer does not believe this Proposal, if implemented, would adversely affect the operation of the System. By optimizing the release of entry capacity, this Proposal would provide a greater opportunity to ensure gas supplies can be delivered where demand is in excess of an ASEP's baseline capacity.

**ii. development and capital cost and operating cost implications**

The Proposer believes this Proposal, if implemented, would have minimal 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, will 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**
- iv. **analysis of the consequences (if any) this proposal would have on price regulation**

The Proposer 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**

The Proposer 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**

The Proposer 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**

The Proposer believes that this Proposal would reduce the level of contractual risk on Users by providing use of system capability.

#### **Code Concerned, sections and paragraphs**

UNC Transition Document, Part IIC

UNC TPD Section B

#### **Proposer's Representative**

Roddy Monroe (Centrica Storage Ltd)

#### **Proposer**

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#### **Signature**

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