

Modification Report
Amendment to Entry Capacity Baselines
Modification Reference Number 0128

Version 2.0

This Modification Report is made pursuant to Rule 10.1 of the Modification Rules and follows the format required under Rule 10.2.

Circumstances Making this Modification Proposal Urgent:

In accordance with Rule 10.1.2 Ofgem agreed that this Modification Proposal should be treated as Urgent because it considered that the proposal is linked to both:

- a real likelihood of significant commercial impact upon GTs, shippers or consumers if the proposal is not granted urgency. The impact of not implementing the changes in a timely manner could be an increase in buyback costs. National Grid Gas (NGG) would be exposed to fifty percent of the first £36m of any such costs and shippers (directly) and consumers (if the costs are passed through) to any costs borne by NGG; and
- an imminent date related event, the date being that of the February Annual Monthly System Entry Capacity ('AMSEC') auctions. These auctions will relate to the sale of capacity from the 1st April 2007. It is anticipated that NGG's capacity release obligations will change on and from the 1st April 2007 as part of the anticipated changes to NGG's licence to give effect to the agreed¹ proposals for the transmission price control review. These changes are relevant to the February auctions.

¹ NGG indicated its agreement to Ofgem's proposals on 15th December 2006.

Procedures Followed:

The procedures agreed with Ofgem for this Proposal were:

Ofgem grant urgent status	18/12/06
Proposal issued for consultation	19/12/06
Close out of representations	28/12/06
Urgent Modification Report Issued	02/01/07
Modification Panel Decides on Recommendation	08/01/07
Revised Urgent Modification Report Issued to Ofgem	09/01/07
Ofgem decision expected	17/01/07

1. The Modification Proposal

The Proposal was as follows:

"National Grid NTS's Transporter Licence sets out a baseline amount of capacity (the "NTS SO Baseline Entry Capacity") which National Grid NTS is required to make available to Users at each Aggregate System Entry Point (ASEP) for each Gas Day in a Formula Year. Under the current UNC arrangements, National Grid NTS is obliged to release any Unsold NTS Entry Capacity (i.e. the amount of the NTS SO Baseline Entry Capacity that has not been sold in previous auctions for a Gas Day) in the various entry capacity auctions.

Ofgem has proposed as part of its Final Proposals for the Transmission Price Control Review ("Transmission Price Control Review: Final Proposals", Ref

206/06) that the baseline amounts are amended effective from 1 April 2007, consistent with its view of the expected physical capability of the system. In addition, Ofgem has proposed that National Grid NTS has an allowance in respect of the cost of buying back capacity consistent with such baselines. Table 1 below states the current and proposed new entry capacity baselines. For some ASEPs, the proposed new baselines are lower than the current levels, and others higher.

Although National Grid NTS has not yet accepted Ofgem’s Final Proposals, National Grid NTS proposes that the Ofgem proposed baselines are applied for the remaining auctions to be conducted during the current price control that will make capacity available for use in the next price control i.e. the following auctions:

- the February 2007 AMSEC auction in respect of unsold capacity to be made available from 1 April 07 to 31 March 09; and
- the March 2007 RMSEC auction in respect of unsold capacity to be made available for each Gas Day in the month of April 07.

Ideally this should be undertaken by amendment to National Grid NTS’s Transporter Licence, as opposed to amendment to the UNC, however, we do not consider that this can be achieved in the available timescales, unless such auctions are delayed, which is not desirable.

In addition, Ofgem have proposed in its Final Proposals that the current proportion of entry capacity held back for release in shorter term auctions of 20% of the baseline is reduced to 10%. To compensate as best possible for the proposed reduction in baselines at several ASEPs, National Grid NTS proposes that the Ofgem proposed reduction of capacity held back is also applied to the February 2007 AMSEC auction. This would increase the amounts of capacity made available, were this Proposal to be implemented, for each month in the period Sept 08 to March 09.

If this Proposal were not to be implemented, Users would be able to purchase capacity in these auctions above the potential new baseline levels, which would increase the risk of buy backs. This would particularly be the case in the event that Users purchase unsold capacity solely on the expectation that they would receive buy-back payments on the basis of Ofgem’s Final Proposals. While National Grid NTS may 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.

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

Table 1. Current and Ofgem Proposed Gas Entry Capacity NTS SO Baselines

	Current	Ofgem's
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	Baseline (GWh/d)	Proposed Baselines (GWh/d) ¹
Easington	1062	1062
Bacton	1745	1783
Isle of Grain	218	175
Milford Haven	0	0
St Fergus	1677	1671
Teesside	761	361
Barrow	712	309
Theddlethorpe	848	611
Burton Point	55	74
Hole House Farm	26	132
Barton Stacey	0	173
Hatfield Moor (Storage)	54	15
Hatfield Moor (Onshore)	1	0.3
Garton	0	420
Cheshire	214	286
Hornsea	175	164
Fleetwood	0	0
Caythorpe	0	0
Wytch Farm	3.2	3.3
Blyborough (Welton)	0	0
Albury	0	0
Palmers Wood	0	0
Glenmavis	99	29
Partington	215	175
Avonmouth	149	179
Dynevor Arms	50	8
Winkfield	0	0
Tatsfield	0	0

¹ See “Transmission Price Control Review: Final Proposals” Ref. 206/06, Table 10.1.

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a)

the efficient and economic operation of the pipe-line system to which this licence relates;

The Proposer and some respondents believed that implementation would better facilitate the achievement of this objective as the amount of unsold capacity to be released in entry auctions would be better aligned with the anticipated capability of the system, as assessed by Ofgem.

Other respondents did not believe that the baselines included within the Proposal would achieve this aim of better alignment, arguing that the anticipated capability would be higher than the proposed baseline. In support of this, some

respondents referred to recent physical flows that were close to or exceeded these baselines.

Standard Special Condition A11.1 (b)

so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;

EE suggested that implementation might encourage Teesside gas to flow directly into the North of England DN to avoid NTS capacity constraints, which it believed was inconsistent with the achievement of this objective

Standard Special Condition A11.1 (c)

so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

A number of respondents recognised that the proposed baselines were part of Ofgem's Transporter licence proposals for National Grid NTS but objected that a UNC Proposal was being used to address perceived inconsistencies in the Licence. Concern was also raised that the Proposal followed Urgent procedures which only allowed five business days for representations.

Standard Special Condition A11.1 (d)

so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

The Proposer suggested that implementation would better facilitate the achievement of this objective because for ASEPs at which the amount of unsold capacity would reduce, this would protect shippers from any potential buy back costs that may otherwise accrue from the sale of such capacity. For ASEPs at which the amount of unsold capacity would increase, this would allow shippers the opportunity to purchase such amounts of capacity earlier than would otherwise be the case.

EE had not seen any evidence of existing buy back risk associated with Teesside and questioned whether such a risk would occur in winters 2007/8 and 2008/9. Other respondents believed that implementation would increase shipper risks in signalling the need for entry capacity beyond the current price control period. These respondents believed that such an increase would adversely affect achievement of this objective with respect to both Shippers and Suppliers

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

The Proposer did not believe that implementation of this Proposal would adversely impact upon security of supply, operation of the Total System, or industry fragmentation. Other respondents, however, disagreed believing that it would signal, particularly at Teesside, that further gas is not required at this ASEP so affecting security of supply.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

The Proposer did not believe that implementation of this Proposal, would adversely affect the operation of the System. This view was not shared by EE who believed that the system would be operated less efficiently if lower volumes entered at Teesside, particularly if the balance were made up at St Fergus.

b) development and capital cost and operating cost implications:

The Proposer considered that implementation would reduce potential buy backs costs. This view was not shared by some respondents that disputed whether National Grid would have any substantial buy-back exposure if current baselines were maintained at Teesside.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Any effect on buy-back costs would be reflected in the Transporter's and Shippers' costs under the relevant incentive provisions.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Implementation would not have any consequences on price regulation.

5. 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 believed that, by reducing the volume of capacity that it is required to offer for sale in specific circumstances, implementation would reduce its level of contractual risk.

6. 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

No impact on the UK Link System is envisaged if this Proposal is implemented.

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

The Proposer and some respondents considered that implementation would reduce potential buy backs costs incurred by Users. Others did not share this view in respect of buy back costs and believed that implementation would increase risks that Users face in signalling the need for capacity beyond the current Price Control Period.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Some respondents believed that such parties would be adversely affected by the reductions in baselines at ASEPs where they were involved in offering gas supplies for the UK market.

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

The Proposer believed that implementation would:

- align the capacity made available in Ofgem’s Final Proposals for the Transmission Price Control with amounts of capacity to be released in auctions undertaken during this price control for use under the next price control;
- align National Grid NTS’s proposed buy back allowance in Ofgem’s Final Proposals for the Transmission Price Control with amounts of capacity to be released in auctions undertaken during this price control for use under the next price control;
- for ASEPs with a potentially decreasing level of capacity, remove the potential for Users to seek to obtain unsold capacity solely on the expectation that it will receive buy-back payments;
- for ASEPs with a potentially increasing level of capacity, allow Users to seek to purchase such capacity earlier than would otherwise be the case.

Disadvantages

EE pointed out that reducing the baseline at Teesside to below the expected flows for 2006/7 and 2007/8 would send a misleading signal in respect of the need for new sources of gas and the capability for such gas to be offered at Teesside. It also suggested that implementation would increase the risk to Teesside users beyond that which would have reasonably been predicted.

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations were received from the following parties:

Organisation	Abbreviation	Position
BG Gas Services	BG	Not in Support
British Gas Trading	BGT	Not in Support
E.ON UK	EON	Supported
Excelerate Energy	EE	Not in Support
National Grid Distribution	NG UKD	Not in Support
National Grid Transmission	NG NTS	Supported
px Limited	PX	Not in Support
RWE npower	RWE	Not in Support
Scottish & Southern Energy	SSE	Supported
Statoil UK	STUK	Supported

Thus, four supported implementation but six did not.

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14. Programme for works required as a consequence of implementing the Modification Proposal

No programme of works has been identified as required as a consequence of implementing the Modification Proposal.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Implementation can be immediate on receipt of a decision from Ofgem.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel meeting held on 8 January 2007, of the 8 Voting Members present, capable of casting 10 votes, 3 votes were cast in favour of implementing this Modification Proposal. Therefore, the Panel did not recommend implementation of this Proposal.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19. Text

UNIFORM NETWORK CODE – TRANSITION DOCUMENT

PART IIC – TRANSITIONAL RULES

1. UNIFORM NETWORK CODE

1.1 TPD Section B: System Use and Capacity

1.1.1 TPD Section B2.1.5 and Section B2.1.6

Insert the following as new paragraphs 1.1.1 (d) and (e):

- (d) For the purposes of:
 - (i) the invitation to be issued by National Grid NTS pursuant to TPD Section B2.2.1(b) for Monthly NTS Entry Capacity in respect of Capacity Years 2007/8 and 2008/9; and
 - (ii) the invitation to be issued by National Grid NTS pursuant to TPD Section B2.3.1 for Monthly NTS Entry Capacity in respect of April 2007;

and any applications and allocations pursuant thereto, Unsold NTS Entry Capacity shall be determined in accordance with paragraph (e).

- (e) Where paragraph (d) applies, Unsold NTS Entry Capacity is the amount of Firm NTS Entry Capacity that National Grid NTS has, for the purposes of TPD Section B2.2 or TPD Section B2.3, in each case in relation to each Day in a calendar month, an obligation to make available (in accordance with the procedures set out in TPD Section B2) to Users pursuant to paragraph 14(5)(f) of Part 2 of Special Condition C8B of National Grid NTS's Transporter's Licence as set out in National Grid NTS's Transportation Statement, but as if:
 - (i) the data in the final column of Table A2 in Schedule A to National Grid NTS's Transporter's Licence had been replaced with the data in the second column of the table set out below; and
 - (ii) "STR" in paragraph 14(5)(g) of Part 2 of Special Condition C8B has a value of 0.1;

and the definition of "Unsold NTS Entry Capacity" set out in TPD Section B2.1.5 shall be construed accordingly.

Terminal	Revised Baselines (GWh/d)
Easington	1062
Bacton	1783
Isle of Grain	175
Milford Haven	0
St Fergus	1671
Teesside	361
Barrow	309
Theddlethorpe	611
Burton Point	74
Hole House Farm	132
Barton Stacey	173
Hatfield Moor (Storage)	15
Hatfield Moor (Onshore)	0.3
Garton	420
Cheshire	286
Hornsea	164
Fleetwood	0
Caythorpe	0
Wytch Farm	3.3
Blyborough (Welton)	0
Albury	0
Palmers Wood	0
Glenmavis	29
Partington	175
Avonmouth	179
Dynevor Arms	8
Winkfield	0
Tatsfield	0

For and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive Joint Office of Gas Transporters