

CODE MODIFICATION PROPOSAL No. 0128
"Amendment to Entry Capacity Baselines"
Version 1.0

Date: 14/12/2006

Proposed Implementation Date: 15/01/2007

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)

National Grid NTS requests Urgent status in respect of this Proposal on the basis that the proposed revisions need to be in place and effective before the invitation is required to be issued for the next annual auctions for Monthly NTS Entry Capacity (the "AMSEC" auctions). In accordance with the provisions of the UNC, the invitation letter for these auctions must be issued by 18 January 2007. However to avoid overlap of the February 2007 RMSEC auction (which will make unsold capacity available for the month of March 2007) and AMSEC auctions, it is preferable to issue the AMSEC invitation by 16 January 2007.

National Grid NTS believes that without these provisions being in place prior to issuing the invitation for the next AMSEC auctions there could be an adverse commercial impact on National Grid NTS and Users (and also, therefore, to end consumers) as a result of potential buy-back costs at Aggregate System Entry Points (ASEPs) where Ofgem has proposed a decrease in the baseline amount as part of its Final Proposals for the next Transmission Price Control.

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

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 Baseline (GWh/d)	Ofgem's Proposed Baselines (GWh/d) ¹
Easington	1062	1062
Bacton	1745	1783
Isle of Grain	218	175
Milford Haven	0	0

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

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

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 Objective as set out in its Gas Transporters Licence:

- in respect of Standard Special Condition A11 paragraph 1(a), the Proposal would better align the amount of unsold capacity which National Grid NTS would release in future entry capacity auctions with the anticipated capability of the system, as assessed by Ofgem as part of the Transmission Price Control Review. For ASEPs at which the amount of unsold capacity would reduce, this would protect shippers and therefore consumers 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 (in the event that National Grid NTS accept Ofgem's final proposals for the TPCR). We consider that this Proposal would therefore better facilitate the economic and efficient operation of the NTS pipeline system.

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

a. Proposed implementation timetable

National Grid NTS requests that the Authority considers the following timetable:

Process	Timeline	Illustrative Dates
Proposal sent to Ofgem requesting Urgency	14/12/2006	14/12/2006
Ofgem grant Urgent status	Asap	15/12/2006
Proposal issued for consultation	Following Ofgem decision	15/12/2006
Close out of representations	5 business days	22/12/2006
Urgent Modification Report issued	2 business days	28/12/2006
Modification Panel decide upon recommendation	04/01/2007	04/01/2007
Revised Urgent Modification Report issued to Ofgem	05/01/2007	05/01/2007
Ofgem decision expected	12/01/2007	12/01/2007

b. Proposed legal text

Transitional Document Part IIC

Insert the following as a new paragraph 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

c. Advantages of the Proposal

National Grid NTS believes that this Proposal, if implemented, 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 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 this price control for use under the next price control;

- for ASEPs with a potentially decreasing level of capacity, removes 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, allows Users to seek to purchase such capacity earlier than would otherwise be the case.

d. Disadvantages of the Proposal

National Grid NTS recognises that this Proposal, if implemented, would limit the amount of unsold capacity that is made available to Users at several ASEPs. However, National Grid NTS believes that this is necessary to avoid a potential increase in buy back costs.

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

National Grid 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

National Grid 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

National Grid 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.

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 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

However 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 this 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 specific 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

National Grid 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

National Grid 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

Steve Fisher (National Grid NTS)

Proposer

Paul Roberts (National Grid NTS)

Signature

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