

CODE MODIFICATION PROPOSAL No. 0129
"Delay to the 2007 AMSEC Auction"
Version 1.0

Date: 09/01/2007

Proposed Implementation Date: 18/01/2007

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)

The justification for Urgency is the same as that put forward, and accepted by Ofgem, for Urgent UNC Modification Proposal 0128 as explained below.

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 current provisions of the UNC, the invitation letter for these auctions must be issued by 18 January 2007 and the AMSEC auctions undertaken in February 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. Table 1 below states the current and Ofgem proposed new entry capacity baselines. For some ASEPs, the proposed new baselines are lower than the current levels, and others higher.

National Grid NTS has stated that it is minded to accept Ofgem's Final Proposals and therefore considers that the Ofgem proposed baselines should be applied for future auctions that will make capacity available for use from the start of the next Transmission Price Control (i.e. 1 April 2007). To seek to implement this change, National Grid NTS raised Urgent UNC Modification Proposal 0128 "Amendment to the Entry Capacity Baselines". The UNC Modification Proposal

0128 seeks to implement the Ofgem proposed baselines in the February 2007 AMSEC and March 2007 RMSEC auctions to avoid any increase in buy back costs via implementing the Ofgem proposed baselines within the UNC on a transitional basis until National Grid NTS's GT Licence can be changed. This approach would therefore avoid delaying the AMSEC auction.

The consultation on UNC Modification Proposal 0128 has now been completed. At the UNC Modification Panel meeting on 8th January 2007, only 3 out of 10 Panel Members voted in support of implementation of the proposal, resulting in the proposal not being recommended to be implemented. Two key reasons were put forward by those Panel Members not in support of the proposal:

- it seeks to amend National Grid NTS' GT Licence obligations by a UNC Modification Proposal, which may set an unhelpful precedent if such a proposal is approved by Ofgem; and
- the significant reduction in the baselines at some ASEPs, particularly Teesside.

National Grid NTS recognises such concerns, and although we still consider that it would be pragmatic to implement UNC Modification Proposal 0128 to avoid any increase in buy back costs without delay to the AMSEC auction (as supported by 3 other respondents to the consultation), in the event that such a proposal is rejected, then we consider that it would be appropriate, as the next best option, to delay the 2007 AMSEC auction.

It is therefore proposed that for the 2007 AMSEC auction only, as opposed to holding the auction in February to make capacity available for the following two Capacity Years (i.e. April 2007 to March 2009), the following is undertaken:-

- the invitation is issued not later than two business days after direction is given by the Authority under Section 23 of the Gas Act 1986 implementing the modifications to National Grid NTS' GT Licence associated with the Transmission Price Control Review (TPCR);
- the AMSEC auctions are held as soon as reasonably practicable but no earlier than the later of
 - 1 April 2007; and
 - 28 days after issuance of the auction invitation;
- the AMSEC auctions will make capacity available for the period: -
 - where the auctions can be completed within at least 1 business day of the end of month M, M+1 to March 2009 (inclusive) (NB. there are 4 auction rounds with at least 2 business days required between each round); otherwise
 - M+2 to March 2009 (inclusive).

This would result in the amount of unsold capacity to be made available in the 2007 AMSEC auction to be consistent with revised entry capacity baseline levels, and obligations to withhold capacity, that are to be implemented in National Grid NTS' GT Licence as a result of TPCR. Auctions undertaken prior to this change would continue to use the existing baselines to determine the amount of unsold capacity to be made available.

This would mean that if the direction is given by the Authority to implement the modifications to National Grid NTS' GT Licence associated with the TPCR before (approximately) 15 March 2007:

- the March 2007 RMSEC auction would make available unsold capacity for the month of April 2007 based on the existing baselines. National Grid NTS does not expect a material increase in buy back costs if the existing baselines were to be applied for April 2007 only in the RMSEC auction; and
- the AMSEC auction will be held in April 2007 to make available capacity from May 2007 to March 2009 (inclusive).

If the direction is given at a later date, but before 1 April 2007, then the AMSEC auction will be held in April/May 2007 to make available capacity from June 2007 to March 2009 (inclusive).

If this Proposal were not to be implemented, Users would be able to purchase capacity at some ASEPs in the February 2007 AMSEC 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
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

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

Fleetwood	0	0
Caythorpe	0	0
Wytech 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 avoid National Grid NTS making available levels of unsold capacity in the next AMSEC auction which are inconsistent 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 via implementation of modifications to National Grid NTS's GT Licence in respect of the TPCR, this would protect shippers and therefore consumers from any potential buy back costs that may otherwise accrue from the sale of such capacity. 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		09/01/2007
Ofgem grant Urgent status	Asap	10/01/2007
Proposal issued for consultation	Following Ofgem decision	10/01/2007
Close out of representations	3 business days	12/01/2007
Urgent Modification Report issued to Ofgem		15/01/2007
Ofgem decision expected		17/01/2007

National Grid NTS recognises the limited amount of time for industry parties and Ofgem in the proposed timetable, however it is considered that the adverse consequences of not

appropriately addressing the issues in this Proposal (and UNC Modification 0128) merit such an approach on this occasion.

b. Proposed legal text

UNIFORM NETWORK CODE – TRANSITION DOCUMENT

PART IIC – TRANSITIONAL RULES

Amend paragraph 1.1.2 to read as follows:

1.1.2 TPD Section B2.2.1

- (a) Notwithstanding TPD Section B2.2.1(d) (which requires that National Grid NTS will invite, and Users may make, applications for Quarterly NTS System Entry Capacity during the month of September in each Capacity Year), for the Capacity Year commencing on 1 April 2005 National Grid NTS will invite, and Users may make, applications for Quarterly NTS Entry Capacity in respect of each Aggregate System Entry Point for the periods specified in TPD Section B2.2.2(b) no earlier than 1 September 2005 and no later than 30 November 2005.
- (b) Notwithstanding TPD Section B2.2.1(b) (which requires that National Grid NTS will invite, and Users may make, applications for Monthly NTS Entry Capacity during the month of February in each Capacity Year), National Grid NTS will not be required to invite applications pursuant to TPD Section B2.2.1(b) in the Capacity Year commencing on 1 April 2006 for Monthly NTS Entry Capacity in respect of each Aggregate System Entry Point for the periods specified in TPD Section B2.2.2(a). Instead, the provisions of paragraph (c) below shall apply.
- (c) National Grid NTS will invite, and Users may make, applications for Monthly NTS Entry Capacity in respect of each Aggregate System Entry Point for the Relevant Capacity Period. Such invitation shall be issued by National Grid NTS no later than 2 Business Days of the Authority next directing changes (after the date of implementation of the Modification giving effect to this paragraph) to the Transporter's Licence of National Grid NTS pursuant to Section 23 of the Gas Act in relation to the contents of Schedule A of the Transporter's Licence of National Grid NTS. Applications pursuant to such invitation may be made on the date(s) specified in the invitation, the first such date being no earlier than the later of:
 - (i) 1 April 2007; and
 - (ii) 28 days after the date on which the invitation is issued by National Grid NTS pursuant to this paragraph (c);

and shall be as soon as possible after the dates specified above.

References to TPD Section B2.2.1(b) in TPD Section B shall (where paragraph (b) above applies) be deemed to be references to this paragraph (c). References to the period in TPD Section B2.2.2(a) in TPD Section B shall (where paragraph (b) above applies) be deemed to be references to the Relevant Capacity Period.

For the avoidance of doubt, National Grid NTS shall be required to issue one invitation only pursuant to this paragraph (c), and nothing in this paragraph (c)

shall affect National Grid NTS's obligations pursuant to TPD Section B2.2.1(b) for the Capacity Year commencing on 1 April 2007 (or any subsequent Capacity Year).

- (d) For the purposes of paragraph (c), the “**Relevant Capacity Period**” means:
- (i) where the final date on which applications may be made pursuant to paragraph (c) is more than 1 Business Day before the end of the month M, the period from M+1 to March 2009 (where “M” is the month in which the first date on which applications may be made pursuant to paragraph (c) falls); and
 - (ii) where the final date on which applications may be made pursuant to paragraph (c) is not more than 1 Business Day before the end of the month M, the period from M+2 to March 2009 (where “M” is the month in which the first date on which applications may be made pursuant to paragraph (c) falls).

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 the next AMSEC auction;
- 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 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 in the next AMSEC auction;
- avoid seeking to change UNC obligations to resolve Licence issues as proposed under 0128 Modification Proposal;
- allows the issues raised as part of consultation on UNC Modification Proposal 0128 in respect of the proposed decrease to entry baselines at some ASEPs to be kept to the Licence consultation process; and
- allow the next AMSEC auction to be undertaken with improved certainty on the regulatory framework post implementation of the TPCR.

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 in the next AMSEC auction, subject to amendment to National Grid NTS GT Licence. However, National Grid NTS believes that this is necessary to avoid a potential increase in buy back costs. In any event, this proposal would not seek to amend the baselines – this would be the subject of future modification proposals to National Grid NTS' GT Licence by Ofgem; and

- delay the AMSEC auction from February 2007 to, at the earliest, April 2007, which might be undesirable by industry parties.

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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