

**Telephone No:** 01926 656369  
**FaxNo:** 01926 656604  
**E mail:** Paul.A.Roberts@uk.ngrid.com

Mr J. Majdanski  
Secretary, Modification Panel  
Joint Office  
National Grid

Friday 12 January 2007

Dear Julian

**Re: Urgent UNC Modification Proposal 0129 - "Delay to the 2007 AMSEC auction"**

Thank you for the opportunity to comment on this Urgent Modification Proposal.

As Proposer of this Modification Proposal, National Grid NTS supports implementation of the Proposal.

National Grid NTS recognises that this Proposal was raised with limited time for parties to develop their representations, however it is considered that the adverse consequences of not appropriately addressing the issues in this Proposal (and UNC Modification Proposal 0128) merit such an approach on this occasion. As explained in the Proposals, such consequences are driven by the Ofgem proposed revisions to the entry capacity baseline levels in their Final Proposals for the Transmission Price Control Review (TPCR). This is further explained below.

Under current UNC obligations, the next AMSEC auctions would be undertaken during February 2007 and would make available unsold capacity, determined using the current baselines, for the first two years of the next price control (Apr 07 to Mar 09). Ofgem's proposed revisions to the entry baselines would then be implemented from 1st April 07 and National Grid NTS would be required to make available capacity in the various monthly and daily auctions for the same period (Apr 07 to Mar 09) using the revised baselines. As illustrated in table 1 of the UNC Modification Proposals, introduction of such revised baselines would result in the level increasing at some ASEPs while decreasing at others. Hence, without an appropriate amendment to the regime, there would be the possibility for shippers to buy capacity up to the highest level in each of the existing and proposed revised baselines. We consider that this would unintentionally result in more capacity being available to the market over such a period, thereby creating a significantly increased risk of buy backs. 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 notes that only 3 out of 10 Panel Members voted in support of implementation of the UNC Modification Proposal 0128, 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 considers that the UNC Modification Proposal 0129 would address the first of these concerns, but recognises that there would still be a reduction in the baseline at Teesside, assuming

National Grid NTS accept the final Licence proposals for the TPCR. We acknowledge the concerns raised by several respondents in respect of the proposed baseline reduction at Teesside. Although we are unable to change Ofgem's proposals at this stage of the TPCR, we consider that other aspects of Ofgem's proposals, and existing daily capacity services, may reduce the consequences of the proposed baseline revisions as explained below:

- We note that Ofgem have proposed that National Grid NTS should be obliged to develop new services that would introduce the flexibility for unsold capacity to be reallocated to where users value it most once entry baselines have been set at the start of a price control. This will be supported by a National Grid NTS methodology statement underpinning the determination of transfer rates between ASEPs and changes to the UNC to facilitate such transfers. We consider that a delay to the AMSEC auction, as proposed under UNC Modification Proposal 0129, would allow further time for development of these new services such that shippers can consider their bidding strategies ahead of the AMSEC auction with a clearer understanding of intended changes to the regime. We welcome industry support to the development of such regime changes.
- National Grid NTS would also be incentivised to release non-obligated capacity ahead of and during the Gas Day in response to shipper bids for additional capacity. In addition, National Grid NTS would make available interruptible capacity ahead of the Gas Day above firm capacity holdings if recent flow levels (assessed over period D-36 to D-7) have been lower than such firm holdings.

In summary, National Grid NTS considers that UNC Modification Proposal 0129 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. This is because it 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. This would protect shippers and therefore consumers from any potential buy back costs that may otherwise accrue from the sale of such capacity. In addition, we consider that it would be beneficial if the AMSEC auction is undertaken when there is increased certainty on the regulatory and commercial framework under the new price control; and
- in respect of Standard Special Condition A11 paragraph 1(c), the Proposal would allow implementation of the Ofgem proposed revisions to the National Grid NTS GT Licence without introduction of the baselines within the UNC and thereby better facilitate the efficient discharge of National Grid NTS GT Licence obligations.

Please do not hesitate to contact me if you have any questions.

Yours sincerely

Paul Roberts

Gas Charging and Access Development Manager  
National Grid NTS