

Mr Julian Majdanski

Joint Office of Gas Transporters  
Ground Floor Red  
51 Homer Road  
Solihull  
B91 3QJ

Martin Watson  
Gas Charging and Access  
Development Manager  
Commercial  
UK Transmission  
National Grid

martin.watson@uk.ngrid.com  
Direct tel +44 (0)1926 655023  
Direct fax +44 (0)1926 653122  
Mobile +44 (0)7795 666243

[www.nationalgrid.com](http://www.nationalgrid.com)

12 April 2007

## **UNC Modification Proposal 0138**

### **Transitional Arrangements for Entry Capacity Transfers to Sold Out ASEPs**

Dear Julian,

Thank you for your invitation seeking representation with respect to the above Modification Proposal.

#### **Summary**

National Grid NTS is unable to support the implementation of this Modification Proposal and provides details of the following key concerns, within this response:

- The Modification needs to be considered as part of wider developments
- Provision of ex-ante fixed exchange rates
- Timeline for implementation
- Proposed system implementation considerations
- Impact upon the current proposed transfer process as contained within Modification 0133 (Unsold Capacity)
- Extent to which the implementation of the proposed modification would better facilitate the relevant objectives

#### **The Modification needs to be considered as part of wider developments**

National Grid NTS accepted in principle, as part of the Price Control Review Final Proposals, a Licence Obligation to facilitate capacity trades and transfers. Part of this obligation should include the production of a

Methodology Statement that explains how the process of facilitating trades and transfers will be undertaken. Currently the Licence Obligation has not been finalised and the Methodology Statement has not been consulted upon. Any UNC Modification Proposal that seeks to implement a process to transfer or trade capacity between ASEPs needs to be seen in the context of both the Licence Obligation and the Methodology Statement.

The implications of implementing a trading process, as detailed in the Modification Proposal, could have a material impact on Shipper bidding behaviour in the AMSEC auction to be held in May 2007. We agree therefore that it is important that Shippers fully understand the potential impact of such a proposal. In order to do this there is a need for further discussions of capacity trade and transfer processes ahead of the forthcoming AMSEC auction. To this end National Grid NTS has arranged to hold a workshop on transfers and trades after the next Transmission Workstream meeting on the 3 May 07. At this point in time we intend to have available fully developed Modification Proposals for capacity transfers and trades, with accompanying Methodology Statements.

For the reasons mentioned above we believe it is premature to consider this Modification Proposal, although we understand the urgency of this matter.

## **Provision of ex-ante exchange rates**

At previous Transmission Workstream meetings, National Grid NTS has explained that exchange rates between ASEPs are not a fixed ratio, the ratio changes dependent on the amount of capacity transferred. In addition every trade that is performed may impact the exchange rate for any subsequent trade. Therefore, as we cannot provide a fixed exchange rate between a donor and recipient ASEP that is independent of the capacity to be transferred, and any other potential trades, the information requested in paragraph 6.b.i of the Modification Proposal cannot be published. This aspect of the Modification Proposal is essential to the remainder of the process, for this reason we cannot see how we could implement the Modification Proposal as detailed.

## **Timeline for Implementation**

The Modification Proposal suggests an implementation date of 1 May 07 to take effect 2 business days after the 2007 AMSEC auction. Notwithstanding the previous key concerns, the preliminary information we have received from xoserve indicates that a minimum period of six-eight weeks, following the definition of firm business requirements is required to cover both analysis and acceptance testing for the Gemini systems impacts. As stated in the Ofgem letter granting urgency to the Modification Proposal the expected date of an Ofgem decision is the 8 May 07. Following this decision, authorisation for the necessary Change Order would need to be raised. Thus the proposed implementation date is wholly unrealistic. In addition the Modification Proposal references two Methodology Statements related to charging and transfer rates, which have yet to be produced. As announced at the Transmission Workstream the intention of National Grid NTS is to consult on both Methodology Statements at the end of April 2007.

## **Proposed System Implementation Considerations**

The Modification Proposal suggests implementing the trades, which are performed off-line, through transferring capacity holdings between ASEPs within one User account (paragraph 10). Based on an off-line

solution and following the process outlined, is likely to require an amount of data fixing within Gemini to reflect the amended holdings. We are advised that data fixing is only intended to be used for fixes where a fault or failure has occurred and it should not be considered an acceptable process solution as this method does not come without associated risks. National Grid NTS has articulated an alternative approach based on the use of a National Grid NTS Trading Account, this would obviate the need for data fixing, although manual suppression of some charges (e.g. capacity overruns) may be required. Therefore, although not ideal, we believe a solution based on a National Grid NTS Trading account appears to be more viable compared with a process of data fixing information.

## **Impact upon the current proposed transfer process as contained within Modification 0133 (Unsold Capacity)**

National Grid NTS is currently undertaking development to facilitate the Transfer of Unsold NTS Entry Capacity between ASEPs. The impact of introducing an extra process prior to this will need to be assessed by xoserve, if additional systems development is identified as a consequence of this process it will impact upon National Grid NTS's ability to deliver a process for the transfer of unsold NTS Entry Capacity prior to October 2007.

## **Extent to which the implementation of the proposed modification would better facilitate the relevant objectives**

National Grid NTS considers that this Proposal, if implemented, would not better facilitate the relevant objectives as set out in National Grid NTS's Gas Transporters Licence, in particular:

- in respect of Standard Special Condition A11 paragraph 1(a), the Proposal would not better facilitate the efficient and economic operation of the NTS pipeline system. To provide fixed ex-ante exchange rates would require all potential permutations of trades and capacity amounts to be taken into account. This would result in very low exchange rates and an inefficient re-allocation of capacity. Therefore we believe that this would be counter to the aforementioned Licence Condition. In addition the proposal is not fully developed and could not be implemented without significant changes, which would fundamentally alter the nature of the Proposal. Therefore this would lead to significant uncertainty in the market and unnecessary expenditure in terms of both man power and Information Systems.

Please let me know if you require any further information to enable preparation of the Final Modification Report.

Regards

Martin Watson  
Gas Charging and Access Development Manager