

CODE MODIFICATION PROPOSAL No 0138
“Transitional Arrangements for Entry Capacity Transfers to Sold Out ASEPs”
Version 1.0

Date: 28/03/2007

Proposed Implementation Date: 01/05/2007

Urgency: Urgent

Urgency criteria:

http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf

1 The Modification Proposal

E.ON UK requests that the Authority grants Urgent status for this Modification Proposal on the grounds that:

- National Grid has not been able to demonstrate to date that it is capable of delivering a sold capacity transfer mechanism in normal regulatory timescales well before October/November 2007. This is too late and does not give Users the opportunity to address any entry capacity availability problems before winter 2007, which may be exacerbated by the revised TPCR baselines - thereby potentially endangering security of supply to the UK. The Proposer considers that National Grid’s draft proposals for an enduring solution do not reasonably reflect the current depth of concern of market participants. Transition arrangements are now required to ensure that Users are able to transfer sold entry capacity as soon as the 2007 AMSEC auction is completed. Implementation of this Proposal would enable Users to act more efficiently and removes a limit on market participant’s freedom to trade capacity, which would otherwise be caused by a purely unsold capacity transfer mechanism.
- The latest information from National Grid¹ suggests that the earliest an AMSEC auction can now take place is May 2007 for the capacity month of June 2007 onwards. If Urgent status is not granted, it will not be possible for Users to transfer sold capacity within a reasonable timeframe after the AMSEC auction; or indeed before the start of winter 2007.
- Even if implemented in October/November 2007, the queue system proposed in National Grid’s draft proposals on sold capacity transfers could mean that transfer requests are not actually processed until the middle or even end of winter – and therefore too late to meet the needs of the market; particularly at ASEPs which have had their baselines reduced substantially.
- An early implementation achieved by Urgent status will ensure Users have certainty about the amounts of entry capacity that will be available and at which

¹ National Grid open letter “*Annual Monthly System Entry Capacity auction for MSEC – Cancellation of Auction*”, dated 20/03/2007.

location, which may ultimately affect User actions in both the forthcoming AMSEC and anticipated AMTSEC auction in 2007.

(a) Nature and Purpose of this Proposal

Under the current price control (2002-2007), National Grid NTS is obliged under its Gas Transporter Licence to use all reasonable endeavours to offer for sale a baseline level of capacity at each Aggregate System Entry Point (ASEP), in at least one clearing allocation. This provides certainty to Users of the available capacity amounts, but does not allow the flexibility for either:

- sold capacity held by a User at one ASEP to be transferred to another ASEP where the User (or another User) has a greater need for such capacity; or
- unsold capacity (i.e. amounts of obligated baseline capacity that have not been sold) to be reallocated to where Users value it most once the baselines have been set at the start of a price control.

Ofgem have therefore proposed as part of their Final Proposals for the Transmission Price Control Review (TPCR) that an obligation is placed on National Grid NTS to facilitate the transfer of both sold and unsold capacity between ASEPs. National Grid NTS has accepted, in principle, Ofgem’s Final Proposals.

In anticipation of the licence change, National Grid NTS proposed that an amendment is introduced within the UNC which would allow the transfer of unsold capacity between ASEPs through an Annual Monthly Transfer Auction (AMTSEC) (Modification Proposal 0133). This, however, only addresses the Licence obligation to transfer unsold capacity, not the Licence obligation to also facilitate the transfer of sold capacity. For clarity, this Proposal should not affect development of any Modification Proposals on unsold capacity and we are satisfied currently that National Grid is able to deliver a 2007 AMTSEC auction in normal regulatory timescales and thereby meet the needs of market participants.

The Proposer recognises that the process of transferring sold capacity could, in the extreme, be complicated (eg transferring capacity in operational timescales) and that National Grid have initiated development of a proposed “enduring solution”, which was presented at the Transmission Workstream on 01/02/2007. At the same meeting, E.ON UK put forward draft proposals for a sold capacity transfer process (SCTP), with the intention that this would be a transitional arrangement to be implemented well before winter 2007. The feedback subsequently received from National Grid has indicated that E.ON UK’s proposal would not achieve a sold capacity transfer process before National Grid’s proposed solution – i.e. no earlier than October/November 2007.

The Proposer does not find the proposed implementation date of October/November 2007 acceptable. Although we understand that National Grid have investigated what can be achieved in normal regulatory timescales this year,

the Proposer does not consider National Grid can implement a sold capacity transfer mechanism when it is needed most by market participants –i.e. after the 2007 AMSEC auction.

The Proposer has met with National Grid on several occasions to express our concerns and encourage a more rapid implementation; most recently further to an action taken away to meet with NG from the February Transmission Workstream. Unfortunately, National Grid has been unable to provide assurance to date that as soon as the new TPCR baselines are implemented, that a transfer mechanism for sold, and then unsold, capacity will be made available to Users. The Proposer considers it imperative that a sold capacity transfer mechanism is available to Users following the AMSEC and before the AMTSEC auction in 2007 (and on an annual basis thereafter, until an enduring solution is implemented in the UNC).

E.ON UK therefore proposes a simple, straightforward transitional mechanism which could be implemented quickly to allow only the transfer of sold capacity to ASEPs that have sold out. To achieve this by the stated implementation date of 01/05/2007, Urgent status is required.

The main advantages of transferring sold capacity ahead of unsold capacity are:

- Allows Users to optimise their own portfolio before entering the market for unsold capacity;
- The Sold Capacity Transfer Process will allow the transfer of capacity from any other ASEP, not just those that have unsold baseline, and thus the AMTSEC, if initiated before the Sold Capacity Transfer Process, may miss the most efficient ASEP (i.e. with highest transfer rate);
- Avoids reducing the available unsold capacity at the Donor ASEPs available for purchase in the within-year auctions – the AMTSEC will likely just result in further ASEPs becoming sold out.

Overall this will ensure a more efficient allocation of capacity by allowing more scope for market participants to determine at which ASEPs they most want to hold capacity.

As a result, for 2007 and until an “enduring” solution is implemented in the UNC, it is proposed that the following transitional arrangements are implemented:

Transfer Initiation Process

1. In the event that any ASEP sells out for any month as part of the Annual Monthly System Entry Capacity (AMSEC) auction in Capacity Year Y (i.e. in the following two Capacity Years (Apr Y+1 to Mar Y+2), National Grid NTS shall:
 - a. Firstly, invite applications from Users to transfer capacity they hold at other ASEPs to the sold out ASEPs.

- b. Secondly, hold another pay as bid auction (the Annual Monthly Transfer System Entry Capacity “AMTSEC” auction) to facilitate the transfer of unsold entry capacity as soon as possible after the SCTP has concluded. The AMTSEC is the subject of a separate UNC Modification Proposal, 0133, and is therefore not described in any more detail here.
2. In the event that an enduring solution is not implemented before the start of the calendar year 2008, it is proposed that the AMSEC auction is held in January 2008, as opposed to February, to allow additional time for the Sold Capacity Transfer Process and AMTSEC auctions ahead of the following Capacity Year.

Sold Capacity Transfer Process:

3. For each month where one or more ASEP is sold out (“Available Month”), each ASEP is classified as one of the following:
 - a. Recipient ASEP – no unsold capacity available; i.e. all capacity made available in the AMSEC auction has been sold (“sold out”)
 - b. Donor ASEP – another ASEP from which sold capacity could be transferred.
4. National Grid NTS will within 2 business days of publication of the results of the AMSEC auction, invite Users to register to be able to participate in the Sold Capacity Transfer Process.
5. If a User desires to participate in the Sold Capacity Transfer Process they must within 2 business days of the invitation to register:
 - a. commit to pay the application fee to National Grid NTS (as stated in National Grid NTS’ Transportation Charging Statement to cover costs of determining Transfer Rates and undertaking the transfer process, and hence will not be refundable)²; and
 - b. State the Recipient ASEP(s) and the months, which must be Available Months, in respect of which the User desires to transfer capacity.
6. For those Users that have successfully registered to participate in the Sold Capacity Transfer Process (“SCTP Users”), National Grid NTS will publish within a further 14 days and with at least 7 days notice prior to the transfer window, an invitation containing:
 - a. the date on which applications to transfer shall be made (the “transfer window”);

² We would envisage that the application fee would be fixed prior to the invitation to participate in the Sold Capacity Transfer Process.

- b. for each Recipient ASEP and each Available Month
 - i. the Transfer Rate for each Donor ASEP (where a “Transfer Rate” between a Recipient and Donor ASEP of e.g. 10:1 or 0.1 means that 10 units at the Donor ASEP is equivalent to 1 unit at the Recipient ASEP);
 - ii. the maximum amount of Monthly NTS Entry Capacity that can be accommodated at that Recipient ASEP (the “Nodal Maximum”);
7. National Grid NTS will determine the Transfer Rates and Nodal Maxima in accordance with the Entry Capacity Transfer Methodology Statement. National Grid NTS is obligated to produce this statement under its GT Licence as a result of acceptance of Ofgem’s Final Proposals for the TPCR.
8. SCTP Users may apply for Monthly NTS Entry Capacity at a Recipient ASEP for any Available Month, which may be met by the transfer of capacity held by such SCTP User from one or more Donor ASEPs in accordance with the allocation methodology described below.
9. An application in respect of an Available Month must state:
 - a. the identity of the User (must have participated in the Transfer Initiation Process);
 - b. the Recipient ASEP;
 - c. the Donor ASEP
 - d. the Available Month;
 - e. the amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity applied for at the Recipient ASEP (in kWh/Day); and
 - f. the minimum amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity which the User is willing to be allocated.
10. It is important to note that this is a transitional process for Users to transfer capacity holdings between ASEPs within one User account. The mechanism to transfer capacity between different User accounts at an individual ASEP already exists. For simplicity, it is important to keep these two processes separate as a Sold Capacity Transfer Process that simultaneously combines the two would necessarily be more complex and costly for National Grid NTS to administer, which would necessarily be reflected in the application fee. Also, the changes required to Gemini are understood to be minimal if the two processes are separated.
11. A User may have, at any one time, only one application in respect of each Donor-Recipient ASEP combination for each Available Month.

12. A User may submit applications, and thereafter withdraw or amend as required during the period 08:00 hours to 17:00 hours on the day of the transfer window.
13. National Grid NTS will reject a bid (and it will therefore not be part of the allocation process described below) where:
 - a. any of the above requirements are not met;
 - b. the User does not have sufficient capacity at the Donor ASEP to meet capacity requested at the Recipient ASEP, based on the Transfer Rate.
14. User's applications will be allocated as follows:
 - a. Where the aggregate of the capacity requested in respect of a Recipient ASEP is less than or equal to the Nodal Maximum at that Recipient ASEP, the transfers requested by all Users will be met in full;
 - b. Where the aggregate of the capacity applied for in respect of a Recipient ASEP is greater than the Nodal Maximum at that Recipient ASEP, the transfers requested by all Users will be reduced pro rata based on the capacity applied for at the Recipient ASEP such that the total transferred to the Recipient ASEP is equal to the Nodal Maximum.
 - c. Where the amount to be allocated in respect of a bid pursuant to the above is less than the minimum amount specified in the capacity application, the application will be disregarded and a revised allocation will be made between remaining applications.
15. National Grid NTS will provide to Users their allocations within 2 Business Days after the day applications were made and within a further 1 Business Day the following information to all Users:
 - a. in respect of each Recipient ASEP for each Available Month, the aggregate amount of Monthly NTS Entry Capacity allocated;
 - b. in respect of each Donor ASEP for each Available Month, the amount by which the NTS Entry Capacity was reduced.

Interaction with AMTSEC Auction

16. For clarity this Modification Proposal should not affect on-going development or eventual operation of a proposed unsold capacity transfer mechanism. However, it is imperative that the Sold Capacity Transfer Process should only occur after the AMSEC auction has concluded and before any AMTSEC auction begins.

(b) **Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**

The Proposer has outlined some key arguments why we feel that this Proposal warrants Urgent status on page 1 of this document. We would like to add the following additional comments in relation to Ofgem’s Urgency criteria. It is stipulated that Urgent modifications are likely to exhibit at least one of the following characteristics:

1. There is a real likelihood of significant commercial impact upon GT’s, Shippers or Customers if a proposed modification is not urgent;

The Proposer believes that if this Proposal were not to be implemented and the new TPCR baselines were implemented by Ofgem into NG’s Licence for 2007 onwards, then it would lead to sterilization of sold (and unsold) baseline levels of entry capacity, resulting in gas being stranded offshore due to insufficient capacity being available at affected ASEPs.

2. Safety and security of the network is likely to be impacted if a proposed modification is not urgent; and

As above, there is a real risk of Users being unable to optimise their own portfolio(s) before winter 2007 begins, with the direct consequence that gas could be stranded offshore due to insufficient capacity being available at affected ASEPs. Equally, it is in the best interests of the market, that Users have the ability to transfer both sold and unsold capacity well before winter 2007. This will enable Users to optimise their portfolio before this critical time for all market participants, and helps to avoid any “last-minute” Proposals or amendments on capacity transfers as we enter winter.

3. The proposal is linked to an imminent date related event.

National Grid NTS have indicated that the 2007 AMSEC auction will now not take place in April due to a later than expected decision from Ofgem on the new TPCR baselines³. It is the Proposer’s view that if an imminent decision from Ofgem on the matter is made, it will enable National Grid to deliver the AMSEC auction in May 2007 and therefore it is necessary that this Modification Proposal is implemented before the AMSEC auction begins to ensure Users have sufficient notice of an impending change to the arrangements for capacity transfers. This will give Users certainty in advance, which will ultimately influence User actions in the capacity auctions. Ordinary regulatory timescales will clearly not deliver the required solution in time for an anticipated May/June SCTP (or following the 2007 AMSEC auction).

³ National Grid open letter “Annual Monthly System Entry Capacity auction for MSEC – Cancellation of Auction”, dated 20/03/2007.

(c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

It is important to note that the Sold Capacity Transfer Process described here is materially unchanged from that presented in draft, but fully developed format to the Transmission Workstream on 01/02/2007. Apart from comments received from National Grid (which are addressed later in this Proposal), there have been no additional changes suggested to the Proposal since the presentation to the industry nearly two months ago. For this reason, the Proposer considers that it is sufficiently developed to go straight to consultation.

2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter’s Licence) of the Relevant Objectives

The Proposer considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in National Grid NTS’s Gas Transporters Licence:

- in respect of Standard Special Condition A11 paragraph 1(a), the Proposal would provide Users at sold out ASEPs the opportunity to seek to transfer sold capacity from other ASEPs. This will result in the avoidance of sterilization of capacity and stranding of gas offshore, and thereby better facilitate the efficient and economic operation of the NTS pipeline system;
- in respect of Standard Special Condition A11 paragraph 1(c) (the efficient discharge of the licensee’s obligations under this licence), the Proposal meets new Licence obligations on National Grid NTS to facilitate the transfer of sold capacity between ASEPs;
- in respect of Standard Special Condition A11 paragraph 1(d), the Proposal would promote the securing of effective competition between relevant Shippers by making more capacity available at ASEPs that have been sold out.
- By giving greater scope to market participants to determine at which ASEPs they most value holding capacity, Users are able to make more efficient choices as to their use of the system and this will in turn help facilitate bringing the most competitively price gas to market.

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

The Proposer believes that this Proposal, if implemented, would enhance security of supply by allowing Users the opportunity to obtain additional capacity at sold out ASEPs well before the start of winter 2007, which would not otherwise be the case.

4 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

(a) The implications for operation of the System:

By optimizing the release of entry capacity, this Proposal provides a greater opportunity to ensure gas supplies can be delivered where demand exceeds the baseline capacity of an ASEP.

(b) The development and capital cost and operating cost implications:

The Proposer believes this Modification Proposal, if implemented, would have some cost implications related to the delivery of the required transitional system changes, operation of the additional process, calculation of the Nodal Maxima / Transfer Rates and publication of information. Nonetheless, the Proposal, if implemented, would avoid the potential sterilization of entry capacity and hence prevent costs being incurred inefficiently.

(c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

The Proposer believes that this Proposal, if implemented, would require National Grid NTS to recover the costs associated with the system development. Operating costs in respect of determination of Transfer Rates and the transitional SCTP are intended to be recovered by application fees to be described in a transportation charging methodology statement.

(d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

The Proposer believes that the Proposal has no impact on the level of contractual risk of each Transporter.

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

The Proposer envisages that this Proposal will have an impact on the UK Link System if it were to be implemented. These transitional arrangements have been specifically developed, however, to minimise the development costs and maximise the use of existing processes and systems (particularly Gemini).

7 The implications for Users of implementing the Modification Proposal, including:

(a) The administrative and operational implications (including impact upon manual processes and procedures)

Users will have greater certainty about the availability of capacity, which will better facilitate the optimisation of their portfolio(s) before winter 2007. No adverse implications are identified.

(b) The development and capital cost and operating cost implications

No adverse implications are identified.

(c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

No adverse implications are identified.

8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

No adverse implications identified.

9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

The Proposer considers that this Proposal:

- Is a straightforward, transitional arrangement, which builds on existing processes in order to minimise costs to the industry, to address a real, significant problem faced by Users in respect of entry capacity availability pre-winter 2007.
- Would allow flexibility for sold capacity to be reallocated to where Users value it most once the baselines have been set in 2007 (and until an enduring solution is implemented in the UNC).
- Would allow Users the opportunity to secure additional capacity, in excess of an ASEP’s baseline, therefore allowing gas flows onto the system that may otherwise be prevented;
- May avoid the potential sterilization of entry capacity and hence costs being inefficiently incurred;
- By allowing a sold capacity transfer process to take place before an unsold capacity transfer process would enable Users to optimise their own portfolios before entering the market to seek additional capacity. This would enable Users to act more

efficiently and removes a limit on market participant’s freedom to trade capacity, which would be caused by a purely unsold capacity transfer mechanism;

- Could be implemented well ahead of next winter.

Disadvantages

The Proposer considers that this Proposal:

- Would introduce a further process into entry capacity arrangements. However, the Proposer considers that the benefit in affording Users the opportunity to secure additional capacity on a competitive, non-discriminatory basis, than would otherwise be the case, justifies the creation of an additional process.

11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

Following feedback received from National Grid both at the Transmission Workstream on 01/02/2007 and in a subsequent meeting with NG, questions were raised about how the proposed SCTP would “prioritise” requests from Users to transfer sold capacity. In response, the Proposer does not consider that this is a material issue, as the application window is a single day, one-off event and if Users in aggregate apply to transfer more capacity than can be accommodated, then the Users requests are scaled back pro-rata.

Furthermore, even if NG receives more applications than anticipated, it would have approximately four months to complete the transfers in Gemini before winter began. The Proposer considers that this is a reasonable demand to be placed on NG NTS.

12 Detail of all other representations received and considered by the Proposer

None received.

13 Any other matter the Proposer considers needs to be addressed

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

E.ON UK requests that the Authority consider the following suggested timetable:

Process	Timeline	Illustrative Dates
Proposal sent to Ofgem requesting Urgency	28/03/2007	28/03/2007
Ofgem grant Urgent status	ASAP	02/04/2007
Proposal issued for consultation	Following Ofgem decision	02/04/2007
Close out of representations	5 business days	10/04/2007 (includes April bank holidays)
Urgent Modification Report issued	2 business days	12/04/2007
Modification Panel decide upon recommendation	sent to Mod Panel 12/04/2007	19/04/2007
Revised Urgent Modification Report issued to Ofgem	2 business days	23/04/2007
Ofgem decision expected		26/04/2007
Proposed Implementation Date		01/05/2007 (to take effect after 2007 AMSEC)

15 Comments on Suggested Text

16 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transition Document

Section(s) IIC & UNC TPD Section B

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