

Modification Report
Amendment to the QSEC Auction Timetable
Modification Reference Number 0189
Version 2.0

This Final Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk () when first used. This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing UNC.*

National Grid NTS's Gas Transporter Licence sets out a baseline amount of capacity (the "NTS TO 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*. The current baseline figures were implemented as part of the Transmission Price Control Review and were applied retrospectively with effect from 1 April 2007. These figures are currently under review as part of Ofgem's 'Transmission Price Control Review – gas entry baseline re-consultation' (Ref 234/07).

Under the current Uniform Network Code* (UNC) arrangements National Grid NTS is obliged to allow Users to apply for Quarterly NTS Entry Capacity for the period Capacity Year* +2 to Capacity Year +16. This is done via a Quarterly NTS Entry Capacity* auction, whereby National Grid NTS issue an auction invitation 28 days prior to the first Annual Invitation* date containing such items as Reserve Prices*, Step Prices* and the Available NTS Entry Capacity* for each ASEP (Please note that this proposal will not affect the provisions of section B2.2.3 of the UNC transportation principle document). The auction is held annually and Users are able to place bids for Quarterly NTS Entry Capacity on one of a maximum of ten invitation dates. National Grid NTS will have two months from the closing date of the auction to inform Users of their successful bids and the amounts of Quarterly NTS Entry Capacity that they are registered as holding.

Currently under existing UNC rules, the QSEC auction must be held between the 1st and 30th of September. National Grid NTS proposes that this period be permanently amended so that the QSEC auction will be held no earlier than the 1st April and no later than the 30th April in future years, beginning with 2008.

The purpose of this proposal is:

- To align the timing of the release of Obligated entry capacity to the Gas Year*

- To provide greater certainty of timely delivery of incremental capacity signalled in the QSEC auction, as National Grid NTS would be able to make full use of the build period prior to capacity delivery.
- To align the timescales for the provision of such signals with the National Grid NTS Transporting Britain's Energy (TBE) consultation process, such that the process would be enhanced.
- To provide an immediate opportunity to Users to bid against any revised Obligated Capacity levels directed by Ofgem through the 'Transmission Price Control Review – gas entry baseline re-consultation' process.

Please note that the above proposal is time dependent. It will require that the 'Transmission Price Control Review – gas entry baseline re-consultation' be concluded, any associated direction given by the Authority under section 23 of the Gas Act 1986 and consent provided by National Grid NTS.

For National Grid NTS to hold the 2008 QSEC auction in April any 2008 revision to the Obligated Capacity levels should be implemented by 1 April 2008. However if there is a minor delay in Ofgem providing Section 23 direction, National Grid NTS believes that it would be possible to run the 2008 QSEC auction in May. This will only be possible where implementation of the revised Obligated Capacity levels is after the 1 April 2008 but on or prior to the 6 May 2008. Please note that this provision is only applicable to the 2008 QSEC auction.

Where any planned revision in 2008 to the Obligated Capacity levels is not implemented by 6 May 2008, this proposal shall not be implemented.

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

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would result in greater certainty that incremental capacity signalled in the QSEC auction would be available by the date requested, thus facilitating the achievement of this relevant objective. This benefit would derive from National Grid NTS making full use of the build period prior to capacity delivery. In addition, National Grid NTS' TBE forecasts are developed in May / June and presented to the industry in July. Hence an earlier QSEC auction would enable the forecasting process to simultaneously review industry data provided through TBE alongside commercial signals received through the QSEC auctions. This would enhance National Grid NTS' forecasting process and eliminate the need for review and potentially update of forecasts after receipt of September QSEC. A one-stage forecasting process would also bring benefits in terms of system planning.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence

Whilst supporting this Proposal, some respondents expressed concern that implementation would break the current link between the release of incremental capacity and the formula year.

Some respondents not supporting implementation were concerned that implementation would lead to the release of funded obligated NTS Entry Capacity that would have been avoided if the substitution obligation for 2009 onwards was in place or clarified.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers;...

Implementation would facilitate the achievement of this relevant objective by aligning the default capacity release date for additional capacity to the start of the Gas Year. In addition for 2008, by moving the QSEC auction to April, Shippers would have an immediate opportunity to bid against any revision to National Grid NTS' obligated capacity levels.

Some respondents, however, pointed out that conducting auctions prior to the clarification of the substitution arrangements would create uncertainty and thus limit Users' abilities to bid effectively.

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

Implementation might enhance security of supply by providing greater certainty that capacity would be delivered by the date signalled in the QSEC auction.

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

a) Implications for operation of the System:

By optimising the release of NTS Entry Capacity*, through potentially an earlier release, implementation would provide a greater opportunity to ensure that gas supplies were delivered where demand was signalled at the earliest opportunity.

b) Development and capital cost and operating cost implications:

Implementation would have no cost implications with respect to system implementation or operating costs.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Not applicable.

d) Analysis of the consequences (if any) this proposal would have on price

regulation:

No such consequences have been identified.

5 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

By reducing the risk of buy-backs, EDFE believed that implementation would reduce National Grid NTS's contractual risk.

6 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

Implementation would have a limited impact on the UK Link system. National Grid NTS has requested that any such impact be assessed by xoserve.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

It is assumed that Users' strategy, administrative and operational processes would be amended if they intended to participate in the QSEC auctions.

Development and capital cost and operating cost implications

No representations have been received on this aspect.

Consequence for the level of contractual risk of Users

Providing Users the opportunity to participate in the QSEC auction soon after the revised obligated levels are established would be expected to affect User's costs.

EDFE pointed out that implementation would be expected to reduce the risk of buy-back and hence Users' share of that risk and would also reduce the risk of gas being stranded at ASEPs.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

EDFE expected that, by reducing the risk of gas being stranded, implementation would be beneficial to consumers.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of

implementing the Modification Proposal

No such consequences have been identified.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Implementation would:

- Align Quarterly NTS Entry Capacity release with the Gas Year;
- Provide greater certainty of incremental capacity being delivered by the date signalled in the QSEC auction ;
- Reduce Users' and National Grid NTS's contractual risk;
- Provide Users with an immediate opportunity to bid against any revised baselines; and
- Align with and enhance the TBE process.

Disadvantages

- The 2008 QSEC auction would be undertaken before the Substitution Obligation comes into force. This could result in National Grid NTS potentially releasing funded incremental obligated entry capacity that may have been avoided if the Substitution Obligation was in place.
- Implementation would require Users to prepare their bidding strategy earlier in the year than is currently the case.
- Implementation would introduce a degree of uncertainty into the 2008 QSEC auction arrangements, due to the auction being contingent on the timing of a potential Ofgem direction related to baselines.

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations were received from the following:

BG Gas Services Limited	(BG)	Qualified Support
British Gas Trading Limited	(BGT)	Qualified Support
EDF Energy	(EDFE)	Support
EDF Trading Markets Limited	(EDFT)	Support
E.ON UK plc	(E.ON)	Qualified Support
National Grid Gas Distribution	(NGD)	Support
National Grid NTS	(NGNTS)	Support
Nexen Energy Marketing London Limited	(Nexen)	Not in Support
RWE group	(RWE)	Support
Scottish and Southern Energy plc	(SSE)	Not in Support
ScottishPower Energy Management	(SP)	Qualified Support
Statoil (UK) Ltd	(STUK)	Not in Support

Thus of the twelve responses received, five supported implementation, four offered qualified support and three were not in support.

Three offered qualified support on the basis that there would be certainty on the baselines prior to the auction taking place. In its response, NGNTS offered assurance on this issue.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirement has been identified.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works has been identified.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

It is recommended that this Proposal be implemented by 01 April 2008, subject to the current Ofgem consultation on baselines being completed and associated direction given by 31 March 2008.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel meeting held on 07 February 2008, of the 10 Voting Members present, capable of casting 10 votes, 8 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommended implementation of this Modification Proposal.

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

Legal Text has been provided and published along side the Final Modification Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters