

CODE MODIFICATION PROPOSAL No 0189
Amendment to the QSEC Auction Timetable
Version 1.0

Date: 12/12/2007
Proposed Implementation Date: 01/04/2008 (see below)
Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this 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.

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

Urgent procedures are not requested.

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.

National Grid NTS seeks for this Modification Proposal to proceed direct to consultation in accordance with Section 7.9 of the modification procedures in the UNC.

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

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

- in respect of Standard Special Condition A11 paragraph 1(a), the Proposal would result in greater certainty that incremental capacity signalled in the QSEC auction will be available by the date requested, thus furthering the economic and efficient operation of the pipeline system. This benefit derives from the fact that National Grid NTS would be able to make 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 enables the forecasting process to simultaneously review industry data provided through TBE alongside commercial signals received through the QSEC auctions. This will enhance National Grid NTS' forecasting process and eliminate the need to review and potentially update forecasts after receipt of September QSEC. Obviously a one-stage forecasting process also brings benefits in terms of system planning.

in respect of Standard Special Condition A11 paragraph 1(d), the Proposal would promote the securing of effective competition between relevant Shippers 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 will have an immediate opportunity to bid against any revision to National Grid NTS' obligated capacity levels

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

National Grid NTS believes that this Proposal, if implemented, may enhance security of supply by providing greater certainty that capacity will be delivered by the date signalled in the QSEC auction.

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

a) The implications for operation of the System:

National Grid NTS does not believe this Proposal, if implemented, would adversely affect the physical operation of the System. By optimizing the release of NTS Entry Capacity*, through potentially an earlier release this Proposal would provide a greater opportunity to ensure gas supplies can be delivered where demand is signalled at the earliest opportunity.

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

National Grid NTS believes this Proposal, if implemented would have no cost implications with regards to system implementation or operating costs.

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:

Not applicable.

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

National Grid NTS believes that the Proposal will have no material 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)

Not applicable.

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

National Grid NTS envisages that this Proposal will have limited impact on the UK Link system if it is implemented. We would request that any such impact be assessed by xoserve.

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

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

National Grid NTS is not aware of any such implications but would welcome responses from Users in this area.

b) The development and capital cost and operating cost implications

National Grid NTS is not aware of any such implications but would welcome responses from Users in this area.

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

National Grid NTS is not aware of any such implications but would welcome responses from Users in this area.

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)

National Grid NTS is not aware of any implications, but would welcome responses from Users in this area.

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

No such consequences are identified.

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

Advantages

National Grid NTS considers that this Proposal:

- would align Quarterly NTS Entry Capacity release with the Gas Year
- would provide greater certainty of incremental capacity being delivered by the date signalled in the QSEC auction
- would provide Users with an immediate opportunity to bid against any revised baselines
- would align with and enhance the TBE process

Disadvantages

National Grid NTS considers that this Proposal:

- would mean that the 2008 QSEC auction would be undertaken before the Substitution Obligation came into force, as was the case for the September 2007 QSEC auction. 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.
- would require Users to prepare their bidding strategy earlier in the year than is currently the case.
- 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 as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

None

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

None.

13 Any other matter the Proposer considers needs to be addressed

None

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

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.

15 Comments on Suggested Text

To be advised

16 Suggested Text

To be advised

Code Concerned, sections and paragraphs

Uniform Network Code

Transition Document

Section(s) UNC TPD Section B

Proposer's Representative

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