

Draft Modification Report
Amendment to the QSEC and AMSEC Auction Timetables
Modification Reference Number 0230/0230AV
Version 2.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Proposal 0230

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 Uniform Network Code* (UNC).*

This Modification Proposal covers three proposed changes to the UNC:

Proposal 0230A

This alternative proposal addresses the restriction of a User's ability to bid for long-term (particularly non-incremental obligated) entry capacity in a QSEC auction, as proposed in Modification Proposal 0230. Under Modification Proposal 0230, Users would need to wait 18 months between QSEC auctions to bid for long-term capacity. This would not have been known when the last QSEC auction was run in 2008 and may not be planned for. Ultimately, this may prevent or restrict gas coming to the UK in the future, which would otherwise have arrived.

To resolve this gap in auctions which would be caused if Modification Proposal 230 were to be implemented, we propose the following long-term entry capacity auction structure:

February 2009 AMSEC (as per current UNC arrangements)

September 2009 QSEC (as per current UNC arrangements)

February 2010 AMSEC (and annually, thereafter with a 18 month transaction period)

March 2010 QSEC (and annually, thereafter)

To achieve this will require the following changes to the UNC::

Both Proposals (except where indicated)

1. Moving the QSEC auction to March; (**0230AV** (from 01/03/2010 onwards))

Proposal 0230

2. Moving the AMSEC auction to June: and
3. Changing the definition of Capacity Year*

Proposal 023AV

2. Retaining the AMSEC in February but shortening the transaction period from the current 2 years to 18 months (to apply from 01/02/2010 onwards)
3. Changing the definition of 'Capacity Year' from the current April – March to October – September. This will mean that the QSEC auction will continue to release capacity for Y+2 to Y+16 (inclusive), but release it from October in the next calendar year for a period of 15 years - rather than from April, as currently.
4. Since the definition of Capacity Year would change, in order to continue to release capacity from April onwards in the AMSEC auction, a further change to Code is required. Currently, UNC states that the AMSEC auction shall release capacity for Y+1 and Y+2. A change to Code is required to state that the AMSEC auction shall release capacity for April - September (inclusive) in Y and for every month in Y+1. As an example, for the February 2010 AMSEC this would release capacity from April 2010 until September 2011. This change would take effect for the AMSEC auction in 2010, onwards.

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for the reasons outlined below.

The current UNC arrangements require that, between the 1 September and 30 September (inclusive) in a Capacity Year*, National Grid NTS offer for sale Quarterly NTS Entry Capacity* for each calendar quarter in Capacity Year* +2 to Capacity Year +16 (inclusive). The UNC also requires that, between 1 February and 29 February (inclusive) in a Capacity Year, National Grid NTS offer for sale Monthly NTS Entry Capacity* for each calendar month in Capacity Year +1 and Capacity Year +2. These two obligations are discharged through the QSEC and AMSEC auctions respectively. The auctions are held in accordance with UNC Transportation Principle Document Section B2.2.3.

National Grid NTS proposes that the periods mentioned above in which Quarterly and Monthly NTS Entry Capacity are offered for sale are changed so that National Grid NTS is instead required to hold the QSEC auction between 1 March and 31 March (inclusive) and the AMSEC auction between 1 June and 30 June (inclusive). This would be a permanent change, to take effect from 1 April 2009..

National Grid NTS believes that it would be beneficial if the QSEC auction were moved to March, which would result in Incremental NTS Entry Capacity* being released from 1 October, because this would:

- Lead to capacity being released at the start of the winter period, when flows increase;
- Provide increased certainty of timely delivery of Incremental NTS Entry Capacity signalled in the QSEC auction, as National Grid NTS would be able to make full use of the final summer build period immediately prior to the capacity delivery date for construction activities; and
- Allow signals received through the QSEC auction to feed into the Transporting Britain's Energy (TBE) consultation, enhancing that process, and also into the proposed enduring exit application/auction processes,

allowing more accurate network analysis and planning.

In order to be able to hold the QSEC auction in March, National Grid NTS believes it is necessary to change the month in which the AMSEC auction is held in order to:

- Avoid the two auction processes overlapping.
- Ensure both auctions are consistent and so both release capacity from 1 October.

Holding the AMSEC auction in August or September would require the 1 October TO Entry Commodity Charge to be set and published prior to the results of the auction being known, thus increasing the likelihood of having to implement over or under recovery mechanisms. Holding the AMSEC auction in July would result in an overlap between the AMSEC auction and the proposed enduring exit application/auction processes. It is therefore proposed that the most appropriate month in which to hold the AMSEC auction is June.

National Grid NTS is required to offer for sale Quarterly NTS Entry Capacity* for each calendar quarter in Capacity Year* +2 to Capacity Year +16 (inclusive) in the QSEC auction and Monthly NTS Entry Capacity* for each calendar month in Capacity Year +1 and Capacity Year +2 in the AMSEC auctions. Currently Capacity Year is defined in the UNC as 1 April to 31 March. In order for the QSEC and AMSEC auctions to release capacity from October, as this proposal intends, National Grid NTS proposes that the definition of Capacity Year is changed to 1 October – 30 September.

It is intended that this proposal be implemented on 1 April 2009. National Grid NTS would like to draw attention to the fact that this would result in an AMSEC auction being held in February 2009 as per the current UNC rules. This Modification Proposal would then take effect on 1 April (if implemented) which would mean that from that point forwards the AMSEC auction would be held in June and the QSEC auction would be held in March, resulting in an AMSEC auction being held in June 2009 (and June from that point onwards) and a QSEC auction being held in March 2010 (and March from that point onwards). National Grid NTS believes this is the most appropriate timetable for transition to the new auction timings, rather than the options outlined below, because:

- Implementing the proposal on 1 January 2009 would result in a requirement to hold a QSEC auction in March 2009, National Grid NTS feels this would not be ideal because:
 - Substitution - according to the timetable currently being followed the Substitution Methodology would not be approved/vetoed until April, creating uncertainty for Shippers who would be bidding in the auction.
 - Credit - it is likely that review group 221 will not have reached a recommendation by that point either, which would create uncertainty around the credit arrangements applying to the auction.
 - IECR - National Grid NTS is currently required by its licence to submit the Incremental Entry Capacity Release Methodology Statement and associated audit to the authority for approval by 1 July in each Formula Year. National Grid NTS believes that it would be advantageous to

seek to change this obligation in order that the date fits more appropriately with a March QSEC timeline. A revised submission date is not essential for the implementation of this proposal, but National Grid NTS would like to explore this further and believes that a March 2009 auction would not provide enough time to pursue the appropriate licence changes.

- Implementing the proposal on 1 April 2009 but holding an additional QSEC auction in September 2009 is not considered a pragmatic solution by National Grid NTS because:
 - This could potentially result in the IECR publication date being incompatible with a September QSEC auction, as it is envisaged that National Grid NTS would have pursued a licence change to the IECR timings by this point in order for the licence change to take effect for a March 2010 QSEC.
 - An additional September 2009 QSEC auction would result in capacity for the period April to September 2011 being made available in the June 2009 AMSEC auction and then being made available again later, in September 2009, in a QSEC auction.
 - A September 2009 QSEC auction would overlap with the proposed enduring exit application/auction processes, which would all be carried out offline next year.

National Grid NTS recognises that there are some disadvantages in relation to this proposal, namely that:

- Some users, particularly storage operators may want the inferred exit capacity associated with Incremental NTS Entry Capacity from the beginning of the summer period rather than the beginning of the winter period.
- Capacity release would be de-linked from the Formula Year*; however this is not considered a disadvantage, as formula calculations are carried out at a daily level and a June AMSEC increases certainty when setting the TO Entry Commodity Charge for 1st October, reducing the likelihood of over or under recovery.
- There will be no QSEC auction in 2009. However the six months' worth of capacity that would have been available in a September 2009 QSEC (if there were no change) that would not be offered in a March 2010 QSEC would be made available in the June 2009 AMSEC. This is demonstrated below.

	Feb 2009 AMSEC	June 2009 AMSEC	Sep 2009 QSEC	Sep 09 default 42 month lead time	Mar 2010 QSEC	Mar 10 default 42 month lead time
Apr-Sept 2009						
Oct-Mar 2009/10						

Apr-Sept 2010						
Oct-Mar 2010/11						
Apr-Sept 2011						
Oct-Mar 2011/12						
Apr-Sept 2012						
Oct-Mar 2012/13						
Apr-Sept 2013						
Oct-Mar 2013/14						
Apr-Sept 2014						
Oct-Mar 2014/15						

Proposal 0230AV

The following table illustrates how these proposed changes would operate in practice:

Auction	Capacity being offered
February 2009 AMSEC	April 2009 - March 2011
September 2009 QSEC	April 2010 - March 2025
February 2010 AMSEC	April 2010 - September 2011
March 2010 QSEC	October 2011 – September 2026
February 2011 AMSEC	April 2011 - September 2012
March 2011 QSEC	October 2012 – September 2027

Suggested Text

Proposal 0230

TPD Section B

Amend paragraph B2.2.1(b) to read as follows:

not earlier than 1 June and not later than 30 June in a Capacity Year, National Grid NTS will invite, and Users may make, applications for Monthly NTS Entry Capacity in respect of each Aggregate System Entry Point for the period specified in paragraph 2.2.2(a);

Amend paragraph B2.2.1(d) to read as follows:

not earlier than 1 March and not later than 31 March in a Capacity Year, National Grid NTS will invite, and Users may make, applications for Quarterly NTS Entry Capacity in respect of each Aggregate System Entry Point for the periods specified in paragraph 2.2.2(b).

GT Section C

Amend paragraph C2.2.1(h) to read as follows:

“Capacity Year” means the period from 1 October in any year until and including 30 September in the following year;

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;

Both Proposals

Implementation would enable utilisation of the final summer build period prior to delivery of Incremental NTS Entry Capacity for construction activities ensuring the timely delivery of that capacity, which reduces the risk of gas being stranded offshore and the risk of investment related buybacks. This would facilitate the achievement of this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the coordinated, efficient and economic operation of

- (i) the combined pipe-line system, and/ or*
- (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

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;

Proposal 0230

Implementation would increase the current overlap period for the same capacity sold in the QSEC and subsequent AMSEC auctions from six months to twelve months, for which potentially different prices would apply. This might be viewed as inconsistent with the requirement of National Grid NTS within Standard Special Condition A5 to develop cost reflective charging methodologies and, if this were the case, would be inconsistent with the achievement of this relevant objective.

Proposal 0230AV

By reducing the AMSEC transaction time to eighteen months, and retaining a February date for these auctions, the current overlap would be eliminated. This would be expected to facilitate the achievement of this relevant objective.

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;*
- (ii) between relevant suppliers; and/or*
- (iii) between DN operators (who have entered into transportation*

arrangements with other relevant gas transporters) and relevant shippers;

Both Proposals

The avoidance of gas being stranded offshore would promote competition between relevant shippers.

Proposal 0230

In terms of implications that might not be expected to better facilitate this relevant objective:

- Introduction of an eighteen month gap between QSEC auctions might affect Users' ability to bring gas to the market to the schedule previously envisaged.
- The current benefit of holding the AMSEC auctions in February, and so providing shippers with the opportunity of shaping their summer capacity holding with the benefit of knowledge of offshore and onshore maintenance plans, would be lost.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;

Both Proposals

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Both Proposals

Implementation might necessitate further industry change such as in pricing methodology or of the Code. This might not be expected to better facilitate the achievement of this relevant objective.

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

Both Proposals

Implementation may benefit security of supply as the increased certainty of timely delivery of capacity would reduce the risk of gas being stranded offshore.

Proposal 0230AV

By giving Users greater opportunity to buy the capacity they need, implementation of this Proposal might increase security of supply compared to

Proposal 0230.

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

a) Implications for operation of the System:

Both Proposals

Operation of the system would not be adversely affected. It could prove beneficial to the operation of the system as timely delivery of capacity would reduce the risk of gas being stranded offshore.

b) Development and capital cost and operating cost implications:

Both Proposals

National Grid NTS would be less likely to use its 7,200 GWh of entry lead-time deferment volume and consequently benefit from up to a £36m increase in allowed revenue from the start of its next price control.

Proposal 0230AV

National Grid NTS would have to run an AMSEC auction in February and a QSEC auction shortly afterwards in March. Although the QSEC auction is clearly a resource intensive process, the AMSEC auction is fully automated and so the resource consequences of implementation are considered to be low.

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

Both Proposals

Not applicable.

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

Both Proposals

None anticipated.

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

Both Proposals

Implementation might reduce National Grid NTS's buy-back 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

Both Proposals

Not applicable

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)

Proposal 0230

It is believed that there are no adverse administrative or operational implications as moving both the QSEC and AMSEC auctions would avoid the two processes overlapping and additionally a timely transition to the new regime has been proposed.

Proposal 0230AV

Implementation would provide operational benefits by giving Users additional opportunities to purchase capacity, compared to Modification Proposal 0230. Although this would mean more auctions for Users, it is considered that Users would prefer to know in advance that they have sufficient opportunities to satisfy their needs rather than not enough. An eighteen month gap between QSEC auctions places unnecessary operational risk onto Users, which may be of greater significance than the potential administrative burden of several auctions close together.

Development and capital cost and operating cost implications

Both Proposals

None identified.

Consequence for the level of contractual risk of Users

Proposal 0230

The introduction of an eighteen month gap between QSEC auctions might increase the level of contractual risk of Users.

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

Proposal 0230

As identified above, some users, including storage operators, may favour capacity release under AMSEC at the start of the summer period, rather than the start of the winter period. However, capacity release at the start of the winter period may be beneficial to the majority of users and it is noted that National Grid NTS' licence provides mechanisms for the early release of capacity where this can be facilitated.

Offshore producers might also be adversely affected by moving the AMSEC auctions from February where NTS maintenance plans have been established for the coming summer months to June where the summer period will have already commenced.

Proposal 0230AV

Implementation would reduce the risk facing all users of the system by avoiding the unnecessary delay in holding long-term capacity auctions, as proposed under Proposal 0230.

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

Both Proposals

None identified.

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

Advantages

Both Proposals

- Utilising the final summer build period prior to delivery of Incremental NTS Entry Capacity for construction activities would aid the timely delivery of that capacity. This would benefit consumers, as the risk of gas being stranded offshore is reduced, along with the risk of investment related buybacks and the associated costs being smeared across shippers.
- Incremental NTS Entry Capacity would be released from the start of the winter period, when flows increase.
- Changing the definition of Capacity Year to 1 October - 30 September would ensure that the capacity made available in both the AMSEC and QSEC auctions would be released from 1 October.

Proposal 0230

- This proposal provides for a timely transition to the new regime, allowing for significant issues currently being debated by industry (such as Review Group 221, Substitution) to be resolved prior to the next QSEC auction being held.
- Moving the AMSEC auction to June would ensure that the QSEC and AMSEC auction processes do not overlap.

Proposal 0230AV

- Would ensure the established auction structure was maintained until March 2010 to ensure that no unnecessary gaps appear between capacity auctions, which might otherwise increase the risks facing Users by reducing and restricting their options to purchase long-term entry capacity (as proposed in Proposal 0230). This would not have been known when the last QSEC

was run in 2008 and may not be planned for.

- Shortening the transaction period for the AMSEC auction would ensure that the QSEC and AMSEC auction processes would not overlap on an enduring basis, as a result of the move of QSEC auction to March. This would also address a potential pricing issue which currently exists, whereby capacity for the same is period is offered in two different auctions at different prices.

Disadvantages

Both Proposals (except where indicated)

- Some users, particularly storage operators, may want the inferred exit capacity associated with Incremental NTS Entry Capacity from the beginning of the summer period rather than the beginning of the winter period.

Proposal 0230

- There would be no QSEC auction in 2009. However the six months' worth of capacity that would have been available in a September 2009 QSEC (if there were no change) that would not be offered in a March 2010 QSEC would be made available in the June 2009 AMSEC.
- Capacity release would be de-linked from the Formula Year*; however this may not be considered a disadvantage, as formula calculations are carried out at a daily level and a June AMSEC increases certainty when setting the TO Entry Commodity Charge for 1st October, reducing the likelihood of over or under recovery.

Proposal 0230A

- Potential resource consequences from holding auctions in subsequent months.

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

Representations have already been received in respect of Proposal 0230 and the substance of these responses has been incorporated in this Draft Report, together with responses in respect of Proposal 0230A, where applicable to Proposal 0230AV.

Written Representations are now sought in respect of this Draft Report.

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

Both Proposals

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

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

Both Proposals

Implementation is not 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.

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

Both Proposals

No programme for works would be required as a consequence of implementing either Modification Proposal.

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

Both Proposals

Provided a decision is received from Ofgem in advance of the proposed implementation dates, either Proposals could be implemented in accordance with the timetable set out in the respective Proposal.

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

Both Proposals

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

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

Both Proposals (except where indicated)

The Modification Panel did not determine that text was required for inclusion

in this Modification Report. However, Suggested Text has been provided as part of Proposal 0230 **but not Proposal 0230AV.**

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters