

CODE MODIFICATION PROPOSAL No 0230A
Amendment to the QSEC and AMSEC Auction Timetables
Version 1.1

Date: 14/01/2009

Proposed Implementation Date: 01/01/2010

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

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:

1. Moving the QSEC auction on a permanent basis from September to March (to apply from 01/03/2010 onwards).
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.

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

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.

As an alternative Modification Proposal, this should proceed on the same timescales as Modification Proposal 0230. Based on discussions at the January Transmission Workstream, it is recommended that this proposal proceeds direct 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

E.ON UK considers that this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in the Gas Transporter's Licence:

- In respect of Standard Special Condition A11 1(a), the efficient and economic operation of the pipe-line system, the Proposal 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.

- In respect of Standard Special Condition A11 1(d), the securing of effective competition between Users, the Proposal would avoid Users having to wait 18 months between long-term capacity auctions (as proposed in Modification Proposal 0230), thereby giving Users greater certainty about their ability to bring gas to the UK in the future and hence reducing risk and uncertainty in the market.

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

E.ON UK believes that this Proposal, if implemented, may benefit security of supply as the increased certainty of timely delivery of capacity reduces the risk of gas being stranded offshore. By giving Users greater opportunity to buy the capacity they need, this Proposal should increase security of supply compared to Modification Proposal 0230.

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

a) The implications for operation of the System:

E.ON UK believes that the 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) The development and capital cost and operating cost implications:

If implemented, this Proposal would mean that National Grid NTS would have to run an AMSEC auction in February and a QSEC auction shortly afterwards after in March. Although the QSEC auction is clearly a resource intensive process, it is our understanding that the AMSEC auction is fully automated and results tend to be delivered within a few days of the close of each round of the auction. On this basis we do not believe this poses a problem for the Transporter. Indeed, it should also be remembered that National Grid NTS runs capacity auctions every day.

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

No such consequences have been identified.

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

Not applicable.

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

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

The Proposal 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 our view that Users would prefer to know in advance that they have sufficient opportunities to satisfy their needs rather than not enough. An 18 month gap between QSEC auctions places unnecessary operational risk onto Users, which we believe is of much greater significance than the potential administrative burden of several auctions close together.

b) The development and capital cost and operating cost implications

None 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 consequences on the level of contractual risk have been 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)

E.ON UK believes that this Proposal would reduce the risk facing all Users of the system by avoiding the unnecessary delay in holding long-term capacity auctions, as proposed under Mod 0230.

E.ON UK also believes that capacity release at the start of the winter period is beneficial to the majority of Users and notes that National Grid NTS' licence provides mechanisms for the early release of capacity where this can be facilitated.

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

E.ON UK has not identified any such consequences.

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

Advantages

E.ON UK believes that the benefits of this Proposal are that:

- By retaining the established auction structure until March 2010, ensures that no unnecessary gaps appear between auctions, which might otherwise increase the risks facing Users by reducing and restricting their options to purchase long-term entry capacity (as proposed in Modification Proposal 0230). This would not have been known when the last QSEC auction was run in 2008 and may not be adequately planned for by Users.
- Changing the definition of Capacity Year and moving the QSEC auction to March ensures that Incremental NTS Entry Capacity is released from the start of the winter period, when flows increase and when the capacity is needed most by Users.
- Shortening the transaction period for the AMSEC auction ensures that the QSEC and AMSEC auction processes do 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.
- Utilising the final summer build period prior to delivery of Incremental NTS Entry Capacity for construction activities aides the timely delivery of that capacity. This may benefit consumers as the risk of gas being stranded offshore is reduced, as is the risk of investment related buy-backs and the associated costs being smeared across Users

Disadvantages

E.ON UK 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. This disadvantage applies equally to Modification Proposal 230.

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)

In the view of the proposer, the issues and concerns which were raised in the consultation process for Modification Proposals 230 & 230A have been addressed in this version (2.0) of the Modification Proposal.

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

Not applicable.

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

The Proposer intends that the new auction structure, transaction periods, and change to the definition of Capacity Year described above would apply to the long-term capacity auction arrangements with effect from the first AMSEC auction held on or after 01/02/2010.

15 Comments on Suggested Text

To be advised.

16 Suggested Text

None provided.

Code Concerned, sections and paragraphs

Uniform Network Code

It is suggested that the relevant sections may be the *Transportation Principal Document* and *General Terms*. In order for National Grid to issue an invitation letter prior to the first auctions to which this proposal pertains, it may be necessary to place Legal Text in the *UNC Transitional Rules Document*.

Proposer's Representative

Richard Fairholme (E.ON UK)

Proposer

E.ON UK