

CODE MODIFICATION PROPOSAL No 0230A
Amendment to the QSEC and AMSEC Auction Timetables
Version 1.0

Date: 26/11/2008

Proposed Implementation Date: 01/03/2010

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

This 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 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.

As a result, we envisage the following entry capacity auction structure:

February 2009 AMSEC (as per current UNC arrangements)

September 2009 QSEC (as per current UNC arrangements)

February 2010 AMSEC (as per current UNC arrangements)

March 2010 QSEC (and annually, thereafter)

June 2010 AMSEC (and annually, thereafter)

To achieve this, we propose the following changes to the UNC:

1. Moving the QSEC auction to March (from 01/03/2010 onwards);
2. Moving the AMSEC auction to June (from 01/03/2010 onwards);
and
3. Changing the definition of Capacity Year

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.

E.ON UK 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 March 2010.

E.ON UK 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 National Grid's Transporting Britain's Energy (TBE) consultation, enhancing that process, and possibly 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, E.ON UK 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.

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, E.ON UK proposes that the definition of Capacity Year is changed to 1 October – 30 September.

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.

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 2010 and a QSEC auction the month after in March 2010. 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 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 run 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, when compared to Modification Proposal 0230. Although this would mean more auctions, 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. Whilst under Modification Proposal 0230 it may be more convenient for National Grid NTS to enjoy an 18 month gap between QSEC auctions, this places unnecessary operational risk onto Users, which we believe is of much greater significance than the potential administrative burden of extra auctions.

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:

- Ensures the established auction structure is 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 Modification Proposal 0230). This would not have been known when the last QSEC was run in 2008 and may not be planned for.
- 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 benefits consumers as the risk of gas being stranded offshore is reduced, as is the risk of investment related buybacks and the associated costs being smeared across Users.
- Incremental NTS Entry Capacity is released from the start of the winter period, when flows increase.

- Moving the AMSEC auction to June ensures that the QSEC and AMSEC auction processes do not overlap.
- Changing the definition of Capacity Year to 1 October - 30 September ensures that the capacity made available in both the AMSEC and QSEC auctions is released from 1 October.

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.
- 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.

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)

Not applicable.

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

Not applicable.

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 and change to the definition of capacity year described above would apply to both QSEC and AMSEC auctions with effect from the first QSEC auction held on, or after, 01/03/2010. To achieve a March 2010 QSEC, an implementation decision on the Modification Proposal will be required well in advance of this date to allow for the required invitation letter and associated notice period for a March 2010 QSEC auction.

15 Comments on Suggested Text

To be advised.

16 Suggested Text

None provided.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document and General Terms

Section(s) B (Transportation Principal Document) and C (General Terms)

Proposer's Representative

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Proposer

E.ON UK