

CODE MODIFICATION PROPOSAL No 0230
Amendment to the QSEC and AMSEC Auction Timetables
Version 2.0

Date: 15/10/2008

Proposed Implementation Date: 01/04/2009

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

a) 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:

1. Moving the QSEC auction to March;
2. Moving the AMSEC auction to June; 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.

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	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						

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 has discussed this issue at Transmission Workstream and has tried to take industry views into account when drafting the Modification Proposal. National Grid NTS now recommends that this proposal be referred to Transmission Workstream on 6th November for further discussion and then proceed to consultation following the Modification Panel meeting on November 20th.

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 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, the avoidance of gas being stranded offshore would promote competition between Shipper Users*.

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 benefit security of supply as the increased certainty of timely delivery of capacity reduces the risk of gas being stranded offshore.

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 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:

No cost implications have been identified.

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)

National Grid NTS believes there are no administrative or operational implications as the proposal to move both the QSEC and AMSEC auctions avoids the two processes overlapping and additionally a timely transition to the new regime has been proposed.

b) The development and capital cost and operating cost implications

National Grid NTS believes there are no development, capital or operating cost implications.

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)

As identified above some users, including storage operators, may favour capacity release at the start of the summer period, rather than the start of the winter period. However National Grid NTS 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

National Grid NTS 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

National Grid NTS believes that the benefits of this proposal are that:

- 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 shippers.
- 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.
- 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.

Disadvantages

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.

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

Proposal submitted to Mod Panel	16/10/08
Proposal discussed at Transmission Workstream	06/11/08
Proposal issued for consultation (subject to Panel approval)	21/11/08
Closeout for representations (10 days)	05/12/08*
Modification Panel decide upon recommendation	18/12/08
FMR submitted to Ofgem	19/12/08
Proposed implementation date	01/04/09

*NB – National Grid NTS proposes that this Modification Proposal proceed to consultation following the November Modification Panel. Given that this proposal will have been discussed at Transmission Workstream on two occasions, National Grid NTS proposes that the proposal be granted a shortened consultation time of 10 days in order to allow the Final Modification Report to be submitted to the December Modification Panel. It is hoped that this will allow a decision of implementation or non implementation to be given early enough in 2009 so as to give certainty to Shipper Users bidding in entry capacity auctions.

15 Comments on Suggested Text

To be advised.

16 Suggested Text

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;

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

National Grid NTS