

Workstream Report
Amendment to the QSEC and AMSEC Auction Timetables
Modification Reference Number: 0230
Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The Transmission Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. Whilst not recommending a shortened consultation period, the Workstream recommends that the Panel convenes to decide its recommendation on implementation in early January 2009. The Workstream does not recommend that the Panel requests the preparation of legal text for this Modification Proposal.

1 The Modification Proposal

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	Blue					
Oct-Mar 2009/10	Blue	Blue				
Apr-Sept 2010	Blue	Blue				
Oct-Mar 2010/11	Blue	Blue				
Apr-Sept 2011		Blue	Grey			
Oct-Mar 2011/12			Grey		Blue	
Apr-Sept 2012			Grey		Blue	
Oct-Mar 2012/13			Grey		Blue	
Apr-Sept 2013			Grey	Grey	Blue	
Oct-Mar 2013/14			Grey	Grey	Blue	Blue
Apr-Sept 2014			Grey	Grey	Blue	Blue
Oct-Mar 2014/15			Grey	Grey	Blue	Blue

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

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

- 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

Implementation may benefit security of supply as the increased certainty of timely delivery of capacity would reduce 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:

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:

None identified.

c) Extent to which 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) Analysis of the consequences (if any) this proposal would have on price regulation:

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

None identified.

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

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)

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.

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

None identified.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers, and 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, 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.

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

None identified.

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

Advantages

- 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.
- Moving the AMSEC auction to June would ensure that the QSEC and AMSEC auction processes do not overlap.

- 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.
- 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

- 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 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.
- 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.

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

None received.

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

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

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

None identified.

15 Proposed implementation timetable (including timetable for any necessary information systems changes)

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 (15 days)	12/12/08
Modification Panel decide upon recommendation	January 2009
FMR submitted to Ofgem	January 2009
Proposed implementation date	01/04/09

This timetable reflects the view of the Workstream that whilst implementation should not be unnecessarily delayed, a full consultation period is required.

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

No such implications have been identified.

17 Workstream recommendation regarding implementation of this Modification Proposal

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