

CODE MODIFICATION PROPOSAL No. xxx
"Introduction of the AMTSEC Auction"
Version 0.2

Date: 07/02/2007

Proposed Implementation Date: 01/10/2007

Urgency: Non Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf)

National Grid NTS seeks this Modification Proposal to proceed direct to consultation in accordance with Section 7.3 of the modification procedures in the UNC.

Nature and Purpose of Proposal (including consequence of non implementation)

Under the current price control (2002-2007), National Grid NTS is obliged under its Gas Transporter Licence to use all reasonable endeavours to offer for sale a baseline level of capacity at each Aggregate System Entry Point (ASEP) in at least one clearing allocation. This provides certainty to Users of the available capacity amounts, but does not allow the flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that has not been sold) to be reallocated to where Users value it most once the baselines have been set at the start of a price control.

A simple example of this issue is where there are two ASEPs using the same part of the system with potentially a high degree of substitutability. Users at one ASEP may not wish to purchase the full amount of baseline capacity, whereas Users at the other ASEP may wish to purchase capacity above the baseline set for that ASEP. Where this occurs within the constrained period, Users that desire capacity above the baseline level have to rely upon National Grid NTS releasing non-obligated capacity. This is typically not possible without creating significant buy back risk where National Grid NTS still has an obligation to sell the remaining unsold capacity at the other ASEP.

[Ofgem have therefore proposed as part of their Final Proposals for the Transmission Price Control Review (TPCR) that an obligation is placed on National Grid NTS to take all reasonable steps to facilitate, where requested, the transfer of capacity between ASEPs. National Grid NTS has accepted in principle Ofgem's Final Proposals.]

It is therefore proposed that an amendment is introduced within the UNC that allows the transfer of capacity between ASEPs in the constrained period as described below: -

Transfer Process Initiation

1. In the event that any ASEP sells out for any month as part of the Annual Monthly System Entry Capacity (AMSEC) auction in Capacity Year Y (i.e. in the following two Capacity Years (Apr Y+1 – Mar Y+2), National Grid NTS may hold another pay as bid auction (the Annual Monthly Transfer System Entry Capacity “AMTSEC” auction) to facilitate the transfer of unsold entry capacity. The AMSEC auction will therefore be the last opportunity for shippers to seek to purchase any unsold baseline level of capacity at an ASEP before it is made available to shippers for purchase at other sold out ASEPs.
2. It is proposed that the AMSEC auction is held in January as opposed to February to allow additional time for AMTSEC auctions ahead of the following Capacity Year.
3. For each month where one or more ASEP is sold out (“Available Month”), each ASEP is classified as one of the following
 - a. Recipient ASEP – no unsold capacity available (“sold out”)
 - b. Donor ASEP – unsold capacity still available (“not sold out”)
4. National Grid NTS will publish within [2] days of publication of the results of the AMSEC auction the Recipient and Donor ASEPs and levels of unsold capacity for each Available Month and invite Users to register to be able to participate in the AMTSEC auction. If a User desires to participate in the AMTSEC auction they must within [10] days of the publication of the Recipient and Donor ASEPs:
 - a. commit to pay the application fee (as stated in National Grid NTS’ Transportation Charging Statement to cover costs of determining Transfer Rates and hence will not be refundable) – this will entitle such Users to see the auction invitation information, as described below, and place bids in the AMTSEC auction;
 - b. state the [minimum and] maximum amount (“Registered Maximum Amount”) of capacity desired to be transferred to a Recipient ASEP for each Available Month.

AMTSEC invitation

5. For those Users that have successfully registered to participate in the AMTSEC auction (“AMTSEC Users”), National Grid NTS will publish [14] days prior to the AMTSEC auction, an invitation for the first auction round containing:
 - a. the date on which the first round of the AMTSEC auction will be undertaken;
 - b. for each Recipient ASEP and each Available Month
 - i. the Transfer Rate for each Donor ASEP (where a “Transfer Rate” between a Recipient and Donor ASEP of e.g. 10:1 or 0.1 means that 10 units at the Donor ASEP is equivalent to 1 unit at the Recipient ASEP);
 - ii. the maximum amount of Monthly NTS Entry Capacity that can be accommodated at that Recipient ASEP (the “Nodal Maximum”);

iii. the Reserve Price applicable to such Recipient ASEP (as published in National Grid NTS’ Transportation Charging Statement)

c. for each Donor ASEP and each Available Month

i. the quantity of Unsold NTS Entry Capacity

ii. the quantity of Unsold NTS Entry Capacity to be made available in the auction round.

Table 1. Example Invitation Information for a Month where two ASEPs Sold Out

	Total Unsold (GWh)	Unsold made available in auction round (GWh)	Transfer Rates	
			Recipient ASEP 1	Recipient ASEP 2
Donor ASEP 1	20	10	1	0.5
Donor ASEP 2	16	8	0.3	0.2
Donor ASEP 3	30	15	0:001	0:05
Donor ASEP 4	10	5	0	0.001
;			;	;
Donor ASEP 20	40	20	0	0
Nodal Maxima (GWh)			10	10

6. National Grid NTS will determine the Transfer Rates, Nodal Maxima and the amount of unsold capacity to be made available in each auction round in accordance with the Entry Capacity Transfer Methodology Statement. The Nodal Maxima and limitations on the amount of unsold capacity released in each round, combined with User information in respect of the amount of desired capacity obtained through the AMTSEC application process, allow the use of a single Transfer Rate while ensuring that there is minimal change in the expected risk of entry capacity buy backs as a result of the potential transfers in unsold capacity. [This also requires that in each auction round more than [90%] of the amount of unsold capacity at each Donor ASEP made available is transferred as a result of the auction.]

AMTSEC auction bids

7. AMTSEC Users may bid for Monthly NTS Entry Capacity at a Recipient ASEP for any Available Month, which may be met by the transfer of capacity from one or more Donor ASEPs in accordance with the allocation methodology described in the next section.
8. A bid in respect of an Available Month must state:
 - a. the identity of the User;
 - b. the Recipient ASEP;
 - c. the Available Month;
 - d. the amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity applied for (in kWh/Day);
 - e. the minimum amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity which the User is willing to be allocated; and
 - f. the bid price, which must not be less than the Reserve Price.
9. A User may have, at any one time, in aggregate up to but not more than [5] monthly capacity bids in respect of each Recipient ASEP for each Available Month.
10. A User may submit bids, and thereafter withdraw or amend as required, before 08:00 hours or after 17:00 hours for an auction round.
11. National Grid NTS will reject a bid where any of the above requirements are not met or acceptance of the bid would result in the User exceeding its credit position, and will not be part of the allocation process described below.

Bid Allocation Process

12. User's bids will be allocated as follows:
 - a. All capacity bids submitted in relation to all Recipient ASEPs in respect of each Available Month will be ranked in order of Unit Bid Price per Donor ASEP (the highest price ranking first) i.e. one bid stack is created for each Available Month:
 - i. The "Unit Bid Price per Donor ASEP" is determined by multiplying the Transfer Rate for that Donor-Recipient ASEP combination by the bid price at the Recipient ASEP (e.g. if a bid of 50p/kWh was made a Recipient ASEP A which had a Transfer Rate of 0.5 with Donor ASEP B, then the Unit Bid Price for Donor ASEP B would be 25 p/kWh). Where there is more than one Donor ASEP with a non-zero Transfer Rate, this means that a bid at a Recipient ASEP will have more than one translated bids. If one of the translated bids is fully accepted then the other equivalent translated bids are removed from the allocation process;

- ii. The “Translated Recipient-Donor Bid Amount” is determined by dividing the bid amount at the Recipient ASEP by the Transfer Rate for that Donor-Recipient ASEP combination (e.g. if a bid of 1 GWh was made a Recipient ASEP A which had a Transfer Rate of 0.5 with Donor ASEP B, then the Translated Recipient-Donor Bid Amount for Donor ASEP B would be 2 GWh).
- b. Monthly NTS Entry Capacity will be allocated to the highest ranked translated bid first, and then to each subsequent ranked bid in accordance with the following process;
- i. Treatment of transfers greater than remaining amount at a Donor ASEP - where the Translated Recipient-Donor Bid Amount exceeds the amount of remaining unsold capacity at the Donor Node (taking into consideration any previous capacity transfers), the User will (subject to following paragraphs) be allocated an amount equal to the remaining unallocated amount at the Donor Node multiplied by the Transfer Rate for that Donor-Recipient ASEP combination, and no further transfers shall be made in respect of that Donor ASEP;
 - ii. Treatment of transfers greater than remaining amount at a Donor ASEP where equal priced bids - where two or more bids in respect of any Recipient ASEP translate to the same Unit Bid Price for transfer from the same Donor ASEP, and the amount of Translated Recipient-Donor Bid quantity applied for in aggregate under such bids exceeds the remaining unallocated amount at the Donor ASEP, the remaining unallocated amount will (subject to following paragraphs) be allocated pro rata the amounts applied for in each such bid, and no further transfers shall be made in respect of that Donor ASEP;
 - iii. Treatment of transfers resulting in greater than Nodal Maximum at a Recipient ASEP - where the bid quantity exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Maximum at that Recipient Node (taking into consideration any previous capacity transfers to that Recipient Node), the User will (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount, and no further allocation shall be made in respect of that Recipient ASEP;
 - iv. Treatment of transfers resulting in greater than Nodal Maximum at a Recipient ASEP where equal priced bids -where two or more bids in respect of the same Recipient ASEP translate to the same Unit Bid Price, and the amount of Monthly NTS Entry Capacity applied for in aggregate under such bids exceeds the remaining unallocated amount within the Nodal Maximum at that Recipient Node, the remaining unallocated amount will (subject to the following paragraphs) be allocated pro rata the

amounts applied for in each such bid, and no further allocation shall be made in respect of that Recipient ASEP;

- v. Allocated amounts less than User specified minimum amount -where the amount to be allocated in respect of a bid pursuant to the above is less than the minimum amount specified in the capacity bid, the bid will be disregarded and a revised allocation will be made between remaining equal price bid(s) (under paragraph ii or iv above), or (as the case may be) an allocation made in respect of the next priced bid.
 - vi. Allocated amount less than minimum eligible amount - where the amount to be allocated in respect of any bid is less than the minimum eligible amount (as specified under TPD Section B), National Grid NTS will not accept that capacity bid.
 - vii. Allocated amount more than Registered Maximum Amount - where the amount to be allocated in respect of any bid would result in the aggregate amount to be allocated to the relevant User for the Available Month and Recipient Node to be more than the User's Registered Maximum Amount, the User will be allocated its Registered Maximum Amount.
 - viii. [Transferred amounts more than [90%] of Unsold Capacity - where the amount to be allocated in respect of all bids would result in less than [90%] of the unsold capacity made available in that auction round at [all/each] Donor ASEPs being transferred, then no bids will be allocated. This would prevent the published Transfer Rates leading to increased risk of buy back costs.]
- c. In the above allocation process, capacity will be transferred from the relevant Donor ASEP in accordance with the following:
- i. For each allocated bid amount at a Recipient ASEP, the amount of unsold capacity at the relevant Donor ASEP will be reduced by the amount determined by multiplying the Transfer Rate for that Donor-Recipient ASEP combination by the allocated bid quantity. Any such transferred amounts are therefore deemed to have been sold for the purposes of National Grid NTS' obligations under its GT Licence to make available baseline amounts.
 - ii. Where there are two or more potential Donor ASEPs that could satisfy a bid at a Recipient ASEP (i.e. they have the same Unit Bid Price), capacity will be transferred from the Donor ASEP with [lowest Reserve Price/most unsold capacity] first (with the Reserve Price as applied in the previous AMSEC auction). Where one or more such Donor ASEPs have the same [Reserve Price/amount of unsold capacity], such Donor ASEPs shall be ranked equally and the amount of unsold capacity reduced proportionally between them.

Results Publication

13. National Grid NTS will provide to Users their allocations within two Business Days after completion of the auction and thereafter within a further one Business Day the following information to all Users:
- a. in respect of each Recipient ASEP for each Available Month:
 - i. the highest, lowest and weighted average price of all accepted capacity bids;
 - ii. the aggregate amount of Monthly NTS Entry Capacity allocated;
 - iii. the total number of Users that submitted capacity successful bids;
 - iv. the total number of Users that submitted capacity unsuccessful bids;
 - b. in respect of each Donor ASEP for each Available Month:
 - i. the amount by which the Unsold NTS Entry Capacity was reduced; and
 - ii. the remaining amount of Unsold NTS Entry Capacity.

Further Auction Rounds

14. In the event that there remains any unsold capacity for any Available Month, then steps 4 onwards are repeated. National Grid NTS will issue the invitation within [2 weeks] of the publication of User allocations after the previous auction round to allow time for calculation of new Transfer Rates.
15. In the event that any further auction round would not be undertaken within 3 Business Days of the end of March of Capacity Year Y, then the transfer process would be undertaken in respect of the period M+1 to Y+2 (where M is the month in which the round of the AMTSEC auction is undertaken).
16. There will be a maximum of [4] rounds of the AMTSEC auction.

Transitional Arrangements

17. For 2007, it is proposed that the following transitional arrangements are implemented
- a. Within [5] business days of implementation of this Proposal, were it to be approved, National Grid NTS would request whether any User desired to participate in the 2007 AMTSEC auction. From this date onwards, the enduring time periods would be utilised.

National Grid NTS believes that if this Proposal were not to be implemented then it could lead to sterilization of baseline levels of entry capacity, and possibly result in gas being stranded offshore due to insufficient capacity being available at the affected ASEPs.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

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 paragraph 1(a), the Proposal would provide Users at sold out ASEPs the opportunity to seek to procure unsold capacity at other ASEPs. This could result in the avoidance of sterilization of capacity and stranding of gas offshore, and thereby better facilitate the efficient and economic operation of the NTS pipeline system;
- in respect of Standard Special Condition A11 paragraph 1(c) (the efficient discharge of the licensee's obligations under this licence), the Proposal would meet the proposed Licence obligation on National Grid NTS [to take all reasonable steps to facilitate, where requested, the transfer of capacity between ASEPs];
- in respect of Standard Special Condition A11 paragraph 1(d), the Proposal would promote the securing of effective competition between relevant Shippers by use of a pay-as-bid auction for the allocation of any unsold capacity.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

a. Proposed implementation timetable

b. Proposed legal text

c. Advantages of the Proposal

National Grid NTS considers that this Proposal:

- would allow flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that has not been sold) to be reallocated to where Users value it most once the baselines have been set at the start of a price control without the User having to indicate where it desires the capacity to be transferred from;
- allow Users the opportunity to secure additional capacity, in excess of an ASEPs baseline, therefore allowing gas flows onto the system that may otherwise be prevented;

- may avoid the potential sterilization of entry capacity and hence costs being inefficiently incurred;
- could be implemented ahead of next Winter.

d. Disadvantages of the Proposal

National Grid NTS notes that this Proposal, if implemented:

- would introduce a further auction into entry capacity arrangements. However, National Grid NTS considers that the benefit in affording Users the opportunity to secure additional capacity on a competitive, non-discriminatory basis, than would otherwise be the case, justifies the creation of an additional auction;
- may reduce the unsold level of capacity available at the Donor ASEP(s) in the within year entry capacity auctions. It is considered that this is a direct consequence of the introduction of the capacity transfer obligation on National Grid NTS rather than the details of this UNC Modification Proposal;
- may encourage Users to purchase unsold capacity in the AMSEC auction to solely prevent its transfer to other ASEPs. However this is potentially unavoidable for the next AMSEC auction without further delay (post implementation of UNC Modification Proposal 0129) which would be undesirable. If trading mechanisms are also introduced, then this will allow Users to seek to obtain such purchased amounts for use at other ASEPs.

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

National Grid NTS believes that this Proposal, if implemented, may enhance security of supply by allowing Users the opportunity to obtain additional capacity at sold out ASEPs than would otherwise be the case.

f. The implication for Transporters and each Transporter of implementing the Modification Proposal, including

i. implications for operation of the System

National Grid NTS does not believe this Proposal, if implemented, would adversely affect the operation of the System. By optimizing the release of entry capacity, this Proposal would provide a greater opportunity to ensure gas supplies can be delivered where demand is in excess of an ASEPs baseline capacity.

ii. development and capital cost and operating cost implications

National Grid NTS believes this Proposal, if implemented, would have cost implications related to the delivery of the required system changes, operation of the additional auction, calculation of the Nodal Maxima and publication of information.

In addition, the Proposal, if implemented, may avoid the potential sterilization of entry capacity and hence costs being inefficiently incurred.

iii. extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs

National Grid NTS believes that this Proposal, if implemented, would require it to recover the costs associated with the system development. Operating costs in respect of determination of Transfer Rates and undertaking AMTSEC auctions are intended to be recovered by an application fee to be described in the Transportation Charging Methodology.

iv. analysis of the consequences (if any) this proposal would have on price regulation

National Grid NTS does not believe this Proposal, if implemented, would have any consequences on price regulation.

g. 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

National Grid NTS believes that the Proposal has no impact on the level of contractual risk of each Transporter.

h. 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

National Grid NTS envisages that this will have an impact on the UK Link System if this Proposal were to be implemented.

i. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

National Grid believes that this Proposal would not increase the level of contractual risk on Users.

Code Concerned, sections and paragraphs

UNC Transition Document, Part IIC
UNC TPD Section B

Proposer's Representative

Andrew Fox (National Grid NTS)

Proposer

Paul Roberts (National Grid NTS)

Signature

DRAFT