

**Modification Report**  
**Extension of the QSEC auction timetable for 2005**  
**Modification Reference Number 0030**  
Version 2.0

This Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

**1. The Modification Proposal**

The Proposer stated that :

“It is proposed that the time period for undertaking the 2005 Quarterly NTS Entry Capacity auction (“QSEC auction”) be extended from 1 September 2005 - 30 September 2005 to 1 September 2005 - 30 November 2005.

The purpose of this Proposal is to provide additional flexibility in the timescales for undertaking the QSEC auction such that the conclusions of Ofgem’s consultation on the Unit Cost Allowances (UCAs) for System Entry Points (“Gas transmission – new NTS entry points, reserve prices in auctions and unit cost allowances (UCAs) – Consultation document”, May 2005, 139/05) may be known prior to issuing the QSEC auction invitation. In accordance with Transportation Principal Document Section B2.2, this invitation must be issued at least 28 days prior to commencing the QSEC auction, which in turn is conducted over a period of 10 consecutive business days during September. This means that the annual QSEC invitation must be issued by 19th August without changes to the auction timetable. This Proposal therefore seeks to cater for the following:

- Ofgem’s final proposals on UCAs are not available by 19th August 2005; and/or
- Ofgem’s final proposals require further industry consultations to establish new auction prices for System Entry Points; and / or
- any other related circumstance that would affect auction prices,

without impacting the timescales for undertaking the annual and rolling Monthly NTS Entry Capacity that follow the QSEC auctions. It is recognised that further changes to auction timescales for Capacity Year 2005/06 may be required dependant on the Ofgem’s final proposals on entry UCAs.

If this Proposal were not implemented in the timescales identified, Transco NTS would be obliged to undertake the QSEC auctions in September potentially without clarity on entry UCAs or in the knowledge that UCAs are to be revised.”

**2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

The Proposer stated that :

“Transco NTS considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

- in respect of paragraphs A11.1(a), the Proposal would enable auction participants to provide informed investment signals to Transco NTS, which would better facilitate the efficient and economic operation of the NTS pipeline system; and
- in respect of paragraph A11.1(d)(i), the Proposal ensures that the QSEC auctions can be held as close as possible to the existing UNC provisions for holding QSEC auctions and, by ensuring that these auctions are held in a timely fashion, facilitate the securing of effective competition between shippers.”

The Proposer also stated that :

“..this Proposal enables auction participants to better understand the investment signals they provide to Transco NTS to better facilitate its broader obligations to develop an efficient and economic pipeline system;”

In its response to the Draft Modification Report, TNTS states that “*If Transco NTS had to undertake the QSEC auction while users were uncertain on future UCAs, Transco NTS considers that this could affect the strength of any investment signals it may receive through the auction.*”

GdF expressed agreement with the proposer that this proposed modification would better facilitate GT Licence standard condition A11.1(a) “to better facilitate the efficient and economic operation of the NTS pipeline” through receiving clear investment signals. Also, it suggested that the Proposal would better facilitate A11.1(d)(i) (“facilitate the effective competition between shippers”) as a lack of clarity on UCAs could otherwise undermine competition in auctions.

On noting Transco’s outline of the advantages and disadvantages of this proposal, SGD suggested that “*the advantages of enabling better understanding by shippers would ensure that NGT was able to fulfil the Transco NTS licence obligations to develop an efficient and economic pipeline system.*”

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

The Proposer stated that no such implications would be expected.

GdF, in its response to the Draft Modification Report, argued that any delay would risk delaying the arrival of new gas supplies to the UK with potentially unfavourable consequences for customers and for security of supply.

No adverse implications in respect of industry fragmentation have been identified.

**4. The implications for Transporters and each Transporter of implementing the Modification Proposal , including**

**a) implications for operation of the System:**

The Proposer stated that it did not believe this Proposal, if implemented, would adversely affect the operation of the System.

**b) development and capital cost and operating cost implications:**

The Proposer suggested that this Proposal, if implemented, would have negligible cost implications.

**c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

The Proposer stated that it “does not believe this Proposal, if implemented, requires it to recover any additional costs.”

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

The Proposer has not identified any such consequences.

**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**

The Proposer stated that it “believes that the Proposal reduces the contractual risk that it is exposed to by providing additional limited flexibility in the QSEC auction arrangements for 2005 to accommodate wider industry developments.”

BGT in its response to the Draft Modification Report stated that *“the delay in the LTSEC allocation process, caused by this regulatory uncertainty, should not delay the availability of any incremental capacity indicated within this year’s process.”*

**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**

The Proposer does not envisage any such consequences.

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

The Proposer has not identified any such implications.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

No such implications have been identified.

**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**

No such consequences have been identified.

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

The Proposer has identified the following :

Advantages

- it would enable the 2005 QSEC auctions to proceed in a timely fashion once there is clarity in the parameters that are to be used for setting auction prices;
- it would enable auction participants to better understand the investment signals they provide to Transco NTS to better facilitate its broader obligations to develop an efficient and economic pipeline system;
- it would postpone making any further changes to the broader auction framework, should the Authority's decisions require this, until there is a clear case to do so.

Disadvantages

- Implementation of this Proposal would increase the uncertainty in the timing of the next QSEC auctions. However, the Proposer suggested that this would be a necessary step following the Authority's decision to potentially revise the UCAs for existing entry points. Furthermore, the Proposal sought to limit this uncertainty by retaining a finite time period in which the QSEC auctions for existing System Entry Points must be held and that these revised arrangements would only be in place for the 2005/06 Capacity Year.
- In the event that this Proposal were to be implemented and the auctions were undertaken beyond September, there may be an impact on the timescales from which Transco NTS would allocate incremental NTS Entry Capacity, particularly if the bids received materially differ from the central case assumptions contained within the Transporting Britain's Energy document.

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

Representations were received from the following 9 parties :

British Gas Trading	BGT	Support
E.ON UK	EON	Support
Gaz de France	GdF	Qualified Support
RWE Npower	RWE	Not in Support
Shell Gas Direct	SGD	Support
Scottish and Southern Energy	SSE	Qualified Support
Total Gas & Power	TGP	Support
Total E&P UK	TEP	Support
Transco NTS	TNTS	Support

TGP advised that its response had also been submitted on behalf of TEP.

### General

Seven respondents (GdF, EON, RWE, SGD, TGP, SSE, TNTS) provided general supportive comments to the justification for the Proposal.

EON stated that *“The changes indicated in Ofgem’s consultation on Unit Cost Allowances (UCAs) for System Entry Points, create a significant degree of risk to all stakeholders. This proposal provides a practical means with which to minimise some risk”*. EON supported the Proposer’s comments by adding *“this proposal would enable the 2005 QSEC auctions to proceed in a timely fashion once there is clarity in the parameters that are used for setting auction prices.”* EON also suggested that in light of the Ofgem UCA consultation, the only practical option was to ensure all UCAs were reviewed before the next LTSEC auctions, to represent appropriate estimates of LRICs and to minimise regulatory risk by further prolonging any uncertainty.

GdF stated that in light of Ofgem’s consultation on UCA’s *“..it is prudent to extend the auction window to 30 November 2005.”*

TNTS states that *“The proposed change in the end date for this years QSEC auction would provide the flexibility to allow the QSEC auction to proceed as soon as possible, but without impacting the timescales for undertaking the annual and rolling Monthly NTS Entry Capacity auctions that follow the QSEC auction. Transco NTS considers that this is the most appropriate change to the auction timetable until Ofgem’s conclusions on UCAs for System Entry Points are known.”*

SGD suggested that time would need to be taken to fully consider the responses to the Ofgem consultation and, if this meant a necessary delay to the timetable of the auctions, this would need to be accommodated. Whilst in support of the proposal, SGD advised that it should not be assumed that it accepted that the approach of long term auctions to network investment decisions to be adequate or reliable.

RWE explained that its lack of support for the proposal was as a result of its view that the entry regime and methodology for setting reserve prices (by way of the UCA review) should not be amended during Transco’s formula period. It suggested that any fundamental methodological changes would, in its view, undermine confidence in the arrangements. RWE further stated that *“we do not support adjusting current UCAGs for the existing entry point and on this basis see no need to delay the auctions planned for September”* and *“Any changes to*

*the QSEC and general auction arrangements should be managed within Transco's upcoming NTS price control review"*

SSE commenting on the proposal stated that *"this appears to be a Modification worthy of support"*. However, it expressed only qualified support for the proposal as, in light of the two urgent proposals (0036 "Limitation of incremental capacity offered in QSEC auctions" & 0037 "Limitation on offering for sale unsold capacity") that have been raised, they believed it more important that the earliest start date, i.e. 1st September 2005, was deferred to enable parties sufficient time to consider any changes to the auction framework, be they as a result of UCAG changes following Ofgem's recent consultation or amendments to UNC rules.

*The SME advises that Transco NTS under the UNC is obliged to provide a 28 day notice period before the start date of the LTSEC auction, and this takes the form of the auction invitation letter.*

TNTS advised that following the raising of the Modification Proposal, further information in respect of the next release of the Gemini system had come to light that provided clarity on the availability of Gemini later in 2005. It indicated that a number of UK Link approved outages had now been scheduled to accommodate the Energy Balancing & Exit releases of Gemini. It was now apparent that it would be unrealistic to hold the QSEC auction in the first half of October 2005, were this Proposal to be implemented. TNTS suggested that this would not affect the Proposal, but would affect the actual dates upon which Transco NTS could conduct the 2005 QSEC auction.

#### Investment Lead Times

Three respondents (TGP, BGT, EON) expressed concern about the possible impact on the timescales within which Transco would allocate incremental NTS entry capacity.

BGT stated that *"the delay in the LTSEC allocation process, caused by this regulatory uncertainty, should not delay the availability of any incremental capacity indicated within this year's process. We suggest that Ofgem and Transco NTS review the current UNC process to ensure that where aggregate bids meet the criteria for incremental capacity at any location, unless there are exceptional circumstances, that capacity is available at 1 October 2008."* BGT requested that any necessary limitation in the availability of incremental capacity at 1 October 2008 is made clear within the LTSEC auction invitation.

GdF argued that any delay would risk delaying the arrival of new gas supplies to the UK with potentially unfavourable consequences for customers and for security of supply. It further argued that potential delays to incremental NTS Entry Capacity availability for October 2008 could significantly affect the supply/demand balance for Winter 2008/9, winter supplies should be of paramount importance. It is for these concerns that GdF qualifies its support.

TGP suggested that any potential impact on the investment lead-times could be mitigated by holding the auctions as soon as practically possible after Ofgem have made their decision rather than waiting until the end of the extended three month period.

#### Ofgem UCA

Although not a consultation question within the DMR 0030, in addition to RWE's comments given above, three respondents (TGP, BGT, EON) comment at length on their concern and disappointment with the review of the UCAs and the uncertainty and lack of stability this has created with the long term auctions.

**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 for this purpose.

**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 such proposed change.

**14. Programme for works required as a consequence of implementing the Modification Proposal**

The Proposer has not identified any programme of works.

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

The Proposer has suggested that this Proposal should be implemented on 12 August 2005.

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

No such implications have been identified.

**17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

At the Modification Panel meeting held on 4 August 2005, all ten Voting Members were in favour of the implementation of this Modification Proposal.

**18. Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

**19. Text**

**18. Proposed Draft Legal Text**

In Transition Document - Part IIC – Transition Rules,

*Insert the following as new paragraph 1.1, and renumber existing paragraphs accordingly:*

**"1.1 TPD Section B: System Use and Capacity**

**1.1.1 TPD Section B2.2.1(d)**

- (a) Notwithstanding TPD Section B2.2.1(d) (which requires that Transco NTS will invite, and Users may make, applications for Quarterly NTS System Entry Capacity during the month of September in each Capacity Year), for the Capacity Year commencing on 1 April 2005 Transco 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 TPD Section B2.2.2(b) no earlier than 1 September 2005 and no later than 30 November 2005."



Subject Matter Expert sign off:

*I confirm that I have prepared this modification report in accordance with the Modification Rules.*

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive**

Signature:

Date :