

**Modification Report**  
**Delay to the 2007 AMSEC Auction**  
**Modification Reference Number 0129**

Version 2.0

This Modification Report is made pursuant to Rule 10.1 of the Modification Rules and follows the format required under Rule 10.2.

**Circumstances Making this Modification Proposal Urgent:**

In accordance with Rule 10.1.2 Ofgem agreed that this Modification Proposal should be treated as Urgent because it considered that the proposal is linked to both:

- a real likelihood of significant commercial impact upon GTs, shippers or consumers if the proposal is not granted urgency. The impact of not implementing the changes in a timely manner could be an increase in buyback costs. National Grid Gas (NGG) would be exposed to fifty percent of the first £36m of any such costs and shippers (directly) and consumers (if the costs are passed through) to any costs borne by NGG; and
- an imminent date related event, the date being that of the February Annual Monthly System Entry Capacity ('AMSEC') auctions. These auctions will relate to the sale of capacity from the 1<sup>st</sup> April 2007. It is anticipated that NGG's capacity release obligations will change on and from the 1<sup>st</sup> April 2007 as part of the anticipated changes to NGG's licence to give effect to the agreed<sup>1</sup> proposals for the transmission price control review. These changes are relevant to the February auctions.

<sup>1</sup> NGG indicated its agreement to Ofgem's proposals on 15<sup>th</sup> December 2006.

**Procedures Followed:**

The procedures agreed with Ofgem for this Proposal were:

Ofgem grant urgent status	10/01/07
Proposal issued for consultation	10/01/07
Close out of representations	12/01/07
Urgent Modification Report Issued	15/01/07
Ofgem decision expected	17/01/07

In addition, Ofgem asked for a Panel recommendation to be provided, and an extra Panel meeting has been arranged for 16/01/07 to accommodate this.

**1. The Modification Proposal**

The Proposal was as follows:

“National Grid NTS's Transporter Licence sets out a baseline amount of capacity (the “NTS SO Baseline Entry Capacity”) which National Grid NTS is required to make available to Users at each Aggregate System Entry Point (ASEP) for each Gas Day in a Formula Year. Under the current UNC arrangements, National Grid NTS is obliged to release any Unsold NTS Entry Capacity (i.e. the amount of the NTS SO Baseline Entry Capacity that has not been sold in previous auctions for a Gas Day) in the various entry capacity auctions.

Ofgem has proposed as part of its Final Proposals for the Transmission Price Control Review (“Transmission Price Control Review: Final Proposals”, Ref 206/06) that the baseline amounts are amended effective from 1 April 2007, consistent with its view of the expected physical capability of the system. In addition, Ofgem has proposed that National Grid NTS has an allowance in respect of the cost of buying back capacity consistent with such baselines. Table 1 below states the current and proposed new entry capacity baselines. For some ASEPs, the proposed new baselines are lower than the current levels, and others higher.

National Grid NTS has stated that it is minded to accept Ofgem’s Final Proposals and therefore considers that the Ofgem proposed baselines should be applied for future auctions that will make capacity available for use from the start of the next Transmission Price Control (i.e. 1 April 2007). To seek to implement this change, National Grid NTS raised Urgent UNC Modification Proposal 0128 “Amendment to the Entry Capacity Baselines”. The UNC Modification Proposal 0128 seeks to implement the Ofgem proposed baselines in the February 2007 AMSEC and March 2007 RMSEC auctions to avoid any increase in buy back costs via implementing the Ofgem proposed baselines within the UNC on a transitional basis until National Grid NTS’s GT Licence can be changed. This approach would therefore avoid delaying the AMSEC auction.

The consultation on UNC Modification Proposal 0128 has now been completed. At the UNC Modification Panel meeting on 8<sup>th</sup> January 2007, only 3 out of 10 Panel Members voted in support of implementation of the proposal, resulting in the proposal not being recommended to be implemented. Two key reasons were put forward by those Panel Members not in support of the proposal:

- it seeks to amend National Grid NTS’ GT Licence obligations by a UNC Modification Proposal, which may set an unhelpful precedent if such a proposal is approved by Ofgem; and
- the significant reduction in the baselines at some ASEPs, particularly Teesside.

National Grid NTS recognises such concerns, and although we still consider that it would be pragmatic to implement UNC Modification Proposal 0128 to avoid any increase in buy back costs without delay to the AMSEC auction (as supported by 3 other respondents to the consultation), in the event that such a proposal is rejected, then we consider that it would be appropriate, as the next best option, to delay the 2007 AMSEC auction.

It is therefore proposed that for the 2007 AMSEC auction only, as opposed to holding the auction in February to make capacity available for the following two Capacity Years (i.e. April 2007 to March 2009), the following is undertaken:-

- the invitation is issued not later than two business days after direction is given by the Authority under Section 23 of the Gas Act 1986 implementing the modifications to National Grid NTS’ GT Licence associated with the Transmission Price Control Review (TPCR);
- the AMSEC auctions are held as soon as reasonably practicable but no earlier than the later of

- 1 April 2007; and
- 28 days after issuance of the auction invitation;
- the AMSEC auctions will make capacity available for the period: -
  - where the auctions can be completed within at least 1 business day of the end of month M, M+1 to March 2009 (inclusive) (NB. there are 4 auction rounds with at least 2 business days required between each round); otherwise
  - M+2 to March 2009 (inclusive).

This would result in the amount of unsold capacity to be made available in the 2007 AMSEC auction to be consistent with revised entry capacity baseline levels, and obligations to withhold capacity, that are to be implemented in National Grid NTS' GT Licence as a result of TPCR. Auctions undertaken prior to this change would continue to use the existing baselines to determine the amount of unsold capacity to be made available.

This would mean that if the direction is given by the Authority to implement the modifications to National Grid NTS' GT Licence associated with the TPCR before (approximately) 15 March 2007:

- the March 2007 RMSEC auction would make available unsold capacity for the month of April 2007 based on the existing baselines. National Grid NTS does not expect a material increase in buy back costs if the existing baselines were to be applied for April 2007 only in the RMSEC auction; and
- the AMSEC auction will be held in April 2007 to make available capacity from May 2007 to March 2009 (inclusive).

If the direction is given at a later date, but before 1 April 2007, then the AMSEC auction will be held in April/May 2007 to make available capacity from June 2007 to March 2009 (inclusive).

If this Proposal were not to be implemented, Users would be able to purchase capacity at some ASEPs in the February 2007 AMSEC auctions above the potential new baseline levels, which would increase the risk of buy backs. This would particularly be the case in the event that Users purchase unsold capacity solely on the expectation that they would receive buy-back payments on the basis of Ofgem's Final Proposals. While National Grid NTS may be partly exposed to the buy-back costs in accordance with the incentive arrangements in its Transporter's Licence, the capacity neutrality arrangements would result in all Users funding a significant proportion of these costs, which could ultimately be passed on to consumers.

National Grid NTS believes this Proposal must be implemented prior to issuing invitations for the next AMSEC auction, which, in accordance with the provisions of TPD Section B2.2, must state the amount of capacity that is available for each relevant month. However, if this Proposal were not implemented in the timescales identified, National Grid NTS believes it and other Users could be exposed to inefficient levels of buy-back costs.

*Table 1. Current and Ofgem Proposed Gas Entry Capacity NTS SO Baselines*

	Current Baseline (GWh/d)	Ofgem's Proposed Baselines (GWh/d) <sup>1</sup>
Easington	1062	1062
Bacton	1745	1783
Isle of Grain	218	175
Milford Haven	0	0
St Fergus	1677	1671
Teesside	761	361
Barrow	712	309
Theddlethorpe	848	611
Burton Point	55	74
Hole House Farm	26	132
Barton Stacey	0	173
Hatfield Moor (Storage)	54	15
Hatfield Moor (Onshore)	1	0.3
Garton	0	420
Cheshire	214	286
Hornsea	175	164
Fleetwood	0	0
Caythorpe	0	0
Wytch Farm	3.2	3.3
Blyborough (Welton)	0	0
Albury	0	0
Palmers Wood	0	0
Glenmavis	99	29
Partington	215	175
Avonmouth	149	179
Dynevor Arms	50	8
Winkfield	0	0
Tatsfield	0	0

<sup>1</sup> See “Transmission Price Control Review: Final Proposals” Ref. 206/06, Table 10.1.

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

**Standard Special Condition A11.1 (a)**

**the efficient and economic operation of the pipe-line system to which this licence relates;**

The Proposer and some respondents believed that implementation would avoid National Grid NTS making available levels of unsold capacity in the next AMSEC auction which are inconsistent with the anticipated capability of the system, as assessed by Ofgem as part of the Transmission Price Control Review. For ASEPs at which the amount of unsold capacity would reduce via implementation of modifications to National Grid NTS’s GT Licence in respect of the TPCR, this would protect Shippers and therefore consumers from any potential buy-back costs that may otherwise accrue from the sale of such

capacity. They therefore considered that implementation would better facilitate the economic and efficient operation of the NTS pipeline system.

Other respondents did not agree that these auctions should be deferred from the present price control period and considered there was evidence that the physical capability was greater than the new baselines. Buy-back risk would not therefore be increased and economic and efficient operation would not be facilitated..

Some respondents pointed out that previous opportunities for shippers to signal the need for investment was when the baselines for Teesside were set at level that indicated no requirement for consequential incremental investment. They therefore believed that implementation would remove an opportunity for Shippers to signal the need for incremental investment above the baselines set for the next price control period. Some questioned how the proposed reduction in baselines, combined with the current provisions for availability of interruptible capacity, could facilitate efficient and economic operation of the system.

NG NTS and EON suggested that implementation would allow time ahead of the AMSEC auctions for development of the proposed new service for transfer of unsold capacity between ASEPs and thus improve the regulatory and commercial certainty for these auctions. On the contrary, NG LNG believed that delay to the AMSEC auctions would exacerbate adverse effects on the annual storage invitation.

RWE considered implementation, in combination with other uncertainties, would undermine confidence in the capacity allocation mechanisms.

**Standard Special Condition A11.1 (c)**

**so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;**

Concern was raised that, whilst recognising the similarity to the issues in Proposal 0128, this Proposal followed Urgent procedures which effectively only allowed two business days for representations for a proposed change of this nature at such a late stage in implementation of the new price control.

The Proposer, and some respondents, suggested implementation was an appropriate mechanism for the transition to revised baseline entry capacity in different price control periods. Some respondents considered that implementation of this Proposal was an appropriate transitional arrangement for changes in licence obligations.

**Standard Special Condition A11.1 (d)**

**so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers**

NG LNG suggested implementation could increase risks or costs this year for Users that purchase storage services. Similarly, EE suggested implementation would not be equitable for Users of Teesside entry facility.

**Standard Special Condition A11.1 (e)**

so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers; and

NG LNG suggested implementation may deter Users from purchasing storage services this year due to the increased uncertainty in availability of entry capacity and thus have a detrimental effect.

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

The Proposer did not believe that implementation of this Proposal would adversely impact upon security of supply, operation of the Total System, or industry fragmentation. Other respondents, however, disagreed believing that it would deter additional delivery of gas to Teesside and booking of storage services and so affect security of supply.

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

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

The Proposer did not believe that implementation of this Proposal, would adversely affect the operation of the System.

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

The Proposer considered that implementation would reduce potential buy-backs costs it may incur. This view was not shared by some respondents that disputed whether National Grid would have any substantial buy-back exposure if current baselines were maintained at Teesside.

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

The Proposer did 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:**

Implementation would not have any consequences on price regulation.

**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 and some respondents believed that implementation of this Proposal would reduce the contractual risk that it is exposed to by reducing the volume of capacity that it is required to offer for sale in specific circumstances. Other respondents disagreed.

**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**

No impact on the UK Link System is envisaged if this Proposal is implemented.

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

The Proposer and some respondents considered that this Proposal would reduce the potential buy-back costs incurred by Users. Others did not share this view in respect of buy-back costs believing that implementation would increase risks that Users face in signalling the need for capacity beyond the current Price Control Period.

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

Some respondents believed that such parties would be adversely affected by the reductions in baselines at ASEPs where they were involved in offering gas supplies for the UK market. NG LNG would either have to sell storage services whilst there was uncertainty about availability of entry capacity at the time of the sales, or would need to reduce the period for injection into storage, potentially resulting in less gas being available in storage for winter 2007/08.

**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**

**Advantages**

The Proposer and some respondents believed that implementation would:

- align the capacity made available in Ofgem's Final Proposals for the Transmission Price Control with amounts of capacity to be released in the next AMSEC auction;
- align National Grid NTS's proposed buy back allowance in Ofgem's Final Proposals for the Transmission Price Control with amounts of capacity to be released for use during the next price control;
- for ASEPs with a potentially decreasing level of capacity, removes the potential for Users to seek to obtain unsold capacity solely on the expectation that it will receive buy-back payments;
- avoid seeking to change UNC obligations to resolve Licence issues as proposed under Modification Proposal 0128;
- allow the issues raised as part of consultation on UNC Modification Proposal 0128 in respect of the proposed decrease to entry baselines at some ASEPs to be kept to the Licence consultation process; and

- allow the next AMSEC auction to be undertaken with improved certainty on the regulatory framework post implementation of the Transmission Price Control Review.

### **Disadvantages**

The Proposer and/or some respondents recognised that implementation would:

- limit the amount of unsold capacity that is made available to Users at several ASEPs in the next AMSEC auction; and
- delay the AMSEC auction from February 2007 to, at the earliest, April 2007, and thereby increase uncertainty for certain shippers
- increase uncertainty for the LNG Annual Storage Invitation in terms of availability of entry capacity or increase in costs for Users.

### **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 parties:

<b>Organisation</b>	<b>Abbreviation</b>	<b>Position</b>
BG Gas Services	BG	Not in support
British Gas Trading	BGT	Unable to comment
EON UK	EON	In support
Excelerate Energy	EE	Not in support
National Grid Distribution	NG UKD	In support
National Grid LNG	NG LNG	Not in support
National Grid NTS	NG NTS	In support
Px Limited	px	Not in support
RWE npower	RWE	Not in support
Scottish & Southern Energy	SSE	In support
Statoil (U.K.) Limited	STUK	In support

Five supported implementation, five did not and one felt unable to offer views due to there being insufficient time to consider the impact of implementation. BGT and EE asked for their arguments in representations to Modification Proposal 0128 to be considered for this Proposal.

### **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**

No programme of works has been identified as required as a consequence of implementing the Modification Proposal.

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

Implementation can be immediate on receipt of a decision from Ofgem.

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

No implications of implementing this Modification Proposal upon existing Code Standards of Service 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 16 January 2007, of the 7 Voting Members present, capable of casting 9 votes, 4 votes were cast in favour of implementing this Modification Proposal. Therefore, the Panel did not recommend implementation of this Proposal.

**18. Transporter's Proposal**

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

19. Text

**UNIFORM NETWORK CODE – TRANSITION DOCUMENT**

**PART IIC – TRANSITIONAL RULES**

*Amend paragraph 1.1.2 to read as follows:*

1.1.2 TPD Section B2.2.1

- (a) Notwithstanding TPD Section B2.2.1(d) (which requires that National Grid 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 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 TPD Section B2.2.2(b) no earlier than 1 September 2005 and no later than 30 November 2005.
- (b) Notwithstanding TPD Section B2.2.1(b) (which requires that National Grid NTS will invite, and Users may make, applications for Monthly NTS Entry Capacity during the month of February in each Capacity Year), National Grid NTS will not be required to invite applications pursuant to TPD Section B2.2.1(b) in the Capacity Year commencing on 1 April 2006 for Monthly NTS Entry Capacity in respect of each Aggregate System Entry Point for the periods specified in TPD Section B2.2.2(a). Instead, the provisions of paragraph (c) below shall apply.
- (c) 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 Relevant Capacity Period. Such invitation shall be issued by National Grid NTS no later than 2 Business Days of the Authority next directing changes (after the date of implementation of the Modification giving effect to this paragraph) to the Transporter's Licence of National Grid NTS pursuant to Section 23 of the Gas Act in relation to the contents of Schedule A of the Transporter's Licence of National Grid NTS. Applications pursuant to such invitation may be made on the date(s) specified in the invitation, the first such date being no earlier than the later of:
  - (i) 1 April 2007; and
  - (ii) 28 days after the date on which the invitation is issued by National Grid NTS pursuant to this paragraph (c);

and shall be as soon as possible after the dates specified above.

References to TPD Section B2.2.1(b) in TPD Section B shall (where paragraph (b) above applies) be deemed to be references to this paragraph (c). References to the period in TPD Section B2.2.2(a) in TPD Section B shall (where paragraph (b) above applies) be deemed to be references to the Relevant Capacity Period.

For the avoidance of doubt, National Grid NTS shall be required to issue one invitation only pursuant to this paragraph (c), and nothing in

this paragraph (c) shall affect National Grid NTS's obligations pursuant to TPD Section B2.2.1(b) for the Capacity Year commencing on 1 April 2007 (or any subsequent Capacity Year).

- (d) For the purposes of paragraph (c), the “**Relevant Capacity Period**” means:
- (i) where the final date on which applications may be made pursuant to paragraph (c) is more than 1 Business Day before the end of the month M, the period from M+1 to March 2009 (where “M” is the month in which the first date on which applications may be made pursuant to paragraph (c) falls); and
  - (ii) where the final date on which applications may be made pursuant to paragraph (c) is not more than 1 Business Day before the end of the month M, the period from M+2 to March 2009 (where “M” is the month in which the first date on which applications may be made pursuant to paragraph (c) falls).

For and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive Joint Office of Gas Transporters**