

Workstream Report
Introduction of the AMTSEC Auction
Modification Reference Number 0133

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The consensus from the Transmission Workstream is that the Proposal is sufficiently developed to proceed to consultation but that the consultation period should be set such that the close date coincides with that for a consultation on the new statement required by the Licence, as envisaged in this Proposal. The Workstream considered that legal text was not needed to support the consultation.

1 The Modification Proposal

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 have 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 facilitate the transfer of unsold capacity between ASEPs during the constrained period. (For clarity, Ofgem have also proposed that an obligation is placed on National Grid NTS to facilitate the transfer of unsold capacity between ASEPs during the unconstrained period to seek to minimise investments). 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 Initiation Process

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 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 i.e all capacity made available in the AMSEC auction has been sold (“sold out”)
 - b. Donor ASEP – unsold capacity still available i.e not all capacity made available within the AMSEC auction has been sold (“not sold out”)
4. National Grid NTS will publish within 2 business days of publication of the results of the AMSEC auction the Recipient and Donor ASEPs 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 12 business days of the publication of the Recipient and Donor ASEPs:
 - a. commit to pay the application fee to National Grid NTS (as stated in National Grid NTS’ Transportation Charging Statement to cover costs of determining Transfer Rates and undertaking the AMTSEC process, and hence will not be refundable) – this will entitle such Users to see the auction invitation information, as described below, and place bids, as desired, in any round of the AMTSEC auction;
 - b. state the minimum amount (“Registered Minimum Amount”) and maximum amount (“Registered Maximum Amount”) of capacity desired to be transferred to a Recipient ASEP and the month, which must be an Available Month.

AMTSEC invitation

5. For those Users that have successfully registered (as part of the Transfer Initiation Process) to participate in the AMTSEC auction (“AMTSEC Users”), National Grid NTS will publish within a further 14 days (i.e. within 28 days of the publication of the AMSEC results) and with at least 14 days notice 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 round of the AMTSEC auction for an Available Month with two Recipient ASEPs

	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. National Grid NTS will be obligated to produce this statement under its GT Licence as a result of acceptance of Ofgem’s Final Proposals for the TPCR. It is National Grid NTS’s intention to commence consultation on this new statement after Ofgem have issued its consultation on the relevant GT Licence conditions.
7. It is expected that such Licence conditions will oblige National Grid NTS to determine Transfer Rates in accordance with the Entry Capacity Transfer Methodology Statement to facilitate the economic and efficient operation of the National Transmission System, ensuring that there is minimal change in the expected risk of entry capacity buy backs. In order to achieve this and set single (as opposed to a range of) Transfer Rates, this Proposal contains the following features:

- a. AMTSEC Users are required to state the minimum and maximum amount of desired capacity at a Recipient ASEP for each Available Month (see step 4b);
- b. the amount of Monthly NTS Entry Capacity that can be allocated in aggregate at a Recipient ASEP as a result of the AMTSEC auction is limited to the “Nodal Maximum” (see step 5b);
- c. the total amount of unsold capacity is made available for transfer in various proportions in a number of AMTSEC auction rounds (see step 5c); and
- d. for each auction round, more than 90% of the proportion of the total unsold capacity made available in the auction round must be transferred from a Donor ASEP for allocations to be undertaken in respect of transfer from that Donor ASEP (see step 13b viii).

AMTSEC auction bids

8. 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.
9. A bid in respect of an Available Month must state:
 - a. the identity of the User (must have participated in the Transfer Initiation Process);
 - 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 at the Recipient ASEP in p/kWh.
10. 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.
11. A User may submit bids, and thereafter withdraw or amend as required during the period 08:00 hours to 17:00 hours for an auction round.
12. National Grid NTS will reject a bid (and it will therefore not be part of the allocation process described below) where
 - a. any of the above requirements are not met; or
 - b. the bid amount is not within the Registered Minimum Amount and Registered Maximum Amount; or
 - c. where a credit sanction is in place against a User.

Bid Allocation Process

13. 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 at 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 bid. If one of the translated bids is fully accepted as a result of the allocation process, then the other equivalent translated bids are removed from the bid stack;
 - ii. The "Translated Recipient-Donor Bid Amount" is determined by dividing the bid amount at the Recipient ASEP (the "Recipient Bid Amount") by the Transfer Rate for that Donor-Recipient ASEP combination (e.g. if a Recipient Bid Amount of 1 GWh was made at 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 ASEP (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 per Donor ASEP for transfer from the same Donor ASEP, and the amount of Translated Recipient-Donor Bid amount 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 per Donor ASEP, 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 in all auction rounds undertaken at that stage 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 less than 90% of Unsold Capacity made available within that auction round at a Donor ASEP - where the amount to be allocated in respect of all bids in the auction round would result in less than 90% of the unsold capacity made available in that auction round at a Donor ASEP being transferred, then no bids will be allocated in respect of transfer of capacity from that Donor ASEP.
- 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 at a Recipient ASEP, the amount of unsold capacity at the relevant Donor ASEP will be reduced by the amount determined by dividing the Transfer Rate for that Donor-Recipient ASEP combination by

the allocated amount. 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; and

- 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 per Donor ASEP), capacity will be transferred from the Donor ASEP with the largest amount of unsold capacity first. Where one or more such Donor ASEPs have the same amount of unsold capacity, such Donor ASEPs shall be ranked equally and the amount of unsold capacity reduced proportionally between them.

14. For the avoidance of doubt, Users will pay capacity charges as for the AMSEC auction i.e. allocated bid amount multiplied by the relevant bid price for each Available Month.

Results Publication

15. 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

16. 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, Nodal Maxima and proportion of the remaining unsold capacity to be made available.

17. 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).

18. There will be a maximum of 4 rounds of the AMTSEC auction dependent upon the timetable of subsequent RMSEC auctions.

Transitional Arrangements

19. For 2007, it is proposed that the following transitional arrangements are implemented:
- a. In the event that this Proposal is implemented before completion of the 2007 AMSEC auction, then step 4 onwards will apply i.e. National Grid NTS will publish within 2 business days of publication of the results of the AMSEC auction the Recipient and Donor ASEPs for each Available Month and invite Users to register to be able to participate in the AMTSEC auction; or
 - b. In the event that this Proposal is not implemented before completion of the 2007 AMSEC auction, then step 4 onwards will apply from the implementation date of this Proposal i.e. National Grid NTS will publish within 2 business days of implementation of this Proposal the Recipient and Donor ASEPs for each Available Month and invite Users to register to be able to participate in the AMTSEC auction.

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

It should be noted that Ofgem have also proposed as part of their TPCR Final Proposals that an obligation is placed on National Grid NTS to facilitate the trade of sold capacity between ASEPs during the constrained period. National Grid NTS intends to bring forward proposals for industry discussion on such trading arrangements in due course.

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

The following views were expressed in respect of better facilitation of the relevant objectives as set out in the Gas Transporter Licence Standard Special Condition A11.1.

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would provide Users at sold out ASEPs the opportunity to seek to procure unsold capacity at other ASEPs. This could result, in the extreme, in the avoidance of sterilisation of capacity and stranding of gas offshore, and thereby better facilitate the efficient and economic operation of the NTS pipeline system;

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;

Implementation is anticipated to meet a new Licence obligation on National Grid NTS to facilitate the transfer of capacity between ASEPs in the constrained period.

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 (iii) between DN operators (who have entered

into transportation arrangements with other relevant gas transporters) and relevant shippers;

Implementation 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.

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

Implementation may enhance security of supply by allowing Users the opportunity to obtain additional capacity at sold out ASEPs than would otherwise be the case.

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

a) implications for operation of the System:

Implementation would not adversely affect the operation of the System. By optimising the release of entry capacity, implementation would provide a greater opportunity to ensure gas supplies could be delivered where demand was in excess of an ASEP's baseline capacity.

b) development and capital cost and operating cost implications:

Implementation would have cost implications related to the delivery of the required system changes, operation of the additional auction, calculation of the Nodal Maxima/Exchange Rates and publication of information.

In addition, implementation may avoid the potential sterilisation of entry capacity and hence costs being inefficiently incurred.

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

Implementation would require National Grid NTS 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.

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

National Grid NTS would be expected to reflect this Proposal in its Transportation Charging Methodology.

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

No such consequence has been 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**

Implementation would be expected to affect the UK Link System.

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

Administrative and operational implications (including impact upon manual processes and procedures)

Users taking part in the proposed auctions would be expected to reflect this in their administrative processes and procedures.

Development and capital cost and operating cost implications

Users taking part in the proposed auction would expect to benefit from consequential reductions in operating costs.

Consequence for the level of contractual risk of Users

Implementation would not increase the level of contractual risk of Users.

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

Transfers of capacity between ASEPs might affect the relevant parties at those points.

- 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

- 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;

- Would allow Users the opportunity to secure additional capacity, in excess of an ASEP's baseline, therefore allowing gas flows onto the system that may otherwise be prevented;
- May avoid the potential sterilisation of entry capacity and hence costs being inefficiently incurred;
- May encourage Users to more fully participate in the AMSEC auction and so improve the signals given;
- Could be implemented ahead of next Winter.

Disadvantages

- Would introduce a further auction into entry capacity arrangements. However, 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 solely to 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 were also introduced, then this would allow Users to seek to obtain such purchased amounts for use at other ASEPs.

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

To date no written representations have been received in respect of this Proposal.

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

No such requirement has been identified.

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

No such requirement has been identified.

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

National Grid NTS would need to revise its processes and, potentially, its IT systems prior to implementation of this Proposal.

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

An implementation date of 01 June 2007 has been proposed.

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

No such implication has been identified.

17 Workstream recommendation regarding implementation of this Modification Proposal

The Transmission Workstream recommends that the Modification Panel should send this Proposal to consultation, but that the consultation period should be set such that the close date coincides with that for consultation on the new statement required by the Licence, as envisaged in this Proposal. The Workstream considered that legal text is not required to support the consultation.

