Mr Julian Majdanski

Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
B91 3QJ

Martin Watson
Gas Charging and Access
Development Manager
Commercial
UK Transmission
National Grid

martin.watson@uk.ngrid.com
Direct tel +44 (0)1926 655023
Direct fax +44 (0)1926 653122
Mobile +44 (0)7795 666243

www.nationalgrid.com

25 May 2007

UNC Modification Proposal 0151 and 151A

Transfer of Sold Capacity between ASEPs

Dear Julian,

Thank you for your invitation seeking representation with respect to the above Modification Proposals.

Summary

National Grid NTS supports the implementation of Modification Proposal 0151. Our original comments as part of this proposal are re-iterated in the appendix.

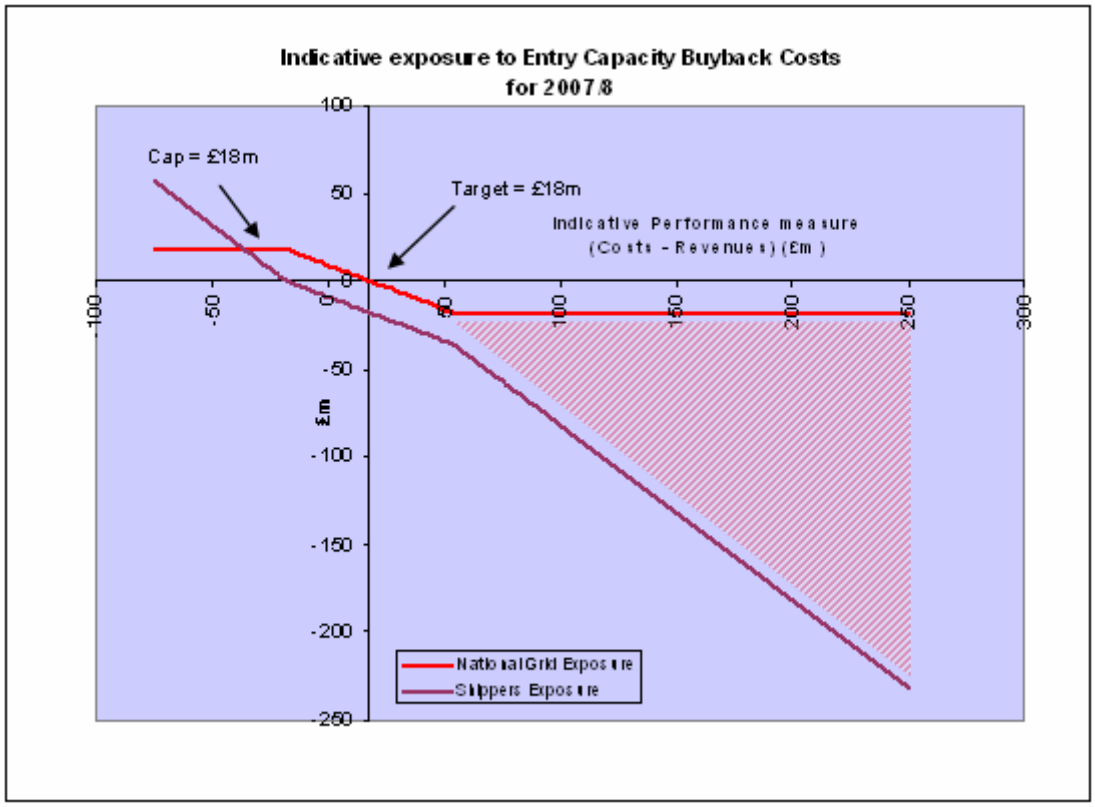
National Grid does not support implementation of Modification Proposal 151A. For the following key reasons:

- **Specification of a 1:1 exchange rate up to the theoretical nodal maximum for within zone transfers with no consideration of potential costs, exposing Users to unlimited buy back risks**
- User specification of zones
- Initial limiting of transfers to within zone
- Implementing parallel transfer (of sold Capacity) processes which could be seen as providing an undue advantage to Users within a Transfer Zone
- Calculation of Transfer Rates
- The Modification Proposal is not sufficiently developed
- The Modification needs to be considered as part of wider developments
- Impact upon the current proposed transfer process as contained within Modification 0150 (Unsold Capacity)
- Timeline for implementation

Reasons for not supporting Mod 0151A

Specification of a 1:1 exchange rate up to the theoretical nodal maximum for within zone transfers with no consideration of potential costs, exposing Users to unlimited buy back risks

The Modification proposal is counter to both Ofgem's final Proposals and the proposed Licence Condition to enact them, as it does not take into account the expected costs resulting from undertaking a trade. The impact of this could be unlimited exposure to buy back costs for Users as a whole. The diagram below shows National Grid NTS understanding of how the buy back incentive currently proposed as part of Final Proposals would operate. Although the maximum exposure for National Grid NTS to buy back costs is set at -£18m (as determined by the collar of the scheme), there is no such limit for Users. Therefore as the proposal does not take any account of the possible increased risk of buy backs it is likely that users will be exposed to greater buy back costs. In addition the contractual risk for National Grid NTS will increase with the potential for higher buy back costs. Therefore National Grid NTS disagrees with the Proposer's assertion that contractual risk of each Transporter and User will not be affected.



It is important to note that any increase in buy back actions will affect all Users with firm entry rights in an equal manner. Therefore Users who have purchased capacity in long term auctions could be faced with the increased possibility of being constrained-off as well as higher system costs. These Users are those who have given early signals which allow optimisation of investment and operation of the system.

National Grid NTS would also like to point out, as has been stated at several Transmission workstream meetings, that the nodal maximum is the theoretical physical capability of the local infrastructure associated with the particular ASEP and that this level of physical capability can only be

delivered where there are favourable supply and demand patterns (optimal demand and no competing flows). These favourable supply and demand patterns are not limited to within zone interactions, therefore if an assumption is made that capacity can be transferred on a 1:1 basis and this is done without taking buy back risk into account, Users could find themselves exposed to unlimited buy back costs. It should be noted that the nodal maximum may never be deliverable in practice.

User Specification of Zones

As part of the Ten Year Statement, National Grid NTS has proposed groupings of ASEPs into zones. The zones reflect the fact that certain ASEPs use common parts of the system. The Proposer has recommended, to change these zones, without any consultation with National Grid NTS. At the same time the Proposer has then assumed that a 1:1 exchange rate is applicable. This approach disregards the physical characteristics of the network and introduces even greater risk of increased buy back costs.

Limiting Transfers to within zone

The Proposal Mod 0151 was developed in order to maximise the amount of capacity that can be transferred between entry points. As stated previously the nodal maximum is the physical capability of the local infrastructure associated with the particular ASEP and this level of physical capability can only be delivered where there are favourable supply and demand patterns. These favourable supply and demand patterns are not limited to within zone interactions.

Implementing parallel transfer (of sold capacity) processes which could be seen as providing an undue advantage to Users within a transfer zone

Modification Proposal 0151A introduces parallel mechanisms for the transfer of sold capacity between ASEPs. Whilst it proposes that a within zone process be initially introduced it then further proposes that both within and between zone processes be run in parallel from the 1 October 2007.

As proposed transfer requests from Shippers within a zone would be dealt with separately to those requests from Shippers outside of a zone, in effect transfer requests from outside of the transfer zone would be dealt with via a separate queue system. The reasoning behind this appears to be notionally due to the speed at which such requests can be processed, National Grid NTS does not believe that this a valid reason for prioritising requests from Shippers within a zone over those requests from Shippers outside of the zone, as in a number of instances, such requests will be competing with each other for a limited volume of transferable capacity at an ASEP (i.e. any scope for transfer will be limited by other factors such as the Nodal Maximum).

National Grid NTS considered a number of ways to prioritise transfer requests within a queue system but was concerned that many of the options may be construed as discriminatory. Therefore as a consequence, modification proposal 0151 proposed to treat all competing transfer requests equally and place them in a queue on a first come first served basis.

National Grid NTS will not be able to operate two queues in parallel with each other, National Grid NTS has proposed that there be one queue for all transfer requests, by doing so we are able to process each request with a guaranteed Transfer Rate. This Transfer Rate is dependent upon a fixed capacity position at the time of transfer, were National Grid NTS to process two transfer requests simultaneously National Grid NTS would not be able to provide fixed Transfer Rates.

National Grid NTS does not see any benefit, other than to those Shippers within a zone, in introducing arrangements that would action competing requests via different processes and are surprised that the Proposer would seek to enshrine arrangements in the UNC that could be seen as providing an undue advantage to Shippers within a transfer zone.

Clarification should be provided by the Proposer as to whether their proposal intended to introduce competing arrangements. If this is not the case and they are proposing a single queue for all transfer requests from 1 October 2007 then National Grid NTS is unclear as to why this cannot be done as per the proposals suggested within modification 0151.

Calculation of Transfer Rates

Modification Proposal 0151A proposes that National Grid NTS shall at all times determine Inter-Zone Transfer Rates based on the peak flow winter model whilst at the same time assuming that the ASEPs affected by the transfer request are running at baseline. This is not an accurate reflection of National Grid NTS's risk assessment process as outlined within its proposed Methodology Statement. National Grid NTS will assess the level of risk on assumptions relevant to the transfer concerned, an example being an October transfer based on expected supply and demand patterns for October.

The Modification Proposal is not sufficiently developed

National Grid NTS believes that there are elements within the proposal that have not been sufficiently developed. The proposal lacks a transfer confirmation mechanism for the within Zone Transfer Process, Users do not have the facility to specify a 'minimum amount' or to reject such a transfer where the minimum amount is not satisfied when a number of transfer requests are prorated. Furthermore the proposal states that National Grid NTS will be able to reflect a successful within zone transfer on the Gemini system almost instantaneously, the proposal does not then provide detail as to what timeframe this may be or how National Grid NTS is to do this. All of which will have an effect on National Grid NTS's ability to provide Legal Text for this proposal.

The Modification needs to be considered as part of wider developments

National Grid NTS accepted in principle, as part of the Price Control Review Final Proposals, Licence Obligations to facilitate capacity trades. Part of these obligations includes the production of a Methodology Statement that explains how the process of facilitating transfer and trades will be undertaken. Currently both the Licence Obligation and the Methodology Statement are subject to consultation and neither has been finalised. Any UNC modification Proposal that seeks to introduce a process to trade capacity between ASEPs needs to be seen in the context of the wider regulatory framework of both the Licence Obligation and the Methodology Statement

Impact upon the current proposed transfer process as contained within Modification 0150

National Grid NTS has undertaken development to facilitate the transfer of Unsold NTS Entry Capacity between ASEPs. The impact of introducing an additional process prior to this will need to be assessed by xoserve. If additional systems development is identified as a consequence of this process, it will impact upon National Grid NTS's ability to deliver a process for the transfer of unsold NTS Entry Capacity prior to October 2007.

Timeline for Implementation

The modification proposal suggests an implementation date of 2 business days after publication of AMSEC auction results (May) or 2 business days after implementation of this modification proposal

The preliminary information we have received from xoserve indicates that a minimum of 10-14 weeks following the definition of firm business requirements will be required to cover both the analysis and acceptance testing for the Gemini system impacts. As stated in the Ofgem letter granting Urgency to Modification Proposal 0151, the expected date of an Ofgem decision is 12 June 07. Following this decision, authorisation for the necessary Change Order would need to be raised. Taking this into account, it is clear that the timeframes proposed for implementation are wholly unrealistic.

Extent to which implementation of Modification Proposal 0151A would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

National Grid NTS considers Mod 151A would, if implemented, not 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 the opportunity to transfer sold capacity between ASEPs. This could result in the avoidance of the stranding of gas offshore, and thereby better facilitate the efficient and economic operation of the NTS pipeline system, the modification has the following draw backs that are not consistent with the efficient and economic operation of the NTS pipeline system:

- In effecting a transfer the proposal states that transfer rates within a zone shall under no circumstances be fettered by expected physical flows or take into account any expected increase in costs, National Grid NTS believes that this would leave Users exposed to unlimited buy back costs. In so doing it would also appear to grant extra firm rights to late bookers of capacity and penalise Users who had given long term investment signals, which we do not believe is consistent with the direction of other changes to the regime.
- The introduction of changes without sufficient consultation or fully developed proposals

Therefore it would be counter to 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 is anticipated to meet a new Licence obligation on National Grid NTS to facilitate the transfer of capacity between ASEPs in the constrained period. However the Proposal does not take account of the intent of Final Proposals or of the proposed licence drafting which states that in effecting any trade the expected costs should not increase. In addition, the licence condition states that any trade of capacity should be in accordance with an approved methodology. This proposal clearly circumvents this process and the requirement to take account of expected increases in cost, it is therefore not compliant with the intended Licence Condition.

Regards

Martin Watson
Gas Charging and Access Development Manager

Appendix: Support for Mod 151

Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

Mod 0151

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 the opportunity to transfer sold capacity between ASEPs. This could result in the avoidance of the 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 is anticipated to support meeting a new Licence obligation on National Grid NTS to facilitate the transfer of sold capacity between ASEPs.