

**CODE MODIFICATION PROPOSAL No 0151A**  
**“Transfer of Sold Capacity between ASEPs”**  
**Version 1.0**

**Date:** 16/05/2007

**Proposed Implementation Date:** Immediately following publication of the 2007 AMSEC auction results.

**Urgency:** Urgent

## **1 The Modification Proposal**

### **a) Nature and Purpose of this Proposal**

Ofgem has proposed as part of their Final Proposals for the Transmission Price Control Review (TPCR) that an obligation is placed on National Grid NTS to meet reasonable requests from Users to facilitate the trade of inter-nodal Sold Firm NTS Entry capacity between Users, however drafting of the GT Licence was still in progress at time of raising this Proposal.

It should, therefore, be noted by all market participants that this alternative Modification Proposal has been drafted based on the latest (and limited) information that was made available to Users on the current interpretation of the Transporter’s Licence obligations. In this context, we consider that the relative merits of the Proposal should be judged on whether it improves on the current arrangements.

For clarity, this Modification Proposal is based on the following **key principles**:

- Introduces User-to-User inter-nodal entry capacity trading arrangements that apply both pre-winter 2007 and on an on-going basis thereafter.
- Introduction of Zone-based Entry Capacity trading. See “Definition of Zones”, below.
- Proposal not limited to trades to sold-out ASEPs.
- NG NTS shall publish the nodal maximum for all ASEPs on an annual basis. In 2007, this information shall be published immediately on implementation of this Proposal and shall remain valid until it is next published, on an annual basis thereafter.
- To achieve efficient and economic use of all available NTS system capability, Sold Capacity Trade Requests within a Zone will be met with a fixed 1:1 Transfer Rate, subject to pre-published nodal maxima at each individual ASEP. 1:1 Transfer Rates shall under no circumstances be fettered by expected physical flows. This new process will be available to Users immediately upon implementation of this Proposal. Post-AMSEC 2007, there shall be a window of

application for such Trade Requests, due to the urgent need for a pre-winter process.

- From 1<sup>st</sup> October 2007, there shall be no window of application. Trade Requests within Zone may be raised by Users at any time.
- User to User Trade Requests between ASEPs located in different Zones is a new process that will also be available to Users from 1<sup>st</sup> October 2007. Transfer Rates may not be guaranteed on a 1:1 basis. NG shall facilitate such trades 'on-request' from a User and will provide a Transfer Rate as part of the Trade Request process.
- It should be noted by market participants that Modification Proposal 0118, raised by National Grid NTS, was based on the concept of capacity transfers 'within zone' being met on a 1:1 exchange rate basis subject to nodal maximum and this Proposal could, therefore, be considered a credible, realistic approach for NG NTS to adopt to satisfy their Licence obligations.

#### Definition of "Zones":

For clarity, the Zones identified in National Grid's 10YS should apply for the purposes of this Proposal. These are currently defined as:

- South East - includes Bacton and Grain.
- South West – includes Avonmouth, Humbly Grove and Wytch Farm.
- Easington area – includes Easington, Rough, Aldbrough, Hatfield Moor, Hornsea and Theddlethorpe. Although Theddlethorpe is not within an existing NG 10YS "zone", data presented by NG NTS at recent Transmission Workstream discussions has suggested potential for a "good" level of capacity transferability between Theddlethorpe and Easington. Reflecting the fact that Users does not have access to all information available on the feasibility of this Proposal we make the recommendation for the inclusion of Theddlethorpe in the Easington zone, based on the information presently made available.
- Northern Triangle – includes St Fergus, Teesside, Barrow and Glenmavis.
- West UK – includes Milford Haven and Dynevor Arms.
- North West Corridor – includes storage at Fleetwood and Cheshire, Partington, Hole House Farm & Burton Point.

For clarity, E.ON UK's Proposal has three strands:

1. Introduction of a new process for Users for "Intra-Zone Sold Capacity Trade Requests" following completion of the 2007 AMSEC. In 2007, a window of application for Trade Requests shall apply.
2. Extension of the above process for "Intra-Zone Sold Capacity Trade Requests" so that Trade Requests can be raised at any time from 1<sup>st</sup> October 2007 onwards.
3. Introduction of a new process for Users for "Inter-Zone Sold Capacity Trade Requests", to take effect from 1<sup>st</sup> October 2007.

#### **1.0 Within-Zone ("Intra-Zone") Sold Capacity Trade Requests:**

- 1.1 E.ON UK proposes that NG NTS shall hold a transfer of sold firm NTS Entry Capacity process via a transfer window in 2007 (only) and then from 1<sup>st</sup> October 2007 on an "on-request" basis. In 2007, the Transfer Window will be opened shortly after the AMSEC auction process has ended, but before any unsold capacity transfer process (Mod 0150A) begins.
- 1.2 Post-AMSEC 2007, the Transfer Window shall be open for 1 business day only.
- 1.3 The Transfer Window will be used to facilitate the transfer of Sold Firm NTS Entry capacity to any Transferee ASEP from any Transferor ASEP within the same Zone, on a fixed 1:1 Transfer Rate.
- 1.4 Nodal Maximum of all ASEPs shall be published on the NG website before the initiation of the Transfer Window in 2007. The Nodal Maxima values shall apply until the Nodal Maxima are next published on an annual basis by NG NTS, thereafter.
- 1.5 Using existing NG NTS reports on the NG website detailing sold capacity levels by ASEP combined with the Nodal Maximum report, it will be possible for Users to calculate the "headroom" available for transfers of sold capacity on a monthly basis. This will enable Users to identify, on an on-going basis the opportunity for trades of sold capacity to any ASEP.

#### **Transfer Invitation Process:**

- 1.6 In 2007, National Grid NTS shall within 2 business days of publication of the results of the AMSEC Auction (or implementation of the Proposal – whichever comes first) but giving at least 7 business days notice, issue an invitation to Users to participate in the 2007 "Intra-

Zone Sold Capacity Trade Request” process.

- 1.7 In 2007, a User shall submit, amend or withdraw a Trade Request at any time during the period 0800 hours to 1700 hours during the Transfer Window.
- 1.8 In 2007, the communication medium to be utilised by National Grid NTS is likely to be fax. From 1<sup>st</sup> October 2007 (or as soon as possible thereafter), it is envisaged that Trade Requests would be made within Gemini.
- 1.9 From 1<sup>st</sup> October 2007 onwards, Intra-Zone Capacity Trade Requests by Users can be lodged with NG NTS at any time. There will be no application window. A User may submit, amend or withdraw a Trade Request during the period 0800 hours to 1700 hours on any UNC Business Day.

The Trade Request:

1.10 The Transferor User must notify National Grid NTS of the intended inter-nodal System Capacity Transfer to National Grid NTS specifying:

- The identity of the Transferor User;
- The “Transfer System Points” i.e. the ASEP from which the capacity is desired to be transferred (the “Transferor ASEP”) and the ASEP to which the capacity is to be transferred (the “Transferee ASEP”);
- The “Transfer Amount” i.e. the amount of Monthly Firm NTS Entry Capacity desired to be transferred from the Transferor ASEP to the Transferee ASEP (in kWh/d) (assuming the fixed 1:1 Transfer Rate within Zone).
- The “Transfer Period(s)” i.e. the Capacity Month(s) in which the User wants the Transfer Amount to be applied, where the available capacity at the Transferee ASEP is below nodal maximum at the time of Trade Request.
- There shall be no limit on the number of Trade Requests within Zone per User, either in 2007 or thereafter. To place a limit on Users where a fixed 1:1 exchange rate exists would be an artificial barrier to trade.

1.11 The Transfer Period shall at all times be:

- A minimum period of one capacity month; and
- Not for any month that will form part of a period covered by a future QSEC auction at the point in time of raising a Trade

### Request.

#### Trade Request Rejection:

1.12 National Grid NTS may reject a request for an inter-nodal System Entry Transfer where for any requested month the requested Transfer Amount exceeds the Transferor User's Monthly Firm NTS Entry Capacity holding at the Transferor ASEP, at the time the Trade Request is submitted.

#### Prioritisation of Trade Requests:

1.13 In 2007, due to the introduction of a "one-off" Transfer Window post-AMSEC, if within a Zone there are 2 (or more) Users that have requested to transfer capacity to the same Transferee ASEP, then these Trade Requests shall be treated in aggregate – i.e. as one single, large request. If the amount in aggregate exceeds the nodal maximum of the ASEP, then the amounts requested by each User shall be scaled back pro-rata, based on amount initially applied for in the Transfer Request.

1.14 From 1st October 2007 onwards, Trade Requests shall be dealt with on a 'first-come-first-served' basis and time stamped on receipt by NG NTS. Given a fixed 1:1 Transfer Rate, such Requests should be completed almost instantaneously and therefore there is no need to develop a queue system other than "first-come-first-served".

#### Process to reflect Trades on the Gemini System:

1.15 The Proposer makes no particular recommendation on the best way for NG to manage what is essentially an internal process and systems problem in 2007, or on an on-going basis. For this reason, we have included an amended version of NG's suggested way forward in the short-term from their Modification Proposal 0151, but believe that the best party to make such decision remains NG NTS.

1.16 National Grid NTS will set up a National Grid Trading Account at each ASEP, this will then be used to reflect confirmed Transfers in the Gemini System via the following process:

- The Transferor User must place a trade for the full Transfer Amount with the National Grid NTS Trading Account at the Transferor ASEP.
- National Grid NTS on confirmation of this trade will then place a trade for the Transfer Amount at the Transferee ASEP.
- All successful Trade Requests must be reflected on the Gemini system within office hours (08:00 to 17:00) on a date or dates agreed

between National Grid NTS and the Transferor User.

Effect of Transfers:

1.18 Upon completion of the Trade Request, the Transfer Amount for the relevant Transfer Month will be:

- Deducted from the Transferor User's Monthly NTS Entry Capacity holdings at the Transferor ASEP. This will reduce the Transferor Users level of Firm NTS Entry capacity accordingly and hence the overall level of Firm NTS Entry capacity at the Transferor ASEP;
- The resulting amount (the "Transfer Amount") added to the Transferor User's Monthly Firm NTS Entry Capacity holdings at the Transferee ASEP, increasing the Transferor Users level of Firm NTS Entry capacity accordingly and hence the overall level of Firm NTS Entry capacity at the Transferee ASEP.
- The Transferor Users revised Monthly NTS Entry Capacity holdings will be used in the calculation of NTS Entry Capacity Overrun Charges, NTS Entry Capacity Neutrality Charges and any other liabilities associated with NTS Entry arrangements.
- The Transferor User, at the Transferor ASEP, will continue to be liable for Monthly NTS Entry Capacity charges for the Transfer Amount. For clarity, the Transferor User will not become liable for Monthly NTS Entry Capacity charges for the Transfer Amount at the Transferee ASEP.
- The National Grid NTS Trading Account will at no time be liable for Monthly NTS Entry Capacity charges.
- The National Grid NTS Trading Account holdings will at no time be liable for NTS Entry Capacity Overrun Charges, NTS Entry Capacity Neutrality Charges or any other liabilities associated with NTS Entry arrangements.

## **2.0 Between Zone ("Inter-Zone") Sold Capacity Trade Requests:**

2.1 With effect from 1<sup>st</sup> October 2007, E.ON UK proposes that NG NTS shall facilitate trades of sold inter-nodal system entry capacity between Zones through creation of a new process ("Inter-Zone Capacity Trade Requests").

2.2 Based on the assumed increase in buy-back risk attached to inter-nodal trades of sold entry capacity between Zones, the Proposer does not consider it appropriate that a fixed Transfer Rate of 1:1 should be guaranteed. In this circumstance, NG shall be entitled to perform analysis (if required) to support the provision of a

bespoke Transfer Rate, based on the specific detail of the User's Trade Request.

2.3 Users shall be entitled to raise any such Trade Request on any UNC Business Day from 1<sup>st</sup> October 2007, onwards.

The Trade Request:

2.4 The Transferor User must notify National Grid NTS of the intended inter-nodal System Capacity Transfer to National Grid NTS specifying:

- The Identity of the Transferor User;
- The "Transfer System Points" i.e. the ASEP from which the capacity is desired to be transferred (the "Transferor ASEP") and the ASEP to which the capacity is to be transferred (the "Transferee ASEP");
- The "Transfer Amount" i.e. the amount of Monthly Firm NTS Entry Capacity desired to be transferred from the Transferor ASEP to the Transferee ASEP (in kWh/d).
- The "Transfer Period(s)"; i.e. the Capacity Month(s) in which the User wants the Transfer Amount to be applied, where the available capacity at the Transferee ASEP is below nodal maximum at the time of Trade Request.

2.5 The Transfer Period shall at all times be:

- A minimum period of one capacity month; and
- Not for any month that will form part of a period covered by a future QSEC auction at the point in time of raising a Trade Request.

A Transferor User may withdraw a Trade Request or reduce the Transfer Amount within the Trade Request up to the Business Day on which National Grid NTS commences determination of the requested Transfer Rate.

Transfer Rates:

2.6 Where a Trade Request requires capacity to be transferred between Zones, National Grid NTS shall determine Transfer Rates on a 'first come first served' basis for each Trade Request; i.e. each request for a Transfer Rate will be time stamped by National Grid NTS and assessed in sequence.

2.7 Where there is more than one "live" request for a Transfer at any one time, a queue will be developed. Where a Transfer Rate is required, National Grid NTS will provide to the Transferor User the Transfer Rate within 5 business days of the request becoming

the first in the queue.

Calculation of Transfer Rates:

2.8 NG NTS shall at all times determine Inter-Zone Transfer Rates based on the peak flow winter model and assuming the Transferor/Transferor ASEP is running at baseline. This would be consistent with the way the current TPCR baselines were calculated and is also consistent with the obligation on NGG to sell up to the baseline.

2.9 The Transferor User must confirm acceptance of the Transfer Rate and if applicable, the Transfer Amount provided by National Grid NTS within 1 business day of its issue by National Grid NTS in order to undertake the requested transfer. If such confirmation is not received then the relevant request will be deemed failed and closed.

Limitation of Inter-Zone Trade Requests:

2.10 National Grid NTS may reject a request for an inter-nodal System Entry Transfer where for any requested month the requested Transfer Amount exceeds the Transferor User's Monthly Firm NTS Entry Capacity holding at the Transferor ASEP, at the time the Trade Request is submitted.

2.11 National Grid NTS will inform the User(s) when the Trade Request cannot be processed at a particular ASEP due to time constraints (i.e. there is insufficient time remaining to process the Trade Request prior to the commencement of the capacity delivery period) or the nodal maximum being reached. In the event that a Trade Request has not been confirmed and enacted on the Gemini system prior to the commencement of that Transfer Month, then that month will no longer form part of the Trade Request.

2.12 Where National Grid NTS is able to provide a Transfer Rate but is unable to accommodate the full Transfer Amount at the Transferee ASEP, National Grid NTS will inform the Transferor User of the maximum Transfer Amount that can be transferred. Para. 2.9 shall then apply.

2.13 All successful Trade Requests must be reflected on the Gemini system within office hours (0800 to 1700) on a date or dates agreed between National Grid NTS and the Transferor User on confirmation of the Transfer Rate by the Transferor User.

Publication of Information:

2.14 National Grid NTS will publish on a weekly basis to applicants for Transfer Rates, their position in the queue.



2.15 National Grid NTS will publish on a monthly basis to the industry for each Transfer Month:

- Number of “live” Inter-Zone Capacity Trade Requests and the relevant Transferee ASEPs.
- Number of “completed” Trade Requests and the quantity transferred at each Transferee ASEP

Effect of Termination:

2.16 In the event that a Trade Request has been undertaken and the Transferor User is terminated before or during the Transfer Month, the same rules as for treatment of System Capacity Transfers at an ASEP will apply.

2.17 The Terminated Users Transfers will be cancelled, the Transferor User will retain liability and National Grid NTS would resell the capacity at the original Transferor ASEP.

Effect of Transfers:

2.18 Upon completion of the Trade Request, the Transfer Amount for the relevant Transfer Month will be:

- Deducted from the Transferor User’s Monthly NTS Entry Capacity holdings at the Transferor ASEP. This will reduce the Transferor Users level of Firm NTS Entry capacity accordingly and hence the overall level of Firm NTS Entry capacity at the Transferor ASEP;
- Adjusted through multiplication by the Transfer Rate (if applicable), and then the resulting amount (the “Adjusted Transfer Amount”) added to the Transferor User’s Monthly Firm NTS Entry Capacity holdings at the Transferee ASEP, increasing the Transferor Users level of Firm NTS Entry capacity accordingly and hence the overall level of Firm NTS Entry capacity at the Transferee ASEP;
- The Transferor Users revised Monthly NTS Entry Capacity holdings will be used in the calculation of NTS Entry Capacity Overrun Charges, NTS Entry Capacity Neutrality Charges and any other liabilities associated with NTS Entry arrangements (i.e. based on the User’s Fully Adjusted Available NTS Entry Capacity);
- The Transferor User, at the Transferor ASEP, will continue to be liable for Monthly NTS Entry Capacity charges for the Transfer Amount. For clarity, the Transferor User will not become liable for Monthly NTS Entry Capacity charges for the Adjusted Transfer Amount at the Transferee ASEP.

**b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**

This Modification Proposal is an alternative Proposal to Mod 0151 raised by National Grid NTS, which requested that the Authority grant Urgent status on the basis that:

*“1. There is a real likelihood of significant commercial impact upon GTs, Shippers or Customers if a proposed modification is not urgent;*

*The Proposer believes that if this proposal is implemented ahead of this winter it will provide Users with a mechanism to secure additional entry capacity where demand for capacity is currently greater than baseline levels. Therefore this should reduce the likelihood of gas being stranded offshore due to insufficient capacity being available.*

*2. The proposal is linked to an imminent date related event.*

*...[I]t is essential that the proposal is implemented in a timeframe that will provide the industry with sufficient scope to utilise this process.”*

The Proposer requests that the timetable as recommended by Ofgem in granting Urgency to Mods 0150/0151 should apply to this alternative Modification Proposal.

**c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

E.ON UK is raising this alternative proposal in response to NG NTS’s request for urgent status for Mod 0151 and therefore the Proposer seeks this Modification Proposal to proceed direct to consultation, following the same indicative timescales as set out by Ofgem in the letter granting urgency.

**2 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**

E.ON UK 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.

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

E.ON UK believes that this Proposal, if implemented, may enhance security of supply by allowing Users to move capacity to where they value it most.

**4 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:**

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

E.ON UK does not believe this Proposal, if implemented, would adversely affect the operation of the System. By optimizing the utilisation of sold entry capacity, this Proposal would provide a greater opportunity to ensure gas supplies can be delivered where demand is in excess of an ASEP's baseline capacity.

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

E.ON UK recognizes that this Proposal, if implemented, would have cost implications related to the delivery of the required system changes, operation of the additional transfer functionality and calculation of the Transfers Rates for Trade Requests between Zones.

E.ON UK understands from NG NTS that there will be on-going Xoserve process costs attributable to the proposed method for reflecting transfers on the Gemini system.

**c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**

Operating costs in respect of determination of Transfer Rates for Trade Requests between Zones could conceivably be recovered by NG NTS, although this should ultimately be for the Authority to decide. The Proposer would not recommend implementation of an application fee.

**d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

E.ON UK believes that the Proposal has no impact on the level of contractual risk of each Transporter.

**5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)**

Not applicable.

**6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users**

If this Proposal were to be implemented, E.ON UK envisages that this will have an impact on the Gemini System and consequently its links to the UK Link System. National Grid NTS notes that system development is required to allow Users to apply for capacity trades and the relevant changes made to User's capacity holdings for overrun and neutrality charge calculation purposes where trades are undertaken.

**7 The implications for Users of implementing the Modification Proposal, including:**

**a) The administrative and operational implications (including impact upon manual processes and procedures)**

E.ON UK is not aware of any implications.

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

E.ON UK is not aware of any implications.

**c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

E.ON UK believes that this Proposal would increase the levels of competition between Users.

**8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

Implementation of this Proposal (and 0150A) would remove on-going uncertainty in the whole market, which itself, could be argued to have increased forward prices and impacted bidding behavior in the 2007 AMSEC. It is absolutely crucial that Users have certainty in respect of unsold and sold capacity transfers as soon as possible.

**9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

None identified.

**10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above**

**Advantages**

E.ON UK considers that this Proposal:

- In regard of the 1:1 Transfer Rate within Zones; is transparent, prevents queues forming and eliminates the need for NG to perform costly and time-consuming Transfer Rate calculations, resulting in NG being able to meet pre-winter and on-going market demand rapidly.
- In regard of the 1:1 Transfer Rate within Zones and bespoke Transfer Rates between Zones, builds on the same concept originally put forward to the market by NG NTS.
- Would allow flexibility for sold capacity (i.e. amounts of obligated baseline capacity that have been sold) to be reallocated to where Users require it most;
- Would allow Users the opportunity to secure additional capacity at specific ASEPs, than would otherwise be the case;
- Would avoid placing restrictions upon when a User is able to request Transfer Rates for Inter-Zonal Capacity Trade Requests.
- Better reflects Ofgem's risk-reward proposals for NG as outlined in the final TPCR proposals.

**Disadvantages:**

E.ON UK considers that this Proposal could potentially encourage Users to purchase unsold capacity at ASEPs with lower reserve prices solely to transfer to other ASEPs. Conversely, if NG NTS were to restrict trades based on reserve prices this could be seen as an artificial barrier to trade in itself. Fundamentally, NG NTS may have to re-visit entry reserve prices on a zonal level if this becomes a significant issue.

**11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)**

**12 Detail of all other representations received and considered by the Proposer**

**13 Any other matter the Proposer considers needs to be addressed**

NG NTS's "Transfers and Trading Methodology Statement" as currently drafted is not appropriate for either Mod Proposal 0150A or 0151A.

**14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal**

**15 Comments on Suggested Text**

To be advised

16      **Suggested Text**

To be advised

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transition Document

Section(s)    IIC & UNC TPD Section B

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