

**Modification Report**  
**Transfer and Trading of Capacity between ASEPs**  
**Modification Reference Number 0169/0169A**  
**Version 3.0**

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:

**1) There is a real likelihood of significant commercial impact upon Gas Transporters, Shippers or Customers if a proposed modification is not urgent;**

This Proposal needs to be considered alongside Modification Proposal 0156A since this Proposal is based on 0156A with a few minor amendments. Implementation would allow trade and transfer allocations to take place for the November 2007 to March 2008 months, rather than for October 2007 to March 2008. Furthermore, this Proposal allows for greater flexibility regarding the timing of trade and transfer auctions and allocations. If this Proposal were implemented before this winter it would allow for the trade and transfer of entry capacity between entry points, which should reduce the likelihood of gas being stranded offshore due to insufficient capacity being available.

**3) The proposal is linked to an imminent date related event**

It is suggested that this Proposal needs to be implemented in advance of the forthcoming winter period, 1 November 2007 to 31 March 2008.

Ofgem agreed that in these circumstances there was a real likelihood of significant commercial impact upon Gas Transporters, Shippers or Customers if this Proposal were not treated as urgent. Furthermore this Proposal is linked to an imminent date related event for the purposes of this criterion.

**Procedures Followed:**

The procedures agreed with Ofgem for this Proposal were:

<b>Process</b>	<b>Date</b>
Ofgem grant urgency status	10/08/2007
Proposal issued for consultation	10/08/2007
Close out of representations	17/08/2007
FMR issued by Joint Office to Modification Panel	21/08/2007
Modification Panel decide upon recommendation	23/08/2007
Ofgem decision expected	w/b 03/09/2007
Proposed implementation date	Likely to be with immediate effect from decision

**1 The Modification Proposal**

**Proposal 0169:**

E.ON UK has raised this Modification Proposal to address concerns, which are shared by some other market participants that a single round auction as proposed in Mod 0156 could fail to meet the needs of individual Users and

ultimately fail to meet the collective pressing needs of the market this winter. For clarity, this Proposal is based entirely on Mod 156A with the simple and straightforward difference between the two Proposals being that reference to the single round auction making only October capacity available is removed due to time constraints arising from delayed implementation of Licence obligations and the requirement for consultation on a supporting Methodology Statement. It is crucial to note that the proposed two round auction making available capacity in months November to March (inclusive) is completely unaffected by the current delays and therefore forms the body of this proposal. Contingency arrangements are also included in this Proposal, in the event of further unexpected delays, but the suggested arrangements are based on those featured in Mod 156, so will not be new to industry participants.

NG NTS has proposed in Mod 0156 that there should only be a single auction round pre-winter. As an alternative, we propose a two round auction, making the most of all available time, which should ensure better price discovery and improve transparency in the market. For clarity, we have not proposed any other significant changes to Mod 0156 and do not propose any additional opportunities for capacity surrender between auction rounds. We have made a few further, minor changes to Mod 0156, but these are aimed at clarifying the intent of the original proposal.

Our rationale for raising this alternative Proposal relates to the specific situation that the market finds itself in, heading into winter 07/08. The 2007 AMSEC auction demonstrated the scarcity of capacity, for instance at the Easington terminal, and the unprecedented extent to which Users were willing to pay for entry capacity vastly in excess of the reserve price. It is impossible to determine whether demand will continue to outstrip supply at the sold-out ASEPs and therefore, given this uncertainty, the known high demand for capacity at several sold-out ASEPs, the fact that this is a brand new auction and that the only real reference for determining a suitable bid price is the 2007 AMSEC, it makes sense to make more than one auction round available to Users. This significant additional flexibility should help prevent potentially unexpected and costly outcomes for shippers and consumers.

#### **Summary of this Proposal:**

All Auction initiation, registration and invitation as per NG's Mod 156 then auction to proceed as follows:

A two round auction with allocations after each round making available Nov, Dec, Jan, Feb & March capacity. 50% of available capacity held back in each round. Auction Round 2 to take place no more than ten (10) business days after Auction Round 1.

#### **Proposal 0169A:**

ScottishPower Energy Management has raised this Modification Proposal to put in place an auction process for trades and transfers of capacity. The key objective is to put in place a process that will allow capacity to be moved from where it is not required to where it can be used.

In terms of auction structure, the process is very much as proposed in Mod 0169, but including an arrangement to ensure that capacity cannot be moved

away from where it is required.

We propose a multiple round auction, making the most of all available time, which should ensure better price discovery and transparency. We also include as part of the process, making capacity that can be included in the trades and transfers process available to Shippers at the ASEP at which it was first made available, thus ensuring that capacity cannot be moved away from where it is required.

### **Summary of Proposal:**

A two round auction with allocations after each round making available all of Nov, Dec, Jan, Feb & March. Both rounds conducted post-QSEC bidding in October, with the allocation of each round taking no more than [10] days to ensure the process is complete before November. 50% of capacity will be made available in each round with the unsold capacity from Round 1 being offered in Round 2.

### **Both Proposals (except where indicated otherwise)**

For clarity, there would be no re-surrender of capacity between rounds.

Under current UNC arrangements, a User\* (the Transferor User\*) is able to transfer all or part of its NTS Entry Capacity\* holding to another User (the Transferee User\*) at the same Aggregate System Entry Point\* (ASEP) for any Gas Flow Day\* or consecutive number of Gas Days (the “transfer period”). This is undertaken by both the Transferor User and Transferee User notifying National Grid NTS of their desire to trade (a secondary trade of Capacity is called a transfer within the UNC) by providing the required supporting information. The effect of such System Capacity Transfers\* is that the amount of Capacity transferred is deducted from the Transferor User’s holding and added to the Transferee User’s holding for the purposes of determining Entry Capacity Overrun Charges\* and Capacity Neutrality Charges\*. The Transferor User however remains liable for Capacity charges in respect of the amount of Capacity transferred.

The Authority\* (Ofgem) has issued a Section 23 notice that if directed would place obligations on National Grid NTS to facilitate the transfer and trade of Firm\* NTS Entry Capacity between ASEPs. The applicable Exchange Rates (as defined within the Entry Capacity Transfer and Trade Methodology Statement as required under Licence Condition C8D of National Grid NTS’s Gas Transporter Licence) between ASEPs for such trade and transfers are proposed to be calculated in accordance with the Entry Capacity Transfer and Trade Methodology Statement. For clarity, implementation of this Modification Proposal is dependent upon Authority approval of this Statement.

In light of these new Licence Obligations, this Proposal seeks to amend the UNC to allow Users to request such Exchange Rates (to be referred to as “Transfer Rates” within this Proposal) and undertake Transfers (for the purposes of this proposal a transfer is where Firm Unsold NTS Entry Capacity\* at one ASEP has been allocated to another ASEP as part of the Trade and Transfer Auction) and Trades (for the purposes of this Proposal a trade is where a User has offered to surrender Firm NTS Entry Capacity at an ASEP as part of the Trade and Transfer Auction process and this Capacity has

subsequently been allocated) of Firm NTS Entry Capacity.

The auction process will be driven by ASEPs that are classified as “Recipient” ASEPs. For the purpose of this Modification Proposal a Recipient ASEP is an ASEP at which (for a given period of one calendar month), of the Firm NTS Entry Capacity that National Grid NTS is obliged to make available up to the date of the auction, no more than the minimum permitted sale quantity remains unsold, taking into account all Firm NTS Entry Capacity sold via the current auction processes.

National Grid NTS will identify the relevant months (Available Months) for the auction; i.e. months where there are one or more Recipient ASEPs and publish these as part of the invitation process. For the purposes of this Proposal National Grid NTS will only consider Available Months that fall within the period November 2007 to March 2008 inclusive. For clarification Users shall be able to (Proposal 0169A: ~~to~~) place bids at all ASEPs within a zone where there is both a Recipient ASEP and an Available Month.

### **Proposal 0169A:**

Furthermore, to ensure that entry capacity is not traded or transferred away if it is required at the ASEP at which it was originally made available, such capacity will firstly be made available at that ASEP, at an ASEP-related market price for that ASEP. For the Sold Capacity this will be greater than or equal to the weighted average price paid at the AMSEC auction held in May '07. In relation to the unsold capacity – this will be made available with a reserve price equal to the reserve price at the ASEP in the May '07 AMSEC auction..

All Available Capacity will be initially made available for sale at the ASEP at which it was originally made available. Once this initial allocation process has been completed any remaining volume of Capacity will be made available for the trades and transfers process.

### **Both Proposals:**

The proposed process to allow Users to seek to Transfer and Trade Firm NTS Entry Capacity is outlined below:

#### **Transfer Initiation Process**

1. In the event that any ASEP, for relevant months with existing physical capability (as deemed by National Grid NTS) above its Obligated Firm NTS Entry Capacity level (for the purposes of this Proposal “Obligated Firm NTS Entry Capacity” is Firm Capacity that National Grid NTS is required, pursuant to its Gas Transporter Licence to accept an application for or otherwise allocate), that has sold-out for any Available Month (for the purpose of this proposal this shall be (Proposal 0169A: ~~for the purpose of this proposal this shall be~~ i.e.) November '07 to March '08) as part of the 2007 Annual Monthly System Entry Capacity\* (AMSEC) Auction, National Grid NTS will hold pay as bid auctions (the Trade and Transfer Auctions). This will facilitate the Trade and Transfer of Firm NTS Entry Capacity between ASEPs to meet the User’s requirement (Proposal 0169A ~~requirement requirements~~) from the Trade and Transfer Auctions (Proposal 0169A ~~Transfer Auctions~~ transfer Auction).
2. National Grid NTS will identify which ASEPs are in which zone for the

purposes of the Trade and Transfer Auctions, reflecting the physical capability of the System. For winter 07/08 it is assumed that the NG 10YS 'zones' will be used. (~~Proposal 1069A For winter 07/08 it is assumed that the NG 10YS 'zones' will be used.~~)

3. Within (~~Proposal 0169 ]~~) ten (10) (~~Proposal 0169 ]~~) business days of the implementation date of this Modification Proposal National Grid NTS will identify and publish a list of Recipient ASEPs and the relevant months per Recipient; i.e. where the Recipient ASEP is sold out (Available Month). The proposed Auction (~~Proposal 0169 proposed Auction~~ auction rounds) will only consider the Available Months that fall within the period November 2007 to March 2008 (inclusive).
4. To reduce the potential number of Exchange Rates, Users will have two (2) business days to request one or more of the potential Recipient ASEPs and the Available Months to be included in any of the Trade and Transfer Auction Rounds on a good faith basis (for clarification National Grid NTS will include neither Recipient ASEPs nor Available Months that have not been requested at this stage).

#### **Trade Initiation Process**

5. National Grid NTS will publish, two (2) business days after receiving the User requests:
  - a. A definitive list of Recipient ASEPs to be included in all of the Trade and Transfer Auction Rounds as Recipients.
  - b. Available Months for each Recipient ASEP. (~~Proposal 0169 November 07 to March 08 inclusive~~)
  - c. Information on the Nodal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) of each Recipient ASEP for each Available Month.
  - d. Information on the Zonal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) for each zone per Available Month calculated in accordance with the Entry Capacity Transfer & Trade Methodology Statement.
  - e. The applicable Exchange Rate within zone as calculated according to the Entry Capacity Transfer & Trade Methodology Statement.
  - f. Exchange Rates between each zone for each Available Month as calculated according to the Entry Capacity Transfer & Trade Methodology Statement
  - g. A merit order of ASEPs per zone applicable both to within-zone transfers and out-of-zone transfers, as determined according to the Entry Capacity Transfer & Trade Methodology Statement.
  - h. A list of non Recipient ASEPs and the amount of Unsold NTS Entry Capacity available at each, per Available Month.
  - i. (~~Proposal 0169A: The reserve price and weighted average price of successful bids for each recipient ASEP at the May 07 AMSEC auction.~~)

6. As part of the trade initiation process, for (~~Proposal 0169A: As part of the trade initiation process, for~~ For) each Available Month, Users will be invited to make available Capacity (for the purposes of this Proposal such Capacity will be described as surrendered Capacity) from their Firm NTS Entry Capacity holdings, at any ASEP (if this surrendered Capacity is subsequently allocated, this will effect a trade of NTS Entry Capacity). Users wishing to take part in the process must, within two (2) business days of the invitation being issued, provide the following information to National Grid NTS:
  - a. The maximum amount of Capacity per ASEP per Available Month that they are committing to surrender in the Trade and Transfer Auction process (applicable to all auction rounds).
  - b. Confirmation that the User holds the Capacity and will continue to hold the Capacity until the Trade and Transfer Auction allocation process is complete.
  - c. Where such confirmation as required in 6b is not received National Grid NTS will not utilise such Capacity within the Trade and Transfer Auction process.

#### **Auction Invitation**

7. National Grid NTS will issue an invitation to participate in (~~Proposal 0169 Round 1 of~~ the Trade and Transfer Auction within five (5) business days of the close of the trade initiation process. Round 2 of the auction (~~Proposal 0169 Auction auction~~) will take place within ten (10) business days after Round 1 (~~Proposal 0169 after Round 1 of round 1~~).
8. National Grid NTS will publish the following information:
  - a. A definitive list of ASEPs to be included in the Trade and Transfer Auction as Recipients.
  - b. Available Months for each Recipient
  - c. Nodal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) of each Recipient ASEP for each Available Month.
  - d. Available Capacity for Allocation in each auction round in the Trade and Transfer Auction for each zone per Available Month. The Available Capacity for Allocation will be determined by the difference between the Zonal Allocation Maximum and the sum of Firm NTS Entry Capacity and increased by any Capacity offered for surrender by Users in the Trade Initiation Process (for that zone). 50% of Available Capacity shall be made available in each round, with any remaining Available Capacity from Round 1 made available in Round 2. (~~Proposal 0169A: 50% of Available Capacity shall be made available in each round, with any remaining Available Capacity from Round 1 made available in Round 2.~~)
  - e. The applicable Exchange Rate within zone as calculated according to the Entry Capacity Transfer & Trade Methodology Statement.
  - f. Exchange Rates between each zone for each Applicable Month as

calculated according to the Entry Capacity Transfer & Trade Methodology Statement.

- g. A merit order of ASEPs that will be applied in the allocation process of the Trade and Transfer Auction, for each zone for each Available Month.
- h. All non Recipient ASEPs and the amount of Available Capacity per Available Month per ASEP.
- i. The dates of the Auction Rounds. (Proposal 0169A: ~~the Auction Rounds~~ applicable auction rounds.)
- j. The reserve price and weighted average price of successful bids for each recipient ASEP at the May 07 AMSEC auction.)

#### **Trade and Transfer Auction bids**

- 9. Users may bid for Monthly NTS Entry Capacity at a Recipient ASEP for those Available Months published in the Auction Invitation and communicated within the Trade Initiation Process.
- 10. For clarification Users may also bid at any non Recipient ASEP that has Available Capacity for any month that is an Available Month for one or more Recipient ASEPs.
- 11. A bid in respect of an Available Month must state:
  - a. the identity of the User;
  - b. the ASEP;
  - c. the month;
  - d. the amount of Monthly NTS Entry Capacity applied for (in kWh/Day for each Day of the Relevant Month);
  - 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 (Proposal 0169A: ~~The-the~~) Bid Price\*, which must not be less than the Reserve Price\* applying at the ASEP (in the AMSEC auction) in pence/kWh. (Proposal 0169A: For bids for sold capacity this will be not less than the weighted average price paid at the AMSEC auction.)
- 12. A User may have, at any one time, in aggregate up to, but not more than, three (3) Capacity bids in respect of each Month at each ASEP (Proposal 0169A: Applicable in each round)
- 13. A User may submit bids, and thereafter withdraw or amend as required between the period 08:00 hours and 17:00 hours on the day of the Auction. (Proposal 0169A: ~~on the day of the Auction~~)
- 14. National Grid NTS will reject a bid (and it will therefore not be part of the allocation process described below):
  - a. where any of the above requirements are not met; or
  - b. where the transportation credit arrangements require us to do so (as set

- out in UNC Sections B2 and V3) against a User; or
- c. if a User submits more than three (3) bids per ASEP, per Available Month, National Grid NTS may reject all of that User's bids for the same ASEP and the same Available Month.

### **Bid Allocation Process**

15. Users' bids for an Available Month will be allocated as follows:

#### **Proposal 0169A:**

##### At the ASEP

- a. Where there is a Recipient with an Available Month an allocation process will be initiated for that Month.
- b. All Capacity bids submitted at an ASEP will be ranked in order of Bid Price (the highest price ranking first); i.e. a bid stack is created. Where equal priced bids are submitted (equal in price to four decimal places), National Grid NTS will rank them according to time stamp and according to the earliest time-stamped bid.
- c. Available Capacity for Allocation will be allocated to the highest ranked bid first, and then to each subsequent ranked bid in accordance with the following process;
  - i. For a bid at an ASEP where the Bid Quantity is less than the Available Quantity, the bid is allocated in full
  - ii. For a bid at an ASEP where the bid if allocated is up to or greater than remaining Available Capacity for Allocation - where the Bid Amount\* requested exceeds the available Capacity for Allocation (taking into account any previous allocations), the User will (subject to following paragraphs) be allocated the remaining unallocated amount;
  - iii. Where the allocated amount would be less than User specified minimum amount - the bid will be rejected and the process will consider the next bid in the stack (sorted on price and timestamp)
- d. In the above allocation process, Capacity will be allocated in accordance with the following:
  - i. For each allocated bid at an ASEP, National Grid NTS will initially reduce the amount of Unsold Capacity followed by Surrendered Capacity at an ASEP by the total amount allocated. Any such amounts are therefore deemed to have been sold for the purposes of National Grid NTS' obligations under its Gas Transporters Licence to make available Obligated Firm NTS Entry Capacity amounts; and

#### **Both Proposals:**

##### within zone

- a. Where there is a Recipient with an Available Month, a within zone allocation process will be initiated for that Month.



- b. All Capacity bids submitted in relation to all ASEPs within the zone will be ranked in order of Bid Price multiplied by Transfer Rate (the highest price ranking first); i.e. one bid stack is created. Where equal priced bids are submitted (equal in price to four decimal places), National Grid NTS will rank them according to time stamp and according to the earliest time-stamped bid.
- c. Available Capacity for Allocation will be allocated to the highest ranked bid first, and then to each subsequent ranked bid in accordance with the following process;
  - i. For a bid at an ASEP where the bid if allocated is up to or greater than remaining Available Capacity for Allocation - where the Bid Amount\* requested exceeds the available Capacity for Allocation (taking into account any previous allocations), the User will (subject to following paragraphs) be allocated the remaining unallocated amount;
  - ii. For a bid at a Recipient ASEP where the Bid Amount, if allocated, will result in greater than the Nodal Allocation Maximum at a Recipient ASEP - where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocation Maximum level at that Recipient ASEP (taking into consideration any previous allocations to or from that Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount at that Recipient ASEP, and no further allocation shall be made in respect of that Recipient ASEP;
  - iii. For a bid at a non Recipient ASEP, where the Bid Amount, if allocated, results in greater than the Obligated level of Firm NTS Entry Capacity at that ASEP - where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Obligated level of NTS Entry Capacity at that non Recipient ASEP (taking into consideration any previous allocations to or from that non Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount within the Obligated level at that non-Recipient ASEP, and no further allocation shall be made in respect of that non Recipient ASEP;
  - iv. Where the allocated amount would be less than User specified minimum amount - the bid will be rejected.
- d. In the above allocation process, Capacity will be transferred from an ASEP in accordance with the following:
  - i. For each allocated bid at an ASEP, National Grid NTS will initially reduce the amount of Unsold Capacity followed by Surrendered Capacity at an ASEP or ASEPs by the total amount allocated multiplied by the Exchange Rate. Any such amounts are therefore deemed to have been sold for the purposes of

National Grid NTS' obligations under its Gas Transporters Licence to make available Obligated Firm NTS Entry Capacity amounts; and

- ii. Under i. above, National Grid NTS will satisfy a bid at an ASEP from the available Capacity at ASEPs according to the merit order published in the Auction invitation, subject to any previous allocated volumes.

out of zone

16. Following completion of the process above where there is a Recipient ASEP with an Available Month that has an amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocated Maximum (taking into consideration any previous allocations to that Recipient ASEP), an out of zone allocation process will be initiated for that Month.

- a. For each ASEP that has either Unsold or Surrendered NTS Entry Capacity available (taking into consideration any previous allocation to or from the ASEP) and is within a zone that has Available Capacity for Allocation (taking into consideration any previous allocations) a bid stack will be created.
- b. All remaining unallocated bids will be translated into a bid (Translated Bids) at each relevant ASEP, using the inter zone Exchange Rates (as defined within the Entry Capacity Transfer & Trade Methodology Statement) published in the Auction invitation. By translating a bid National Grid NTS will create a Bid Value (Bid Price \* Exchange Rate).
- c. Bids will be ranked in order of Bid Value, the highest valued ranking first (i.e. one bid stack is created for each relevant ASEP). Where equal valued bids are submitted (equal in price to four decimal places), (Proposal 0169A: ~~equal in price to four decimal places~~) National Grid NTS will rank them according to time stamp and according to the earliest time stamped bid.
- d. ASEPs out of (Proposal 0169A: ~~out of within a~~) zone will be ranked according to the merit order published in the Auction invitation.
- e. Available Capacity for Allocation will be allocated to the highest ranked bid across all relevant ASEPs first, taking into account the merit order of ASEPs, and then to each subsequent ranked bid in accordance with the following process;
  - i. For a bid at an ASEP where the bid, if allocated is up to or greater than the remaining Available Capacity for Allocation - where the Bid Amount requested exceeds the available Capacity for Allocation (taking into account any previous allocations), the User will (subject to following paragraphs) be allocated the remaining unallocated amount
  - ii. For a bid at a Recipient ASEP where the bid, if allocated, will result in greater than the Nodal Allocation Maximum at a Recipient ASEP - where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the

- Nodal Allocation Maximum at that Recipient ASEP (taking into consideration any previous allocations to or from that Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount at that Recipient ASEP, and no further allocation shall be made in respect of that Recipient ASEP;
- iii. For a bid at a non Recipient ASEP, where the bid, if allocated, results in greater than the Obligated level of Firm NTS Entry Capacity at that ASEP - where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Obligated level at that non Recipient ASEP (taking into consideration any previous allocations to or from that non Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount within the Obligated level at that non Recipient ASEP, and no further allocation shall be made in respect of that non Recipient ASEP;
  - iv. Where the allocated amount would be less than User specified minimum amount - the bid will be disregarded.
- f. Where a bid is fully satisfied all other translated derived from this bid will be ~~(Proposal 0169A: all other translated derived from this bid will be associated bids at the same ASEP for the same Available Month are)~~ subsequently rejected.
- g. In the above allocation process, Capacity will be transferred from an ASEP in accordance with the following:
- i. For each allocated bid, National Grid NTS will initially reduce the amount of Unsold Capacity, followed by the Surrendered Capacity, at an ASEP or ASEP according to the bid amount and taking into account the applicable Exchange Rate ~~(Proposal 0169A: Exchange Rate exchange rate)~~. Any such amounts are therefore deemed to have been sold for the purposes of National Grid NTS' obligations under its Gas Transporters Licence to make available Obligated Firm NTS Entry Capacity amounts ~~(Proposal 0169A: ; and)~~.
17. 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.

### **Treatment of Capacity Made Available by Users**

#### **Proposal 0169:**

18. Where Capacity made available by Users in the Trade Initiation Process has resulted in a given trade (capacity has been allocated), the Users will receive a bid price based on the amount(s) allocated multiplied by the relevant Exchange Rate(s). The User's holdings at the ASEP where the Capacity was made available will be reduced accordingly for the period of the transfer. For clarity, no reserve price shall be applicable to the Surrendering User's Capacity.

### **Proposal 0169A:**

18. Where Capacity made available by Users in the Trade Initiation Process has resulted in a given trade (been allocated);
  - a. As part of the 'at the ASEP bid allocation process' the Users will receive a bid price that is greater than the weighted average price paid at the AMSEC auction held in May '07
  - b. As part of 'within zone' and 'out of zone bid allocation processes the Users will receive a bid price based on the amount(s) allocated multiplied by the relevant Exchange Rate(s). The User's holdings at the ASEP where the Capacity was made available will be reduced accordingly.

### **Both Proposals:**

19. Where Capacity that was made available by Users in the Trade Initiation Process has not been allocated, the Users holdings at the ASEP where the Capacity was made available will remain unchanged.

### **Results Publication**

20. After Auction Round 1 and again after Round 2, (~~Proposal 0169A: Auction Round 1 and again after Round 2~~ the auction rounds) National Grid NTS will provide to Users their allocations within seven (7) (~~Proposal 0169A: seven(7) ten [10]~~) Business Days after completion of each Auction round and thereafter within a further two (2) Business Days the following information to all Users:
  - a. in respect of each ASEP for each Available Month:
    - i. the highest, lowest and weighted average price of all accepted bids;
    - ii. the aggregate amount of Monthly NTS Entry Capacity allocated;
    - iii. the total Capacity sold
    - iv. the total number of Users that submitted successful bids;
    - v. the total number of Users that submitted unsuccessful bids;

### **Contingency Arrangements**

#### **Proposal 0169:**

21. It is proposed that the following contingency arrangements are implemented:
  - a. In the event that this Proposal is implemented on such a date that prevents National Grid NTS from completing the Trade and Transfer Auction and Allocation process prior to the commencement of the Capacity Month for which the NTS Entry Capacity has been bought, that Capacity Month will be excluded from the Trade and Transfer Auction.
  - b. It should be noted, however, that the Proposer fully intends that November capacity should be available for trade and transfer and this Proposal has been drafted to achieve this based on currently available

information.

**Proposal 0169A:**

21. It is proposed that the following contingency arrangements are implemented:

- a. In the event that the proposal is not implemented prior to the 2007 QSEC Auction invitation being issued or during the 2007 QSEC auction period, ScottishPower Energy Management proposes that the Trade and Transfer Auction be held on the first reasonably practical business day after the final QSEC auction round has closed.
- b. In the event that this Proposal is implemented on such a date that prevents National Grid NTS from completing the Trade and Transfer Auction and Allocation process prior to the commencement of the Capacity Month for which the NTS Entry capacity has been bought, that Capacity Month will be excluded from the Trade and Transfer Auction. It is assumed for the purposes of this mod that there will be no trade and transfer allocation for the month of October 2007.

**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;*

**Both Proposals:**

Implementation, by providing the opportunity for Users at sold-out ASEPs to procure capacity through a transfer or trade from another ASEP, might avoid the sterilisation of capacity and stranding of gas offshore, thereby facilitating the achievement of this objective.

**Proposal 0169A:**

In addition to the above, implementation might prevent inefficient transfer of capacity away from where it is required, such as at a storage site. However, some respondents believed that this might lead to capacity being procured at price that would not be market reflective which could be inconsistent with the achievement of this objective.

*Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

**Both Proposals:**

Implementation, is anticipated to meet new Licence conditions on National Grid NTS to facilitate the transfer and trade of capacity between ASEPs in the constrained period.

*Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition:*

- (i) *between relevant shippers;...*

**Both Proposals:**

Implementation, would promote the achievement of this objective by use of two rounds of a pay-as-bid auction for the allocation of any available capacity and the use of ex-ante Exchange Rates.

**Proposal 0169A:**

Implementation, it was argued, would take away the ability within Proposal 0169 to game and shut down specific ASEPs. The potential for such anti-competitive activity, and the associated windfall gains, might present a barrier to entry for those seeking to develop new entry points.

However, some respondents believed that implementation might give undue advantage to Users that did not use the opportunity of procuring capacity in the 2007 AMSEC auctions, including those that expected a transfer and trade mechanism to be in place. Some respondents also believed that the potential for procuring capacity at a price that does not reflect its value in the transfer and trade auctions was inconsistent with the achievement of this objective. Such respondents also pointed out that such an outcome would adversely affect Users that purchased capacity at an ASEP with the intention of transferring it to another ASEP.

The Proposer countered that prices at the relevant ASEP would reflect years of capacity auctions and that these prices would be undermined if Proposal 0169 were implemented.

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

**Both Proposals:**

Implementation would enhance UK security of supply by affording Users the opportunity to obtain additional Capacity at sold out ASEPs and thereby make greater use of the physical capability of the NTS, than would otherwise be the case.

**Proposal 0169A**

In comparison to Proposal 0169, implementation could, help maintain the level of storage available to the market by ensuring that storage sites could not be shut-down.

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

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

**Both Proposals:**

Implementation should improve the operation of the System by optimising the release of capacity to where it is valued most. Such efficient allocation of capacity, for example, could potentially reduce the requirement for balancing actions on the part of National Grid NTS.

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

**Both Proposals:**

Some costs associated with the delivery of the required system changes are anticipated. Respondents believed that these costs will be reasonable in the context of the benefits of implementation.

Additional revenue as a consequence of the additional auctions might be expected.

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

**Both Proposals:**

No specific proposal has been made for cost recovery. Existing mechanisms are in place for redistribution of any additional auction income.

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

**Both Proposals:**

No such consequences have been identified.

**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**

**Both Proposals:**

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 have an impact on the UK Link system, but it is anticipated that any development work would be prioritised and fast-tracked as far as possible to meet the proposed implementation date.

**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)*

**Both Proposals:**

Implementation would introduce a new, unprecedented auction process into the existing capacity allocation regime and as such would require additional analysis, risk management and formulation of bid strategies by Users. For

Users wishing to participate, however, it is assumed that this would be an expected and reasonable burden to accept in return for capacity being made available for re-allocation to where it was valued most.

*Development and capital cost and operating cost implications*

**Both Proposals:**

It is assumed that such costs would be modest and accepted by Users that wished to participate in the auctions.

*Consequence for the level of contractual risk of Users*

**Both Proposals:**

It is anticipated that any buy-back risk would be effectively minimised by National Grid NTS and therefore not materially affect the contractual risk faced by Users.

Some respondents believed that implementation would reduce the current risks faced by Users such as sterilisation of capacity and stranding of gas held offshore.

**Proposal 0169A:**

It was argued that implementation would reduce the risk of gas being stranded at individual ASEPs due to the speculative behaviour of others, who have obtained all capacity at that ASEP.

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

**Both Proposals:**

Implementation, by reducing the costs associated with sterilisation of capacity and stranding of gas held offshore, would be expected to benefit other parties in the gas chain.

Where storage operators operated at a site with no third party access, i.e. only one party was actually using the ASEP, all the capacity required could be transferred away from the site – including interruptible rights, in the event of implementation. This risk could be reduced if Proposal 0169A were implemented.

**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**



**Both Proposals:**

- Use of two auction rounds, is a fair approach for all Users, which limits potential for abuse, unjust speculation and capacity hoarding.
- Would facilitate more flexibility for capacity to be reallocated to where Users value it most this winter, leading to greater certainty in the market.
- Ex-ante Exchange Rates and fixed 1:1 Exchange Rates within zones, would add certainty, reduce risks and improve the attractiveness of the process for Users.
- Would afford Users the opportunity to secure additional capacity, in excess of an ASEP's obligated level, therefore allowing gas flows onto the System that may otherwise be prevented.
- Would help avoid the potential sterilisation of Entry Capacity and hence costs being inefficiently incurred.
- Would be a positive building block for an enduring, long-term solution to the facilitation of trade and transfer of entry capacity after winter 2007/08, in-line with National Grid NTS's anticipated Licence obligation.

**Proposal 0169A:**

- Would, in contrast to Proposal 0169, avoid inefficiencies associated with moving capacity away from an ASEP where it was required.

**Disadvantages**

**Both Proposals:**

- Would introduce a further auction and some additional complexity into Entry Capacity allocation arrangements.
- Would reduce the unsold level of Firm Capacity available at certain ASEP(s) in the within-year Entry Capacity Auctions.
- The two rounds in October would be making capacity available for November, which might be considered short notice.

**Proposal 0169:**

- Might, in contrast to Proposal 0169A, reward speculative behaviour, gaming and hoarding in previous AMSEC auctions.

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

Responses were received from the following:

		<b>0169</b>	<b>169A</b>	<b>Preference</b>
BG Gas Services Limited	BG	Support	Not in Support	0169
British Gas Trading Limited	BGT	Support	Not in Support	0169

Centrica Storage Limited	CSL	Support	Not in Support	0169
EDF Energy	EDFE	Support	Qualified Support	0169
E.ON UK plc	E.ON	Support	Not in Support	0169
Exclerate Energy L.L.C.	EXE	No response	Not in Support	None
National Grid Distribution	NGD	Support	Not in Support	0169*
National Grid NTS	NGNTS	Support	Support	0169
RWE Npower and RWE Trading GmbH	RWE	Support	Not in Support	0169
Scottish Power	SP	Not in Support	Support	0169A
Scottish and Southern Energy plc	SSE	Support	Not in Support	0169

\* confirmed by telephone

In respect of Proposal 0169 of the ten responses received, nine were in support and one was not in support.

In respect of Proposal 0169A, of the eleven responses received, two were in support, one offered qualified support and eight were not in support.

In terms of preferences, one did not state a preference; nine preferred 0169 and one preferred 0169A.

**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**

No programme for works, that would affect the proposed implementation date, has been identified.

**15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)**

An implementation date within the week commencing 3 September 2007 has been suggested.

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

No such implications were 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 23 August 2007, of the nine Voting Members present, capable of casting ten votes:

Nine votes were cast in favour of implementing Modification Proposal 0169. Therefore the Panel recommended implementation of this Proposal.

**Two votes were cast in favour of implementing Modification Proposal 0169A. Therefore the Panel did not recommend implementation of this Proposal.**

The Panel then proceeded to vote on which of the two Proposals would be expected to better facilitate achievement of the Relevant Objectives. Of the nine Voting Members present, capable of casting ten votes, nine votes were cast in favour of implementing Proposal 0169 in preference to Alternative Proposal 0169A. No votes were cast in favour of implementing Proposal 0169A in preference to Alternative Proposal 0169.

**18 Transporter's Proposal**

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

**19 Text**

**Both Proposals:**

Suggested legal text has been provided and is published separately.

For and on behalf of the Relevant Gas Transporters:

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