

CODE MODIFICATION PROPOSAL No 0163V
Offering capacity at Donor ASEP in Trades & Transfers Process
Version 1.0

Date: 07/08/2007

Proposed Implementation Date: 13/08/2007

Urgency: Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

National Grid NTS has a licence obligation to introduce trades and transfers for entry capacity rights in the constrained period. The principal aim is to move capacity from where it is not required to where it is. Under the arrangements proposed within Modification Proposals 0156 and 0156A “Transfer and Trading of Capacity between ASEPs”, there are provisions for the trade and transfer of sold and unsold capacity. A problem with this approach is that it may allow for the transfer away of capacity rights at a sold-out ASEP where there is still unsatisfied demand. This unsatisfied demand might be required at the ASEP at which it was bid. Apart from such inefficiency, there is also serious potential for gaming, thanks the ability to transfer capacity away from these ASEPs - effectively “shutting down” storage sites or entry terminals. Along with the moving of the firm rights goes interruptible rights under the existing rules.

This Proposal seeks a simple solution to ensure that such speculative behaviour is not rewarded, but more importantly that such unintended consequences are avoided, whilst ensuring that nobody who has secured capacity rights with a view to trade and/or transfer loses out financially.

It is proposed that, in addition to all the provisions embodied within 0156A, the following provisions shall be included:

Basically, unsold capacity and capacity surrendered for the trades and transfers process within zone will be offered firstly at the Donor ASEP – this will ensure that the capacity is made available where it is required at the entry point at which it was purchased. “Unsold” capacity will be made available at the reserve price for the specific ASEP. “Sold” capacity which is surrendered would be offered at a reserve price based on the weighted average price of successful bids paid at auction. It could be argued that this will still reward speculative behaviour but applies only to the auctions for 07/08, and will not encourage future speculative behaviour.

All remaining capacity volumes, including all sold and unsold capacity not bought at the ASEP, will be available for trade and transfer at the relevant exchange rate within and between zones, ensuring that capacity is moved away from where it is not required to where it is.

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

Modifications 0156/0156A will be considered at the Modification Panel on 02/08/07. In the absence of the additional provisions within this Proposal, any decision to implement one of the trades and transfers Proposals could give rise to serious consequences, which we believe are an unintended by-product of the process. Hence, we believe that a decision on this mod is required before the trades and transfer process is initiated. The following timetable is therefore proposed:

Process	Date
Ofgem grant urgency status	24/07/2007
Proposal issued for consultation	25/07/2007
Discussion at Transmission Workstream	02/08/2007
Close out of representations	03/08/2007
FMR issued by Joint Office to Modification Panel	06/08/2007
Modification Panel decide upon recommendation	07/08/2007
Ofgem decision expected	10/08/2007
Proposed implementation date	13/08/2007

It should be noted that the date for Ofgem decision and implementation are identical to that set-out for Proposals 0156/0156A

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.

We believe that the mod should proceed as Urgent on a reduced timetable for consultation.

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

Standard Special Condition 11 1.(a)

Implementation of this Proposal would remove the inefficiency of being able to transfer or trade capacity away from where it was required, at a storage site or other entry point.

Standard Special Condition 11 1.(d)

Implementation of this Proposal would enhance competition by taking away the ability to game and shut down specific ASEPs. This possibility would also present a barrier to entry for people interested in developing new entry points.

Standard Special Condition 11 1.(e)

Implementation of this Proposal would enhance security of supply for domestic customers because it would ensure that storage sites or entry points cannot be shut down. In a gas deficit, or at periods of high demand, it will ensure that gas can

flow from these facilities.

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

Implementation would help maintain the level of storage available to the market in the event of a gas deficit emergency and at periods of high demand. It would also mean that capacity could not be transferred away from entry terminals where it is required to flow gas into the system.

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

a) The implications for operation of the System:

No adverse implications have been identified. Greater efficiency of capacity allocation could potentially reduce the requirement for the National Grid NTS to take balancing actions.

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

It is believed that the consequences for Entry Capacity income would be neutral.

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:

Existing mechanisms would be applied to redistribute Entry Capacity income.

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

No such consequence has been identified.

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)

No such requirement has been identified.

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

No such implications have been identified.

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

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

Could be part of the preferred trades and transfer methodology, hence little administration or additional procedures are required. Might work more smoothly as part of a multi-round auction, but could also work as one-round two-phase process.

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

These would be similar to those identified for Proposals 0156/0156A but Users wishing to acquire capacity at the ASEP that capacity was surrendered would probably face less costs than under either of these Proposals.

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**

Implementation would reduce the risk of gas being stranded at individual ASEPs due to the speculative behaviour of others that have obtained capacity at the same ASEP.

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)

Under the proposed arrangements, where storage operators operate at a site with no third party access, i.e. only one party is actually using the ASEP, all the capacity required can be transferred away from the site – including interruptible rights. This proposal will ensure that in such circumstances, there are still firm rights available for those who need to operate the site.

Also, this will prevent people from being able to take capacity away from any ASEP where it is most required and there is unsatisfied demand.

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

No such consequences have been identified

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

Advantages

Will avoid gas in storage being stranded and unable to be brought into market when needed this coming winter.

Will avoid inefficiencies associated with moving capacity away from an Entry point where it is required.

Reduces the potential for speculative behaviour, gaming and hoarding

Disadvantages

Potentially, people can buy capacity at the Donor ASEP to prevent it going through the trades and transfer process, (although there is no commercial incentive to do so).

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

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

A suggested timetable is set out above.

15 Comments on Suggested Text

16 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) B

Proposer's Representative

Steve Gordon (ScottishPower Energy Management)

Proposer

Steve Gordon (ScottishPower Energy Management)