

Modification Report
Introduction of the AMTSEC Auction / Introduction of Unsold Entry Capacity
Transfers
Modification Reference Numbers 0150/150A
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 the proposal is linked to:

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

If this proposal were implemented ahead of this winter it would provide Users with a mechanism to transfer unsold NTS entry capacity to ASEPs where demand for capacity is currently greater than obligated firm levels. Therefore this 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*

This proposal needs to be implemented in advance of the winter period, 1 October 2007 - 31 March 2008. National Grid however are further constrained in the timeframes available to them in that the AMTSEC auction can not be run concurrently with the QSEC auction which is in September 2007 and therefore needs to be completed ahead of this date.

Given the potential commercial impact identified above, Ofgem agreed that, in these circumstances, the introduction of the AMTSEC auction is an imminent date related event for the purposes of this criterion.

Procedures Followed:

The procedures agreed with Ofgem for this Proposal were:

Process	Date
Proposal issued for consultation	11/05/07
Close out of representations	25/05/07
Urgent modification report issued	29/05/07
Modification Panel decide on upon recommendation	07/06/07
Revised urgent Modification Report sent to Ofgem	07/06/07
Ofgem Decision Expected	12/06/07
Proposed implementation date	02/07/07

1 The Modification Proposal

Proposal 0150

Under the current price control (2002-2007), National Grid NTS is obliged under its Gas Transporter (GT) Licence to use all reasonable endeavours to offer for sale a baseline level of capacity at each Aggregate System Entry Point (ASEP) in at least one clearing allocation. This provides certainty to Users of the available capacity amounts, but does not allow the flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that have not been sold) to

be reallocated to where Users value it most once the baselines have been set at the start of a price control.

Ofgem have therefore proposed as part of their Final Proposals for the Transmission Price Control Review (TPCR) that an obligation is placed on National Grid NTS to facilitate the transfer of unsold capacity between ASEPs during the constrained period. National Grid NTS has accepted in principle Ofgem's Final Proposals.

National Grid NTS therefore propose that an amendment is introduced within the UNC that allows the transfer of Unsold capacity between ASEPs via the introduction of an Annual Monthly Transfer System Entry Capacity (AMTSEC) auction.

National Grid NTS propose that this auction will facilitate the transfer of Unsold capacity between ASEPs for a period, as specified within the auction invitation letter, but for not more than 6 calendar months i.e. for this winter period only.

The process is described below: -

Transfer Initiation Process

1. In the event that any ASEP sells out for any month as part of the Annual Monthly System Entry Capacity (AMSEC) auction National Grid NTS will hold another pay as bid auction (the Annual Monthly Transfer System Entry Capacity "AMTSEC" auction) to facilitate the transfer of unsold entry capacity between ASEPs. The AMSEC auction will therefore be the last opportunity for shippers to seek to purchase any unsold baseline capacity at an ASEP before it is made available to shippers for purchase at other sold out ASEPs.
2. National Grid NTS will identify and publish in the AMTSEC auction invitation the relevant months for the AMTSEC auction i.e. where one or more ASEP is sold out ("Available Month"). For clarity in the first AMTSEC auction National Grid NTS will only consider Available Months that fall within the period October 2007 to March 2008.
3. For each month where one or more ASEP is sold out ("Available Month"), each ASEP is classified as one of the following
 - a. Recipient ASEP – no unsold capacity available i.e all capacity made available in the AMSEC auction has been sold ("sold out")
 - b. Donor ASEP – unsold capacity still available i.e not all capacity made available within the AMSEC auction has been sold ("not sold out")
4. Dependent upon the implementation date of this modification National Grid NTS will publish within 2 business days of publication of the results of the AMSEC auction or within 2 business days of the implementation of this modification, the Recipient and Donor ASEPs for each Available Month and invite Users to register to be able to participate in the AMTSEC auction. If a User desires to participate in the AMTSEC auction they must within 5 business days of the publication of the Recipient and Donor ASEPs:
 - a. commit to pay an application fee for those bids that are successful, to

National Grid NTS (as stated in National Grid NTS' Transportation Charging Statement), please note the UNC 2 month notification period for charging will not be applied – this will entitle such Users to see the auction invitation information, as described below, and place bids, as desired, in the AMTSEC auction;

AMTSEC invitation

5. For those Users that have successfully registered (as part of the Transfer Initiation Process) to participate in the AMTSEC auction (“AMTSEC Users”), National Grid NTS will publish within 10 business days of the invitation and with at least 5 business days notice prior to the AMTSEC auction, an invitation for the AMTSEC auction containing:
 - a. the date on which the AMTSEC auction will be undertaken;
 - b. the Nodal Maximum for each Recipient ASEP
 - c. an indicative Exchange Rate matrix for each Recipient ASEP and each Available Month containing:
 - i. the Potential Donor ASEPs (those ASEPs from which Unsold capacity could be transferred)
 - ii. the maximum amount of Monthly NTS Entry Capacity that can be transferred from that Donor to the Recipient ASEP
 - iii. the indicative Exchange Rate that would apply to the transfer of the Maximum Capacity amount that can be transferred between that Donor and the Recipient, independent of any other transfers
 - iv. the Available Months
6. National Grid NTS will determine the Transfer Rates and Nodal Maximum in accordance with the Entry Capacity Transfer and Trade Methodology Statement. National Grid NTS will be obligated to produce this statement under its GT Licence as a result of acceptance of Ofgem’s Final Proposals for the TPCR.
7. It is expected that such Licence conditions will oblige National Grid NTS to determine Transfer Rates in accordance with the Entry Capacity Transfer and Trade Methodology Statement. National Grid NTS intends to consult on this statement in parallel with the consultation on this proposal. It is expected that National Grid NTS will be obliged under its GT licence to determine Transfer Rates that avoid undue increases in the costs (including the costs incurred in respect of the non delivery of obligated entry capacity rights) that are reasonably expected to be incurred as a result of effecting the transfer of obligated entry capacity.
8. For clarity implementation of this modification proposal is dependent upon Ofgem approval of the Entry Capacity Transfer and Trade Methodology statement.

AMTSEC auction bids

9. AMTSEC 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 Transfer Initiation Process.

10. A bid in respect of an Available Month must state:
 - a. the identity of the User (must have participated in the Transfer Initiation Process);
 - b. the Recipient ASEP;
 - c. the Available Month;
 - d. the amount of Monthly NTS Entry Capacity applied for (in kWh/Day);
 - e. the minimum amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity which the User is willing to be allocated; and
 - f. the bid price, which must not be less than the Reserve Price at the Recipient ASEP (in the AMSEC auction) in p/kWh.
11. A User may have, at any one time, in aggregate up to but not more than 5 capacity bids in respect of each month at each Recipient ASEP.
12. A User may submit bids, and thereafter withdraw or amend as required during the period 08:00 hours to 17:00 hours
13. National Grid NTS will reject a bid (and it will therefore not be part of the allocation process described below) where
 - a. any of the above requirements are not met; or
 - b. where a credit sanction is in place against a User.

Bid Allocation Process

14. User's bids will be allocated as follows:
 - a. All capacity bids submitted in relation to all Recipient ASEPs in respect of each Available Month will be ranked in order of Bid Price (the highest price ranking first) i.e. one bid stack is created for each Available Month. Where equal priced bids are submitted National Grid NTS will rank them according to time stamp and will allocate the earliest time stamped bid.
 - b. Unsold Monthly NTS Entry Capacity will be allocated to the highest ranked bid first, and then to each subsequent ranked bid in accordance with the following process;
 - i. Treatment of transfers greater than unallocated amount of Unsold Capacity available for transfer - where the Bid Amount requested exceeds the unallocated amount of Unsold capacity available for transfer (taking into account any previous capacity transfers), the User will (subject to following paragraphs) be allocated the remaining unallocated amount
 - ii. Treatment of transfers resulting in greater than Nodal Maximum at a Recipient ASEP - where the bid quantity exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Maximum at that Recipient ASEP (taking into consideration any previous capacity transfers to that Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated

amount within the Nodal Maximum at that Recipient ASEP, and no further allocation shall be made in respect of that Recipient ASEP;

- iii. Allocated amounts less than User specified minimum amount - where the amount to be allocated in respect of a bid pursuant to the above is less than the minimum amount specified in the capacity bid, the bid will be disregarded.
 - c. If a bid is rejected at any stage of the allocation process it will not be considered at a later stage of the allocation process.
 - d. In the above allocation process, capacity will be transferred from a Donor ASEP in accordance with the following:
 - i. For each allocated bid at a Recipient ASEP, National Grid NTS will reduce the amount of unsold capacity available for transfer by an amount determined through application of a Transfer Rate. Any such transferred amounts are therefore deemed to have been sold for the purposes of National Grid NTS' obligations under its GT Licence to make available baseline, obligated firm entry capacity amounts; and
 - ii. National Grid NTS will satisfy a bid at a Recipient ASEP from a Donor ASEP or ASEPs with the best available Transfer Rate(s).
 - iii. Where there are two or more potential Donor ASEPs that could satisfy a bid at a Recipient ASEP (i.e. they have the same Transfer Rate to the Recipient ASEP), capacity will be transferred from the Donor ASEP with the largest amount of unsold capacity first. Where one or more such Donor ASEPs have the same amount of unsold capacity, such Donor ASEPs shall be ranked equally and the amount of unsold capacity reduced proportionally between them.
15. For the avoidance of doubt, Users will pay capacity charges as for the AMSEC auction i.e. allocated bid amount multiplied by the relevant bid price for each Available Month.

Results Publication

16. National Grid NTS will provide to Users their allocations within 15 Business Days after completion of the auction and thereafter within a further 2 Business Days the following information to all Users:
- a. in respect of each Recipient ASEP for each Available Month:
 - i. the highest, lowest and weighted average price of all accepted capacity bids;
 - ii. the aggregate amount of Monthly NTS Entry Capacity allocated;
 - iii. the total number of Users that submitted capacity successful bids;
 - iv. the total number of Users that submitted capacity unsuccessful bids;

- b. in respect of each Donor ASEP for each Available Month:
 - i. the amount by which the Unsold NTS Entry Capacity was reduced; and
 - ii. the remaining amount of Unsold NTS Entry Capacity.

Contingency Arrangements

17. For 2007, it is proposed that the following contingency arrangements are implemented:

- a. In the event that this Proposal is not implemented by the implementation date of the 2nd July 2007, then step 2 onwards will apply 2 business days from the implementation date of this Proposal i.e. National Grid NTS will publish within 2 business days of implementation of this Proposal the Recipient and Donor ASEPs for each Available Month and invite Users to register to be able to participate in the AMTSEC auction.
- b. In the event that this proposal is implemented prior to (i.e. National Grid NTS is unable to complete the AMTSEC auction prior to the QSEC auction invitation being issued) or during the 2007 QSEC auction period, National Grid NTS proposes that the AMTSEC auction be suspended until the first available day after publication of the QSEC auction results.
- c. In the event that this proposal is implemented on such a date that prevents National Grid NTS from completing the AMTSEC auction prior to the commencement of the capacity delivery period, that capacity delivery period will be excluded from the AMTSEC auction

Proposal 0150A

Under the current price control (2002-2007), National Grid NTS is obliged under its Gas Transporter (GT) Licence to use all reasonable endeavours to offer for sale a baseline level of capacity at each Aggregate System Entry Point (ASEP), in at least one clearing allocation. This provides certainty to Users of the available capacity amounts, but does not allow for the flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that have not been sold) to be reallocated to where Users value it most, once the baselines have been set at the start of a price control.

Ofgem proposed as part of their Final Proposals for the Transmission Price Control Review (TPCR) that a Licence obligation is placed on National Grid NTS to facilitate the transfer of unsold capacity between ASEPs. It should 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.

E.ON UK does not propose implementation of an "AMTSEC" auction, as per Modification Proposal 0150. Firstly, we propose that an additional, final "round" be introduced to the AMSEC auction in 2007 to facilitate the transfer of unsold capacity within Zones. As such, we propose that NG issue an

invitation, within 2 days of completion of the 2007 Intra-zone Sold Capacity Trade Request Process (Mod 0151A) but giving at least 7 days notice to Users, to participate in an “extra round” of the 2007 AMSEC auction.

For clarity, E.ON UK proposes that a 1:1 Transfer Rate shall apply for transfers of unsold capacity within zones, subject to nodal maxima. We note that National Grid NTS / Transco has proposed this concept on a number of occasions: In Modification Proposal 0118 and also in 1999 during a consultation on introduction of capacity auctions.

It should be noted that this Proposal does not allow for the transfer of unsold capacity between zones. The reason for this is that we believe a single cross-zone transfer mechanism (as described as part of Mod 151A), enabling the prevention of sterilised capacity, is more easily evaluated and will result in more efficient decisions in the capacity auctions.

1. The Proposal (post-2007 AMSEC only):

E.ON UK proposes that an additional round of the AMSEC is run whereby:

- Users are invited to bid, in a pay-as-bid auction, for unsold capacity following completion of the 2007 AMSEC auction and following the 2007 Intra-Zone Sold Capacity Transfer Request Process (Mod 0151A), based on information published by NG NTS on remaining unsold levels at each ASEP.
 - Users will then bid for unsold capacity at each ASEP.
 - Once received, all User capacity bids shall be ranked by NG NTS by Zone, rather than by ASEP. For definition of “Zones”, see below.
 - NTS Entry Capacity shall be allocated to the capacity bids in respect of a Zone in order of price (highest priced bid first).
 - Where the amount (in kWh/d) of NTS Entry Capacity applied for under a bid exceeds the amount of available capacity in respect of the individual ASEP to which the bid relates, capacity will be transferred on a 1:1 exchange rate from other ASEPs within the same zone (from the ASEP which has the largest amount of remaining unallocated capacity first), subject to the Nodal Maximum at such ASEP; i.e. the total amount of capacity transferred during such allocation process shall not exceed an amount calculated as the Nodal Maximum less the total amount of NTS Entry Capacity sold in previous auctions.
 - Where the amount of capacity bid for cannot be satisfied by NG NTS in full (due to nodal maximum constraints or insufficient capacity at other ASEPs in the Zone that can be transferred), the amount of capacity allocated to the User(s) shall be scaled-back (pro-rata, based on the amount initially bid for, where more than one User has bid the same price).
2. Then, with effect from the October RMSEC and applicable to all RMSEC and AMSEC auctions thereafter, Section B2.7.2 of the UNC TPD shall be amended such that:
- There shall be no extra auction round as proposed post-2007 AMSEC.

Instead, Users shall bid, as normal, within the AMSEC and RMSEC auctions, but the rules for allocation of unsold capacity by NG NTS shall change, such that:

- All capacity bids shall be ranked by NG NTS by Zone, rather than by ASEP.
- NTS Entry Capacity shall be allocated to the capacity bids in respect of a Zone in order of price (highest priced bid first).
- Where the amount of NTS Entry Capacity applied for under a bid exceeds the amount of available capacity in respect of the individual ASEP to which the bid relates, capacity will be transferred on a 1:1 exchange rate from other ASEPs within the same zone (from the ASEP which has the largest amount of remaining unallocated capacity first).
- The transfer of NTS Entry Capacity to an ASEP will be subject to the Nodal Maximum at such ASEP – i.e. the total amount of capacity transferred during such allocation process shall not exceed an amount calculated as the Nodal Maximum less the total amount of NTS Entry Capacity sold in previous auctions.
- Where the amount of capacity bid for cannot be satisfied by NG NTS in full (due to nodal maximum constraints or insufficient capacity at other ASEPs in the Zone that can be transferred), the amount of capacity allocated to the User(s) shall be scaled-back (pro-rata, based on the amount initially bid for, where more than one User has bid the same price).
- Any remaining unsold capacity shall be carried over to the next RMSEC or AMSEC auction – whichever comes first.

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 Wytech 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, we do not believe it is appropriate for this Proposal to apply to QSEC auctions, due to NG NTS's existing capacity substitution obligations affecting this particular type of auction.

The Proposer is of the view that the proposed arrangements could be extended to DSEC auctions due to the simplicity of the Proposal, but considers that this Proposal should be "tried and tested" before extending the remit significantly. This could, therefore, be the subject of a further Modification Proposal, if demanded by the market. We believe this is the most pragmatic way forward for all market participants.

The Proposer is also of the view that this Proposal could also be extended to between-Zone ("Inter-Zone") unsold capacity transfers, but that this would be much more complicated and would likely necessitate costly and time-consuming provision of exchange rates by NG NTS. Given the time constraints in 2007, we do not see it as feasible that Inter-Zone unsold capacity transfers could be introduced before winter, but nonetheless could be subject of another Modification Proposal in the future, if demanded by the market. As above, we believe the current Proposal to be the most pragmatic and realistic way forward, given where we currently are.

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 would provide Users at sold out ASEPs the opportunity to seek to procure unsold capacity at other ASEPs where it is most valued. This would result in the avoidance of sterilisation of capacity and the stranding of gas offshore, and thereby better facilitate the achievement of this objective.

Proposal 0150

Some respondents believed that better exchange rates would be achieved due to transfers preceding trades and that this would facilitate the achievement of this objective.

Proposal 0150A

Some respondents believe that as this Proposal is simpler and more straightforward than 0150, it would be less costly and time-consuming to administer and thereby better facilitate the achievement of this objective. This view of simplicity was not, however, shared by all respondents.

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 a new Licence obligation on National

Grid NTS to facilitate the transfer of capacity between ASEPs in the constrained period.

As this licence obligation has not yet been implemented, some respondents disputed whether either Proposal would facilitate the achievement of this objective.

Proposal 0150

Some respondents believed that implementation might lead to stranding of gas at the donor ASEP and inefficient exchange rates to the recipient ASEP. E.ON pointed out the inefficiency of ranking by bid price only - consideration of a combination of bid price and exchange rates would lead to acceptance of a slightly lower price bid. Addressing achievement of this objective, EMGME believed that the mechanism proposed was more straightforward than that proposed for Proposal 0150A but the opposite view was taken by other respondents. NGD pointed out in support of implementation that exchange rates were for the Transporter to stipulate and contrasted this with Proposal 0150A where a 1:1 exchange rate would apply between certain ASEPs.

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, by use of a pay-as-bid auction for the allocation of any unsold capacity, would facilitate the achievement of this objective.

Some respondents expressed concern that Users would have taken a position in previous LTSEC and AMSEC auctions that either did not anticipate the provision of trades and transfers between ASEPs or led to them second-guessing the results of such transactions. This element of uncertainty, and its potential to distort competition, would not facilitate the achievement of this objective.

Proposal 0150

Some respondents were doubtful whether National Grid NTS's published Methodology would lead to any transfer of capacity between ASEPs due to the risk assessment model adopted. Concerns were also expressed that the absence of ex ante exchange rates might inhibit User participation.

Proposal 0150A

Some respondents believed that implementation of this Proposal would lead to more capacity being transferred between ASEPs than with Proposal 0150, which would facilitate the achievement of this objective. Conducting auctions on an Entry Zone basis should enable more efficient delivery of lower cost gas supplies and better discovery of entry capacity prices. Participants also believed that it would be a more simple and straightforward process than that suggested within Proposal 0150.

However, counter to this, NGNTS pointed out that this Alternative Proposal anticipated changes to the zones previously indicated and that this had been done without consultation. In addition this would also introduce limitations

which were not characteristic of Proposal 0150.

Some respondents pointed out that implementation might have adverse implications on buy-back quantities, although not all respondents accepted this to be the case. EDFE pointed out that conducting trades prior to holding an additional AMSEC auction would favour Users with an existing entry capacity portfolio and that this would run counter to the achievement of this objective. However, E.ON took the opposite view. Some respondents also expressed concern that implementation would fundamentally change the nature of the AMSEC and RMSEC auctions. NGNTS also pointed out the practical difficulty in holding an additional round in the 2007 AMSEC auction when a decision from Ofgem is anticipated on 12 June 2007.

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

Both Proposals

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

STUK expressed concern that transfers of capacity from Theddlethorpe might lead to stranding of capacity and therefore adversely affect security of supply.

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

a) Implications for operation of the System:

Both Proposals

By optimising the release of entry capacity, implementation would provide a greater opportunity to ensure gas supplies can be delivered where demand is in excess of an ASEP's baseline obligated firm entry capacity.

b) Development and capital cost and operating cost implications:

Proposal 0150

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

Proposal 0150A

As an extension of existing auction processes and procedures, which does not require calculation of any exchange rates or a completely separate auction (apart from post-AMSEC 2007), it was considered that this alternative would be significantly less costly than Proposal 0150.

Both Proposals

Implementation, may avoid the potential sterilisation of entry capacity and hence costs being inefficiently incurred

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

Proposal 0150

It is intended that an application fee, to be described in the Transportation Charging Methodology, could be implemented to recover additional operating costs in respect of the determination of Transfer Rates and undertaking AMTSEC auctions.

Proposal 0150A

AMSEC and RMSEC auctions do not attract an application fee and this Proposal, as an extension of these existing arrangements, would not attract an application fee for participation.

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

Proposal 0150

The Proposer has raised the related Consultation Document: “NTS GCM 07: Introduction of an NTS Entry Capacity Transfer Application Fee”. Non-veto by Ofgem of the Transporter’s final proposals would be required in order for an application fee of this nature to be charged to Users.

Proposal 0150A

No consequences in respect of price regulation 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**

Proposal 0150A

NGNTS believed that implementation would increase the contractual risk of the Transporter.

- 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**

Both Proposals

Implications for UK Link Systems are envisaged in the event of implementation.

Some respondents expressed concern at the uncertainty of the scope and timing of implementation of these changes.

Proposal 0150A

NGNTS did not believe that systems could be modified within the implementation timescale.

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)

Proposal 0150

It is anticipated that Users seeking to bid in the AMTSEC auctions would wish to develop automatic or manual processes and procedures in order to do so.

Proposal 0150A

Users would be faced by with introduction of an additional round of the AMSEC auction in 2007, but this would be based on the existing AMSEC process and so there would be a minimal “learning curve” for Users. Thereafter, Users would not have any additional burden through extra, separate auctions.

Both Proposals

Some respondents drew attention to the effect implementation might have on Users’ bidding behaviour in auctions.

Development and capital cost and operating cost implications

Proposal 0150

Users would face the costs associated with successful bids in the AMTSEC auctions but this might be balanced against cost savings due to a corresponding lower requirement to acquire capacity closer to or on the Day.

Proposal 0150A

Users might face higher costs associated with successful bids in the AMSEC auctions, due to increased competition for capacity at ASEPs, but this might be balanced against cost savings due to a corresponding lower requirement to acquire capacity closer to or on the Day. Users might also face costs associated with an increased capacity buy-back requirement.

Consequence for the level of contractual risk of Users

Proposal 0150

Implementation would increase the levels of competition, and consequently contractual risk faced by Users when bidding for NTS Entry Capacity within the AMSEC auction, from those Users seeking to purchase capacity at an ASEP with the explicit intention of preventing it being transferred elsewhere.

Some respondents raised general concerns of uncertainty in respect of how transfers would work in practice.

Whilst this Proposal sought to eliminate any increase in buy-back risk, some respondents believed that this led to a protracted iterative process and questioned the Proposer’s interpretation, which was based upon expected flows

rather than baselines.

Proposal 0150A

In addition to any additional costs associated with increased levels of competition for capacity in the AMSEC auctions, Users would also face an increased risk associated with entry capacity buy-backs.

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

Both Proposals

Any costs or benefits in terms of entry capacity for Users would be expected to affect both upstream and downstream parties within the gas chain.

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

- Would allow flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that has not been sold) to be reallocated to where Users value it most once the baselines have been set at the start of a price control without the User having to indicate where it desires the capacity to be transferred from;
- Would allow Users the opportunity to secure additional capacity, in excess of an ASEP's baseline, therefore allowing gas flows onto the system that may otherwise be prevented;
- May avoid the potential sterilisation of entry capacity and hence costs being inefficiently incurred;

Proposal 0150

- Could be implemented ahead of next Winter.

Proposal 0150A

- The Proposal is simpler, less costly to implement and more straightforward than Proposal 0150, as it is based on the existing capacity auction process and uses 1:1 exchange rates.
- Applies to all RMSEC, as well as AMSEC auctions, which can be seen as an improvement on Proposal 0150 as it facilitates transfer of unsold capacity on a much more frequent basis than proposed by NG NTS.

- May better reflect Ofgem’s risk-reward proposals for NG as outlined in the final TPCR proposals.

Disadvantages

Proposal 0150

- Would introduce a further auction into entry capacity arrangements;
- May reduce the unsold level of capacity available at the Donor ASEP(s) in the within year entry capacity auctions;
- May encourage Users to purchase unsold capacity in the AMSEC auction solely to prevent its transfer to other ASEPs. However, if trading mechanisms were also introduced, then this would allow Users to seek to obtain such purchased amounts for use at other ASEPs.

Proposal 0150A

- Introduces an additional buy-back risk.
- Would introduce a further auction round into entry capacity arrangements. There is some lack of clarity on how this might be achieved prior to next Winter;
- Doubts have been expressed on whether the associated system changes can be implemented prior to next Winter.

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

Representations were received from the following

		0150	0150A	Preference
BG Gas Services Limited	(BG)	Not in Support	Qualified Support	0150A
British Gas Trading Limited	(BGT)	Qualified Support	Not in Support	0150
BP Gas Marketing Ltd	(BP)	Comments	Comments	None
Centrica Storage Limited	(CSL)	Not in Support	Support	0150A
ConocoPhillips (U.K.) Ltd	(CoP)	Not in Support	Not in Support	None
EDF Energy plc	(EDFE)	Support	Not in Support	0150
E.ON UK plc	(E.ON)	Not in Support	Support	0150A
Excelerate Energy L.L.C	(ExE)	Not in Support	Support	0150A
ExxonMobil Gas Marketing Europe Limited	(EMGME)	Support	Not in Support	0150
Gaz de France ESS	(GDF)	Not in	Not in	None

National Grid Distribution	(NGD)	Support	Support	0150
National Grid NTS	(NGNTS)	Support	Not in Support	0150
RWE Npower	(RWE)	Not in Support	Conditional Support	0150A
Scottish and Southern Energy	(SSE)	Support	Not in Support	0150
ScottishPower	(SP)	Not in Support	Not in Support	None
Shell Gas Direct	(SGD)	Not in Support	Support	0150A
Statoil (UK) Ltd	(STUK)	Not in Support	Not in Support	None
Total E&P UK Limited	(TEP)	Not in Support	Not in Support	None

Thus, of the eighteen responses, five did not support either Proposal and did not explicitly identify any preference between the two. Six supported 0150 but did not support 0150A. Six supported 0150A (including one which gave qualified support and another that gave conditional support) but did not support 0150. One response was of comments only.

In terms of preferences therefore, six preferred 0150 to 0150A and six preferred 0150A to 0150.

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

Both Proposals

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

Both Proposals

No such requirement has been identified.

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

Both Proposals

Changes to UK Link have been envisaged but no details have been supplied.

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

Both Proposals

An implementation date of 2 July 2007 has been identified. NGNTS did not believe this date was achievable for Proposal 0150A.

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

Both Proposals

No such implications have been 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 07 June 2007, of the 7 Voting Members present, capable of casting 9 votes, 3 votes were cast in favour of implementing Modification Proposal 0150. Therefore the Panel did not recommend implementation of Modification Proposal 0150. At the same meeting, 1 vote was cast in favour of implementing Alternative Proposal 0150A. Therefore the Panel did not recommend implementation of Alternative Proposal 0150A.

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 7 Voting Members present, capable of casting 9 votes, 4 votes were cast in favour of implementing Proposal 0150 in preference to Alternative Proposal 0150A, and 1 vote was cast in favour of implementing the Alternative Proposal 0150A in preference to Proposal 0150, Therefore, the Panel determined that, of the two Proposals, Proposal 0150 would better facilitate the achievement of the Relevant Objectives.

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

No text has been provided.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters