

CODE MODIFICATION PROPOSAL No 0150A
“Introduction of Unsold Entry Capacity Transfers”
Version 1.0

Date: 16/05/2007

Proposed Implementation Date: Immediately following completion of the 2007 Intra-Zone Sold Capacity Trade Request process

Urgency: Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

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 Wytch Farm.
- Easington area – includes Easington, Rough, Aldbrough, Hatfield Moor, Hornsea and Theddlethorpe. Although Theddlethorpe is not within an existing NG 10YS “zone”, data presented by NG NTS at recent Transmission Workstream discussions has suggested potential for a “good” level of capacity transferability between Theddlethorpe and Easington. Reflecting the fact that Users does not have access to all information available on the feasibility of this Proposal we make

the recommendation for the inclusion of Theddlethorpe in the Easington zone, based on the information presently made available.

- Northern Triangle – includes St Fergus, Teesside, Barrow and Glenmavis.
- West UK – includes Milford Haven and Dynevor Arms.
- North West Corridor – includes storage at Fleetwood and Cheshire, Partington, Hole House Farm & Burton Point.

For clarity, 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.

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

National Grid NTS requested that the Authority grant Urgent status for their Modification Proposal 0150 on the basis that:

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

The proposer believes that if this proposal is implemented ahead of this winter it will provide Users with a mechanism to transfer Unsold NTS Entry capacity to ASEPs...where demand for capacity is currently greater than obligated firm levels. Therefore this should help reduce the likelihood of gas being stranded offshore due to insufficient capacity being available.

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

The proposer believes that Urgent status is required in order to implement the proposal in advance of the winter period.”

E.ON UK concurs with the above justifications, which apply equally to this Modification Proposal.

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

E.ON UK requests that this Modification Proposal should proceed direct to consultation in accordance with Section 7.3 of the modification procedures in the UNC. This is to seek to implement the Proposal as soon as possible and provide the opportunity for Users to seek to obtain additional capacity though the proposed auction process well ahead of Winter 07/08.

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

E.ON UK considers that this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

- In respect of Standard Special Condition A11 paragraph 1(a), the Proposal would provide Users the opportunity to seek to procure unsold capacity at 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 efficient and economic operation of the NTS pipeline system;
- In respect of Standard Special Condition A11 paragraph 1(c) (the efficient discharge of the licensee’s obligations under this Licence), the Proposal is anticipated to meet a new Licence obligation on National Grid NTS to facilitate the transfer of unsold capacity between ASEPs.
- In respect of Standard Special Condition A11 paragraph 1(d), the Proposal would promote the securing of effective competition between relevant Shippers by use of a pay-as-bid auction for the allocation of any unsold baseline capacity.

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

E.ON UK believes that this Proposal, if implemented, would enhance security of supply by allowing Users the opportunity to obtain additional capacity at ASEPs than would otherwise be the case.

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

a) The implications for operation of the System:

E.ON UK does not believe this Proposal, if implemented, would adversely affect the operation of the System. By optimizing the release of entry capacity, this Proposal would provide a greater opportunity to ensure gas supplies can be delivered.

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

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), the Proposer consider that this alternative would be significantly less costly than the NG proposal as described in Modification Proposal 0150.

In addition, the Proposal, if implemented, may avoid the potential sterilization of entry capacity and hence costs being inefficiently incurred.

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:

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

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

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

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

Not applicable.

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

E.ON UK envisages that this will have an impact on the UK Link System if this Proposal were to be implemented. Development and implementation is for NG NTS / Xoserve to manage and therefore the Proposer makes no suggestion on the best way forward.

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

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

Introduction of an additional round of the AMSEC auction in 2007, but will be based on existing AMSEC process, so minimal “learning curve” for Users. Thereafter, Users do not have any additional burden of extra, separate auctions.

b) The development and capital cost and operating cost implications

No adverse implications identified.

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

No adverse implications identified.

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

Implementation of this Proposal (and 0151A) would remove on-going uncertainty in the whole market, which itself, could be argued to have increased forward prices and impacted bidding behaviour in the 2007 AMSEC. It is absolutely crucial that Users have certainty in respect of unsold and sold capacity transfers as soon as possible.

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

No adverse implications identified.

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

Advantages

E.ON UK considers that this Proposal:

- is User-friendly – the Proposal is simpler, less costly to implement and significantly more straightforward than NG’s proposed “AMTSEC auction”, 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 Modification Proposal 0150 as it facilitates transfer of unsold capacity on a much more frequent basis than previously proposed by NG NTS.
- 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 sterilization of entry capacity and hence costs being inefficiently incurred;

- Can be implemented well ahead of winter 07/08.
- Better reflects Ofgem's risk-reward proposals for NG as outlined in the final TPCR proposals.

Disadvantages

None identified by the Proposer.

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

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

13 Any other matter the Proposer considers needs to be addressed

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

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

15 Comments on Suggested Text

To be advised

16 Suggested Text

To be advised

Code Concerned, sections and paragraphs

Uniform Network Code

Transition Document

Section(s) Section B2.7.2 of the UNC TPD

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Joint Office of Gas Transporters
0150A: Introduction of Unsold Entry Capacity Transfers