

CODE MODIFICATION PROPOSAL No xxxx
“Introduction of the AMTSEC Auction”
Version x.x

Date:

Proposed Implementation Date: 02/07/2007

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 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 the application fee to National Grid NTS (as stated in National Grid NTS’ Transportation Charging Statement) – 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.

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

- 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.**

National Grid NTS seeks this Modification Proposal to 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 levels though the proposed transfer process well ahead of next Winter.

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

National Grid NTS considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

- in respect of Standard Special Condition A11 paragraph 1(a), the Proposal would provide Users 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 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 capacity between ASEPs in the constrained period;
- 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 capacity.

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

National Grid NTS believes that this Proposal, if implemented, may enhance security of supply by allowing Users the opportunity to obtain additional capacity at sold out 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:**

National Grid NTS 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 where demand is in excess of an ASEP's baseline obligated firm entry capacity.

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

National Grid NTS believes this Proposal, if implemented, 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.

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:**

National Grid NTS believes that this Proposal, if implemented, would require it to recover the costs associated with the system development. Operating costs in respect of determination of Transfer Rates and undertaking AMTSEC auctions are intended to be recovered by an application fee to be described in the Transportation Charging Methodology.

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**

National Grid NTS 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)

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

National Grid NTS envisages that this will have an impact on the UK Link System if this Proposal were to be implemented.

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

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

National Grid is not aware of any implications but would welcome responses from Users in this area.

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

National Grid is not aware of any implications but would welcome responses from Users in this area.

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**

National Grid NTS believes that this Proposal 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.

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)**

National Grid is not aware of any implications but would welcome responses from Users in this area.

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

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

Advantages

National Grid NTS considers that this Proposal:

- 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;
- 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;
- could be implemented ahead of next Winter.

Disadvantages

National Grid NTS considers that this Proposal:

- would introduce a further auction into entry capacity arrangements. However, National Grid NTS considers that the benefit in affording Users the opportunity to secure additional capacity on a competitive, non-discriminatory basis, than would otherwise be the case, justifies the creation of an additional auction;
- may reduce the unsold level of capacity available at the Donor ASEP(s) in the within year entry capacity auctions. It is considered that this is a direct consequence of the introduction of the capacity transfer obligation on National Grid NTS rather than the details of this UNC Modification proposal;
- may encourage Users to purchase unsold capacity in the AMSEC auction solely to prevent its transfer to other ASEPs. However this is potentially unavoidable for the next AMSEC auction without further delay (post implementation of UNC Modification Proposal 0129) which would be undesirable. If trading mechanisms are also introduced, then this will allow Users to seek to obtain such purchased amounts for use at other ASEPs.

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

15 Comments on Suggested Text

To be advised

16 Suggested Text

To be advised

Code Concerned, sections and paragraphs

Uniform Network Code

Transition Document

Section(s) IIC & UNC TPD Section B

Proposer's Representative

Fergus Healy (National Grid NTS)

Proposer

Martin Watson (National Grid NTS)