

Clarification on Mod 0163

Following questions raised at yesterday's transmission workstream, this short note is to clarify some aspects of how the mod will work.

Simple Explanation of Mod

The mod seeks to ensure that firm capacity rights are not transferred away from the ASEP at which they are required, and to correct a major inefficiency in the proposed mods 0156/0156A to ensure that only capacity not required at the ASEP at which it was bought can be moved to another ASEP along with associated firm and interruptible rights.

Capacity Involved

The modification would allow capacity bought at auction and surrendered for the trades & transfers process to be offered at the weighted average price paid at auction at the ASEP at which it was bought as a first stage in the trades and transfers process. This does not include all unsold which was available in the auction process (and per se, not required at the ASEP), and this and all capacity surrendered not required the ASEPS will go through the rest of the trades and transfers process.

It is not a "second bite at the cherry", or an opportunity for people to prevent unsold capacity being moved away from an entry point where it is not required for the winter.

Interaction with mod 0159

The mods are separate and entirely different. Both can be implemented, or either one can be implemented but they do different things. 0159 gives National Grid the discretion to release interruptible capacity, 0163 ensures that where firm rights are required to operate an ASEP in the winter, they cannot be traded or transferred away (along with associated interruptible rights under the existing regime).

Second Chance

It can be argued that this will be a second chance to buy capacity. People's bidding behaviour at auction may have been driven by differing expectations of what trades and transfers would be. An unintended consequence of the current proposed arrangements is that capacity rights can be transferred away from where they are required. This mod seeks to offer a pragmatic solution and a chance to ensure that this will not happen. By not including unsold at the ASEP and using the weighted average price of successful bids, the hope is that nobody will be financially disadvantaged, whilst speculative and gaming behaviour can not be rewarded - and it is expected that only small volumes will be involved.

Relevant Objectives

One of the main objectives of the mod is to ensure that ASEPS cannot be effectively “shut down” by not having access to capacity rights where they are required for operation this winter. It seeks to avoid the sterilisation of assets and associated consequences for system flexibility this winter.

In our view, this mod would further the relevant objectives

- by enhancing system efficiency and flexibility – avoiding the inefficiencies thrown up by the proposed trades and transfers mods this winter
- remove a barrier to competition, and a disincentive for investment whereby developers of new ASEPs would not see a precedent where no firm rights to access the system could be available at their site.
- Enhance security of supply this winter by ensuring all ASEPs can function as required.

In addition, we believe that this mod fits in with the objective of introducing trades and transfers – which is to ensure that capacity can be moved from where it is not required, to where it is.

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