

CODE MODIFICATION PROPOSAL No. 00xx
"Entry Capacity Transfers in the constrained period."
Version 0.1
Draft

Date: 13/09/2006

Proposed Implementation Date: [01/02/2007]

Urgency: Non Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf)

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

Nature and Purpose of Proposal (including consequence of non implementation)

Under the current regime National Grid NTS is obliged to release a baseline level of capacity at each Aggregate System Entry Point (ASEP) in at least one clearing allocation (i.e. all capacity sold or made available at zero price). This provides certainty to shippers of the available capacity amounts, but does not allow the flexibility for unsold capacity to be reallocated to where users value it most once the baselines have been set at the start of a price control.

A simple example of this issue is where there are two ASEPs using the same part of the system with potentially a high degree of substitutability. Users at one ASEP may not wish to purchase the full amount of baseline capacity, whereas users at the other ASEP may wish to purchase capacity above the baseline set for that ASEP. Under the current regime, we could release non-obligated capacity to meet additional demand, but this is likely to be impeded if we have not met our obligation to sell the remaining unsold capacity at the other ASEP.

Ofgem have therefore proposed as part of their Initial proposals for the Transmission Price Control Review (TPCR) that an obligation is placed on National Grid NTS to take all reasonable steps to facilitate, where requested, the trading of capacity between ASEPs.

In anticipation of such a Licence change it is therefore proposed that an amendment is introduced within the UNC that allows the transfer of capacity between ASEPs in the constrained period. An overview of the proposal is set out below;

1. In the event that any ASEP sells out for any month in the following Capacity Year (Apr Y+1 – Mar Y+1) 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.
2. The AMTSEC auction will allow users to bid at sold out ASEPs for any unsold capacity at ASEPs within the same NTS Entry Transfer zone at a 1:1 exchange rate, subject to

local maxima that will be determined in advance of the auction and which will limit the increase in buy back risk.

3. Bids in the AMTSEC auction will be allocated in price order (highest price first) by transferring capacity from unsold ASEPs within the NTS Entry Transfer zone starting with the ASEP with the lowest reserve price. Bids at each sold out ASEP must meet the reserve price for that ASEP as used in the AMSEC auction.
4. To complete the AMTSEC in time to enable the timely transfer of capacity the AMSEC auction will need to be held a month earlier. i.e. moved from February to January.
5. An invitation to participate in the AMTSEC auction will be issued 14 days prior to the invitation date and will include information identifying the qualifying recipient and donor ASEP(s), the period(s) and the amount of transferable capacity available during the auction.
6. Where capacity is transferred, we consider it would meet our obligation to release the baseline capacity at the Donor Node.
7. Due to the timescales involved in progressing this Proposal there is a transitional timetable proposed for 2007 with a further timetable provided for the process on an enduring basis, from 2008 onwards.

TRANSITIONAL ARRANGEMENTS

8. The following Transitional arrangements are proposed;
 - a. The AMSEC auction would be held in February (as currently in UNC)
 - b. AMTSEC auction invitation issued M+2 after implementation (or M+2 after the AMSEC auction whichever is later)
 - c. The AMTSEC auction would be held and allocation completed M+3 after implementation (or M+3 after the AMSEC auction whichever is later)
 - d. The Transfer Period would be the following M+4 to March Y+1 after implementation (or M+4 after the AMSEC auction whichever is later)

TIMETABLE

9. The enduring timetable which would apply from 2008 onwards would be as follows;
 - a. January AMSEC auction held
 - b. February AMTSEC auction invitation issued
 - c. March AMTSEC auction held and allocations completed
 - d. April Y+1 – March Y+1 Capacity transfers effective

National Grid NTS believes that if this Proposal were not to be implemented then it could lead to sterilization of baseline levels of entry capacity and possibly result in gas being stranded offshore due to insufficient capacity being available at the affected ASEP.

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

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

- in respect of paragraph A11.1(a), the Proposal would enable National Grid NTS to more efficiently manage the release of entry capacity during the constrained period and would avoid circumstances where entry capacity was unsold in a NTS Entry Transfer zone where another ASEP had demand for capacity in excess of its baseline. This would optimize the use of capacity within the NTS Entry Transfer zone.
- in respect of paragraph A11.1 (d) (i) the Proposal would enable the promotion of effective competition between Shippers by maximizing the level of capacity available within a NTS Entry Transfer zone where a level of demand that exceeds the baseline at an ASEP may otherwise remain unsatisfied.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

a. Proposed implementation timetable

b. Proposed legal text

TPD Section B

Amend paragraph 2.1.5(c) to read as follows:

“(c) “**Unsold NTS Entry Capacity**” is the amount.....;

(i)

(ii)

(iii)

....., set out in National Grid NTS’s Transportation Statement, as such amount may be reduced in accordance with paragraph 2.3.16.”

Amend paragraph 2.2.1(b) to read as follows:

“(b) not earlier than 1 January and not later than 29 January in a Capacity Year, National Grid NTS will invite, and Users may make, applications for Monthly NTS Entry Capacity in respect of each Aggregate System Entry Point for the period specified in paragraph 2.2.2(a);”

Renumber existing paragraph 2.3 as 2.4, renumber all following paragraphs accordingly, and amend all cross-references in the Code accordingly.

Insert the following as new paragraph 2.3:

“2.3 Annual Monthly Transfer System Entry Capacity Auctions

2.3.1 Where:

- (a) there is no Unsold NTS Entry Capacity at the Aggregate System Entry Point in question (the “**Recipient ASEP**”) in respect of any month (an “**Available Month**”) in Capacity Year +1 following the allocation of Monthly NTS Entry Capacity pursuant to monthly capacity bids; and
- (b) there is Unsold NTS Entry Capacity at another Aggregate System Entry Point within the same NTS Entry Transfer Zone as the Recipient ASEP (the “**Donor ASEP**”) in respect of the same Available Month following the allocation of Monthly NTS Entry Capacity pursuant to monthly capacity bids;

National Grid NTS will invite applications (“**annual AMTSEC invitation**”) for Monthly System NTS Entry Capacity at each Recipient ASEP for each Available Month for such aggregate amounts of NTS Entry Capacity as is specified in the invitation.

2.3.2 By:

- (a) not later than the Day falling fourteen (14) Days before the AMTSEC invitation date in any Capacity Year, National Grid NTS will notify Users of the reserve prices that will apply in respect of each Aggregate System Entry Point for the purposes of the annual AMTSEC invitation;
- (b) On a date falling not earlier than 1 March and not later than 20 March (the “**AMTSEC invitation date**”), National Grid NTS will invite, and Users may make, applications for Monthly NTS Entry Capacity in respect of each Recipient ASEP for the period specified in paragraph 2.3.1(a).

2.3.3 National Grid’s annual AMTSEC invitations pursuant to this paragraph 2.3 shall be issued to Users not later than the Day falling fourteen (14) Days before the AMTSEC invitation date and shall specify:

- (a) the date on which applications pursuant to the annual AMTSEC invitation may be made (the “**invitation date**”);
- (b) the zone (“**NTS Entry Transfer Zone**”) into which each Aggregate System Entry Point falls;
- (c) for each Recipient ASEP:
 - (i) the reserve price applicable to such Recipient ASEP;
 - (ii) the Available Month(s) in respect of which Monthly NTS Entry Capacity may be applied for;
 - (iii) the maximum amount of Monthly NTS Entry Capacity that can be applied for in respect of each month specified pursuant to paragraph (ii), being the lesser of:
 - (A) the maximum amount of Monthly NTS Entry Capacity (as determined by National Grid NTS in accordance with the provisions of the [IECR Methodology Statement]) that can be accommodated at that Recipient ASEP (the “**Nodal Maximum**”); and
 - (B) the total amount of Monthly NTS Entry Capacity for each Available Month that may be applied for in respect of the relevant NTS Entry Transfer Zone (the “**Zonal Maximum**”), being the sum

- of the quantities of Unsold NTS Entry Capacity at each Donor ASEP in that NTS Entry Transfer Zone for that month;
- (d) for each Donor ASEP, the quantity of Unsold NTS Entry Capacity for each Available Month;
- 2.3.4 Users may apply for Monthly NTS Entry Capacity at a Recipient ASEP for an Available Month in respect of an Aggregate System Entry Point on the invitation date.
- 2.3.5 An application (a "**monthly capacity bid**") for Monthly NTS Entry Capacity in respect of an Available Month shall specify:
- (a) the identity of the User;
 - (b) the Recipient ASEP;
 - (c) the Available Month for which Monthly NTS Entry Capacity is applied for;
 - (d) the amount (not less than the minimum eligible 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 for the purposes of paragraph 2.3.12(e); and
 - (f) the amount (the "**bid price**") which shall not be less than the reserve price which the User is willing to pay by way of Capacity Charge in respect of the Monthly NTS Entry Capacity applied for.
- 2.3.6 A User may have, at any one time, in aggregate up to but not more than twenty (20) monthly capacity bids in respect of each Recipient ASEP for each Available Month capable of acceptance in accordance with this paragraph 2.3.
- 2.3.7 A monthly capacity bid:
- (a) may not be submitted before 08:00 hours or after 17:00 hours on the relevant invitation date; and
 - (b) may be withdrawn or amended after 08:00 hours and until, but not after, 17:00 hours on the relevant invitation date.
- 2.3.8 National Grid NTS shall reject a monthly capacity bid submitted on an invitation date where any requirement of paragraphs 2.3.5, 2.3.6 or 2.3.7 is not complied with, and National Grid NTS may reject a capacity bid in accordance with Section V3.
- 2.3.9 In the event that a User submits monthly capacity bids in response to an annual AMTSEC invitation and the sum of:
- (a) the aggregate NTS Entry Capacity Charges payable by the User were all the Monthly NTS Entry Capacity applied for under the User's capacity bids in respect of Capacity Year +1 to be allocated in full; and
 - (b) the User's Relevant Code Indebtedness at 17:00 hours on any Business Day on which monthly capacity bids may be made exceeds 85% of the User's Code Credit Limit, National Grid NTS shall not later than five (5) Business Days after the last relevant invitation date inform the User.
- 2.3.10 Following a notice under paragraph 2.3.9, in the event the User does not within ten (10) Business Days of such notice provide adequate surety or security (in accordance with the Code Credit Rules), all monthly capacity bids submitted by the User in response to the annual AMTSEC invitation shall be disregarded for the purposes of this paragraph 2 (and have no effect).

- 2.3.11 Monthly NTS Entry Capacity applied for pursuant to this paragraph 2.3 shall be allocated in accordance with the further provisions of this paragraph 2.3 and not (for the avoidance of doubt) in accordance with paragraph 2.7.
- 2.3.12 NTS Entry Capacity in respect of Recipient ASEPs will be allocated pursuant to capacity bids submitted in respect of each Available Month as follows:
- (a) all capacity bids submitted in relation to all Recipient ASEPs in a NTS Entry Transfer Zone in respect of the Available Month (excluding any bid rejected pursuant to paragraph 2.3.8) will be ranked in order of bid price (the highest price ranking first);
 - (b) Monthly NTS Entry Capacity will be allocated to the highest ranked bid first, and then to each subsequent ranked bid in accordance with the remaining provisions of this paragraph 2.3.12;
 - (c) subject to paragraph (e) and paragraph 2.3.13:
 - (i) and also subject to sub-paragraph (ii) below, where the amount of NTS Entry Capacity applied for under a bid in respect of a Recipient ASEP exceeds the amount (the "**remaining nodal unallocated amount**") of Monthly NTS Entry Capacity remaining unallocated within the Nodal Maximum after allocation to higher priced bids, the User will (subject to paragraph (d)) be allocated an amount equal to the remaining nodal unallocated amount, and no further allocation shall be made in respect of that Recipient ASEP;
 - (ii) where each of two or more bids in respect of the same Recipient ASEP specifies the same bid price, and the amount of Monthly NTS Entry Capacity applied for in aggregate under such bids exceeds the remaining nodal unallocated amount, the remaining nodal unallocated amount will (subject to paragraph (d)) be allocated pro rata the amounts applied for in each such bid, and no further allocation shall be made in respect of that Recipient ASEP;
 - (d) subject to paragraph (e) and paragraph 2.3.13:
 - (i) and also subject to sub-paragraph (ii) below, where the amount of NTS Entry Capacity applied for under a bid in respect of a Recipient ASEP exceeds the amount (the "**remaining zonal unallocated amount**") of Monthly NTS Entry Capacity remaining unallocated within the Zonal Maximum after allocation to higher priced bids, the User will (subject to paragraph (c)) be allocated an amount equal to the remaining zonal unallocated amount, and no further allocation shall be made in respect of any Recipient ASEP in that NTS Entry Transfer Zone;
 - (ii) where each of two or more bids in respect of any Recipient ASEP within a NTS Entry Transfer Zone specifies the same bid price, and the amount of Monthly NTS Entry Capacity applied for in aggregate under such bids exceeds the remaining zonal unallocated amount, the remaining zonal unallocated amount will (subject to paragraph (c)) be allocated pro rata the amounts applied for in each such bid, and no further allocation shall be made in respect of any Recipient ASEP in that NTS Entry Transfer Zone: provided that, where the amount to be allocated pursuant to this paragraph (ii) in respect of a Recipient ASEP is greater than the remaining nodal

unallocated amount for that Recipient ASEP, then the amount to be allocated to such Recipient ASEP pursuant to this paragraph (ii) shall be amount equal to the remaining nodal unallocated amount for that Recipient ASEP, and a revised allocation will be made between remaining equal price bid(s) under this paragraph (ii), or (as the case may be) an allocation made in respect of the next priced bid;

- (e) where the amount to be allocated in respect of a bid pursuant to paragraph (c) or (d) is less than the minimum amount specified in the capacity bid, the bid will be disregarded (and of no effect), and a revised allocation will be made between remaining equal price bid(s) under paragraph (c) or (d), or (as the case may be) an allocation made in respect of the next priced bid.
- 2.3.13 Where the amount to be allocated in respect of any bid pursuant to paragraph 2.3.12 is less than the minimum eligible amount, National Grid NTS will not accept that or any further capacity bids under this paragraph 2.3.
- 2.3.14 Subject to paragraph 2.3.12, National Grid NTS will accept bids in respect of which NTS Entry Capacity is allocated in accordance with paragraph 2.3.12, and each User whose bid is so accepted will be registered as holding NTS Entry Capacity (in the amount so allocated) for the relevant Available Month in respect of the Aggregate System Entry Point.
- 2.3.15 Each User who applies for NTS Entry Capacity for an Available Month shall tender in respect of each capacity bid a bid price (in accordance with paragraph 2.3.5(f)) and agrees by making such application to pay by way of NTS Entry Capacity Charges the relevant bid price for the relevant Available Month in respect of the NTS Entry Capacity allocated in accordance with this paragraph 2.3 pursuant to such capacity bid.
- 2.3.16 The amount of Unsold NTS Entry Capacity at each Donor ASEP for any Available Month shall be reduced by the amount of NTS Entry Capacity allocated to Users at the relevant Recipient ASEP for the relevant Available Month pursuant to this paragraph 2.3. Where, in respect of a Recipient ASEP, there is more than one Donor ASEP then such Donor ASEPs shall be ranked in order of reserve price (as specified in the last invitation issued for that Donor ASEP pursuant to paragraph 2.22.2(a)) (the lowest price ranking first), and the amount of Unsold NTS Entry Capacity for any Available Month will be reduced at the first ranked Donor ASEP first, and then to each subsequent ranked Donor ASEP until all Monthly NTS System Entry Capacity allocated at the relevant Recipient ASEP in the relevant Available Month pursuant to this paragraph 2.3 has been exhausted. Where there is more than one Donor ASEP with the same reserve price, such Donor ASEPs shall be ranked equally and the amount of Unsold NTS Entry Capacity for any Available Month will be reduced proportionally between them.
- 2.3.17 National Grid NTS will:
- (a) in respect of Monthly NTS Entry Capacity allocated pursuant to this paragraph 2.3, not later than two (2) Business Days following the invitation date inform each User of those of its monthly capacity bids which have been accepted pursuant to this paragraph 2.3 and the amount of Monthly NTS Entry Capacity which it is registered as holding for each Available Month; and
 - (b) one (1) Business Day after the time at which National Grid NTS notifies Users in accordance with paragraph (a) notify all Users in respect of each relevant short term period in accordance with paragraph 2.15.3.”

Insert the following as new paragraph 2.15.3:

“2.15.3 Following each allocation of NTS Entry Capacity pursuant to paragraph 2.3, National Grid NTS will, by the time specified in paragraph 2.3.17(b), notify Users of:

- (a) in respect of each Recipient ASEP:
 - (i) the weighted average price of all capacity bids which were accepted pursuant to paragraph 2.3;
 - (ii) the weighted average price of highest 50% of capacity bids which were accepted pursuant to paragraph 2.3;
 - (iii) the aggregate amount of Monthly NTS Entry Capacity allocated pursuant to paragraph 2.3;
 - (iv) the highest and lowest priced capacity bids which were accepted pursuant to paragraph 2.3;
 - (v) the quantity of Monthly NTS Entry Capacity allocated pursuant to paragraph 2.3 to the highest and lowest priced capacity bids which were accepted pursuant to paragraph 2.3;
 - (vi) the total number of Users that submitted capacity bids which were accepted pursuant to paragraph 2.3;
 - (vii) the total number of Users that submitted capacity bids which were not accepted pursuant to paragraph 2.3; and
- (b) For each Donor ASEP, National Grid NTS will also publish for each transfer month:
 - (i) the amount by which the Unsold NTS Entry Capacity for each Available Month was reduced following the application of paragraph 2.3; and
 - (ii) the remaining amount of Unsold NTS Entry Capacity for each month in Capacity Year +1 following the application of paragraph 2.3.”

Transitional Legal text to be included here

c. Advantages of the Proposal

National Grid NTS believes that this Proposal:

- better facilitates the efficient and economic operation of its pipeline system by optimizing the release of entry capacity in the constrained period within a NTS Entry Transfer zone;
- allow Users the opportunity to secure additional capacity, in excess of an ASEPs baseline therefore allowing gas flows onto the system that may otherwise be unable to be delivered.

d. Disadvantages of the Proposal

- National Grid NTS recognizes that this introduces a further auction into the timetable. However, National Grid believes that the benefit in affording Users the opportunity to secure additional capacity through optimizing the capacity release within a NTS Entry Transfer zone justifies the creation of an additional auction. By only holding the AMTSEC on one day it minimises the impact on Users.
- National Grid NTS recognizes that this may reduce the unsold level of capacity available at the Donor ASEP(s) in the within year auctions. However, National Grid NTS believes the transfer of monthly capacity would be an economic and efficient release of entry capacity based on User demand for capacity.
- National Grid NTS recognizes that this may result in some capacity being sterilized and will be dependent on the determination of the NTS Entry Transfer zones, which is subject to an IECR consultation.

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

National Grid NTS believes that this Proposal, if implemented, would not adversely impact upon security of supply and by optimizing the release of entry capacity within the zones may allow gas flows onto the system that otherwise be unable to be delivered may enhance security of supply.

f. The implication for Transporters and each Transporter of implementing the Modification Proposal, including

i. 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 within a NTS Entry Transfer zone National Grid NTS is providing a greater opportunity to ensure gas supplies can be delivered where demand is in excess of an ASEPs baseline capacity.

ii. 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, allocation processes, calculation of the nodal maxima and publication of information.

iii. extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs

National Grid NTS believes that this Proposal, if implemented, would require it to recover the costs associated with the system development and operating costs.

iv. analysis of the consequences (if any) this proposal would have on price regulation

National Grid NTS does not believe this Proposal, if implemented, would have any consequences on price regulation.

g. 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

National Grid NTS believes that the Proposal has no impact on the level of contractual risk that a Transporter is exposed to.

h. 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

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

i. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Users would be able to bid for transferable capacity in the AMTSEC auction. National Grid believes that this proposal would not increase the level of contractual risk on the User.

Code Concerned, sections and paragraphs

UNC Transition Document, Part IIC
UNC TPD Section B

Proposer's Representative

David Adlam (National Grid NTS)

Proposer

Paul Roberts (National Grid NTS)

Signature

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