Modification Report Transfer and Trading of Capacity between ASEPs Modification Reference Number 0156/0156A Version 2.0

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 Modification Proposal 0156 should be treated as Urgent because it considers that the Proposal is linked to the following two criteria:

1. There is 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 and trade 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

It was suggested that this Proposal needed to be implemented in advance of the forthcoming winter period, 1 October 2007 – 31 March 2008. In addition, it was considered that the proposed trade and transfer auction should not be run concurrently with the September 2007 QSEC auction and that, were it to be held afterwards (i.e. October), this would limit Users' opportunities to obtain additional capacity.

Given the potential commercial impact identified above, Ofgem agreed that, in these circumstances, the transfer and trade of capacity between ASEPs was an imminent date related event for the purposes of this criterion.

Procedures Followed:

The procedures agreed with Ofgem for this Proposal were:

Process	Date
Ofgem grant urgency status	09/07/2007
Proposal issued for consultation	10/07/2007
Close out of representations	20/07/2007
FMR issued by Joint Office to Modification Panel	23/07/2007
Modification Panel decide upon recommendation	02/08/2007
Ofgem decision expected	10/08/2007
Proposed implementation date	13/08/2007

Ofgem requested that proposed legal text for this UNC Modification Proposal be submitted to the Modification Panel.

Under the terms of the Modification Rules, Proposal 0156A follows the same timescale.

1 The Modification Proposal

Proposal 0156

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within

the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (*) when first used. This Modification Proposal*, as with all Modification Proposals, should be read in conjunction with the prevailing UNC.

Proposal 0156A

E.ON UK has raised this alternative Modification Proposal to address concerns, which are shared by some other market participants, that a single round auction as proposed in Mod 0156 could fail to meet the needs of individual Users and ultimately fail to meet the collective pressing needs of the market this winter.

NG NTS has proposed in Mod 0156 that there should only be a single auction round pre-winter. As an alternative, we propose a two round auction, making the most of all available time, which should ensure better price discovery and improve transparency in the market. For clarity, we have not proposed any other significant changes to Mod 0156 and do not propose any additional opportunities for capacity surrender between auction rounds. We have made a few further, minor changes to Mod 0156, but these are aimed at clarifying the intent of the original proposal.

Our rationale for raising this alternative Proposal relates to the specific situation that the market finds itself in, heading into winter 07/08. The 2007 AMSEC auction demonstrated the scarcity of capacity, for instance at the Easington terminal, and the unprecedented extent to which Users were willing to pay for entry capacity vastly in excess of the reserve price. It is impossible to determine whether demand will continue to outstrip supply at the sold-out ASEPs and therefore, given this uncertainty, the known high demand for capacity at several sold-out ASEPs, the fact that this is a brand new auction and that the only real reference for determining a suitable bid price is the 2007 AMSEC, it makes sense to make more than one auction round available to Users. This significant additional flexibility should help prevent potentially unexpected and costly outcomes for shippers and consumers.

Summary of this Alternative Proposal:

All Auction initiation, registration and invitation as per NG's Mod 156 (but with some slightly amended timings), then auction to proceed as follows;

- i) **Auction 1** A single round auction making available October capacity only. Conducted in August / September before QSEC auction.
- ii) **Auction 2** A two round auction with allocations after each round making available Nov, Dec, Jan, Feb & March capacity. Both rounds conducted post-QSEC, in October. 50% of available capacity held back in each round. Auction 2 Round 2 to take place no more than 10 days after Auction 2 Round 1.

For clarity, there would be no re-surrender of capacity between rounds. We are aware that the allocation of capacity following the September QSEC auction could overlap with the allocations for Auction 2. With this in mind, we would anticipate that QSEC allocations and publication of results could be delayed until after the transfer and trade process is completed, but it should remain NG's discretion as to how best manage any overlap and notify Users

accordingly of any change.

Both Proposals

Under current UNC arrangements, a User* (the Transferor User*) is able to transfer all or part of its NTS Entry Capacity* holding to another User (the Transferee User*) at the same Aggregate System Entry Point* (ASEP) for any Gas Flow Day* or consecutive number of Gas Days (the "transfer period"). This is undertaken by both the Transferor User and Transferee User notifying National Grid NTS of their desire to trade (a secondary trade of Capacity is called a transfer within the UNC) by providing the required supporting information. The effect of such System Capacity Transfers* is that the amount of Capacity transferred is deducted from the Transferor User's holding and added to the Transferee User's holding for the purposes of determining Entry Capacity Overrun Charges* and Capacity Neutrality Charges*. The Transferor User however remains liable for Capacity charges in respect of the amount of Capacity transferred.

The Authority* (Ofgem) has issued a Section 23 notice that if directed would place obligations on National Grid NTS to facilitate the transfer and trade of Firm* NTS Entry Capacity between ASEPs. The applicable Exchange Rates (as defined within the Entry Capacity Transfer and Trade Methodology Statement as required under Licence Condition C8D of National Grid NTS's Gas Transporter Licence) between ASEPs for such trade and transfers are proposed to be calculated in accordance with the Entry Capacity Transfer and Trade Methodology Statement. For clarity, implementation of this Modification Proposal is dependent upon Authority approval of this Statement.

In light of these new Licence Obligations, this Proposal seeks to amend the UNC to allow Users to request such Exchange Rates (to be referred to as "Transfer Rates" within this Proposal) and undertake Transfers (for the purposes of this proposal a transfer is where Firm Unsold NTS Entry Capacity* at one ASEP has been allocated to another ASEP as part of the Trade and Transfer Auction) and Trades (for the purposes of this Proposal a trade is where a User has offered to surrender Firm NTS Entry Capacity at an ASEP as part of the Trade and Transfer Auction process and this Capacity has subsequently been allocated) of Firm NTS Entry Capacity.

Proposal 0156

National Grid NTS propose to facilitate the transfer and trade of Firm NTS Entry Capacity between ASEPs via a single auction process.

Both Proposals (except where identified)

The auction process will be driven by ASEPs that are classified as "Recipient" ASEPs. For the purpose of this Modification Proposal a Recipient ASEP is an ASEP at which (for a given period of one calendar month), of the Firm NTS Entry Capacity that National Grid NTS is obliged to make available up to the date of the auction, no more than the minimum permitted sale quantity remains unsold, taking into account all Firm NTS Entry Capacity sold via the current auction processes.

National Grid NTS will identify the relevant months (Available Months) for the auction i.e. months where there are one or more Recipient ASEPs and

publish these as part of the invitation process. For the purposes of this Proposal National Grid NTS will only consider Available Months that fall within the period October 2007 to March 2008 inclusive.

For clarification Users shall be able (0156A inserts "to") place bids at all ASEPs within a zone where there is both a Recipient ASEP and an Available Month.

The proposed process to allow Users to seek to Transfer and Trade Firm NTS Entry Capacity is outlined below:

Proposal 0156

Transfer Initiation Process

- 1. In the event that any ASEP, for relevant months with existing physical capability (as deemed by National Grid NTS) continuously above its Obligated (for the purposes of this Proposal Obligated Firm NTS Entry Capacity is Firm Capacity that National Grid NTS is required, pursuant to its Gas Transporter Licence to accept an application for or otherwise allocate) Firm NTS Entry Capacity level, sells out for any relevant month (i.e. October '07 to March '08) as part of the Annual Monthly System Entry Capacity* (AMSEC) Auction National Grid NTS will hold another pay as bid auction (the Trade and Transfer Auction). This will facilitate the Trade and Transfer of Firm NTS Entry Capacity between ASEPs to meet the User's requirements from the Trade and transfer Auction.
- 2. National Grid NTS will identify which ASEPs are in which zone for the purposes of the Trade and Transfer Auction, reflecting the physical capability of the System.
- 3. Within ten (10) business days of the implementation date of this Modification Proposal National Grid NTS will identify and publish a list of Recipient ASEPs and the relevant months per Recipient i.e. where the Recipient ASEP is sold out (Available Month). For clarity in the first Trade and Transfer auction National Grid NTS will only consider Available Months that fall within the period October 2007 to March 2008 inclusive.
- 4. To reduce the potential number of Exchange Rates, Users will have 2 business days to request one or more of the potential Recipient ASEPs and the Available Months to be included in the Trade and Transfer Auction on a good faith (for clarification National Grid NTS will include neither Recipient ASEPs nor Available Months that have not been requested at this stage) basis.

Proposal 0156A

Transfer Initiation Process

1. In the event that any ASEP, for relevant months with existing physical capability (as deemed by National Grid NTS) above its Obligated Firm NTS Entry Capacity level (for the purposes of this Proposal "Obligated Firm NTS Entry Capacity" is Firm Capacity that National Grid NTS is required, pursuant to its Gas Transporter Licence to accept an application for or otherwise allocate), that has sold-out for any Available Month (i.e. October '07 to March '08) as part of the 2007 Annual Monthly System

Entry Capacity* (AMSEC) Auction, National Grid NTS will hold pay as bid auctions (the Trade and Transfer Auctions). This will facilitate the Trade and Transfer of Firm NTS Entry Capacity between ASEPs to meet the User's requirement from the Trade and Transfer Auctions.

- 2. National Grid NTS will identify which ASEPs are in which zone for the purposes of the Trade and Transfer Auctions, reflecting the physical capability of the System. For winter 07/08 it is assumed that the NG 10YS 'zones' will be used.
- 3. Within ten (10) business days of the implementation date of this Modification Proposal National Grid NTS will identify and publish a list of Recipient ASEPs and the relevant months per Recipient; i.e. where the Recipient ASEP is sold out (Available Month). For clarity in Auction 1, National Grid NTS will only consider the Available Month of October. Auction 2 will only consider the Available Months that fall within the period November 2007 to March 2008 (inclusive).
- 4. To reduce the potential number of Exchange Rates, Users will have two (2) business days to request one or more of the potential Recipient ASEPs and the Available Months to be included in any of the Trade and Transfer Auction Rounds on a good faith basis (for clarification National Grid NTS will include neither Recipient ASEPs nor Available Months that have not been requested at this stage).

Proposal 0156

Trade Initiation Process

- 5. National Grid NTS will publish, 2 business days after receiving the User requests:
 - a. A definitive list of Recipient ASEPs to be included in the Trade and Transfer Auction as Recipients
 - b. Available Months for each Recipient ASEP
 - c. Information on the Nodal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) of each Recipient ASEP for each Available Month.
 - d. Information on the Zonal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) for each zone per Available Month calculated in accordance with the Entry Capacity Transfer & Trade Methodology Statement.
 - e. The applicable Exchange Rate within zone as calculated according to the Entry Capacity Transfer & Trade Methodology Statement.
 - f. Exchange Rates between each zone for each Available Month as calculated according to the Entry Capacity Transfer & Trade Methodology Statement
 - g. A merit order of ASEPs per zone, as determined according to the Entry Capacity Transfer & Trade Methodology Statement.
 - h. A list of non Recipient ASEPs and the amount of Unsold NTS Entry Capacity available at each per Available Month

- 6. For each Available Month Users will be invited to make available Capacity (for the purposes of this Proposal such Capacity will be described as surrendered Capacity) from their Firm NTS Entry Capacity holdings, at any ASEP (if this surrendered Capacity is subsequently allocated, this will effect a trade of NTS Entry Capacity). Users wishing to take part in the process must, within two (2) business days of the invitation being issued, provide the following information to National Grid NTS:
 - a. The maximum amount of Capacity per ASEP per Available Month that they are committing to surrender in the Trade and Transfer Auction.
 - b. Confirmation that the User holds the Capacity and will continue to hold the Capacity until the Trade and Transfer Auction allocation process is complete.
 - c. Where such confirmation as required in 6b is not received National Grid NTS will not utilise such Capacity within the Trade and Transfer Auction process.

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Trade Initiation Process

- 5. National Grid NTS will publish, two (2) business days after receiving the User requests:
 - a. A definitive list of Recipient ASEPs to be included in all of the Trade and Transfer Auction Rounds as Recipients.
 - b. Available Months for each Recipient ASEP (in the case of Auction 1 this shall only be October 07. In the case of Auction 2 this shall be November 07 to March 08 inclusive).
 - c. Information on the Nodal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) of each Recipient ASEP for each Available Month.
 - d. Information on the Zonal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) for each zone per Available Month calculated in accordance with the Entry Capacity Transfer & Trade Methodology Statement.
 - e. The applicable Exchange Rate within zone as calculated according to the Entry Capacity Transfer & Trade Methodology Statement.
 - f. Exchange Rates between each zone for each Available Month as calculated according to the Entry Capacity Transfer & Trade Methodology Statement
 - g. A merit order of ASEPs per zone applicable both to within-zone transfers and out-of-zone transfers, as determined according to the Entry Capacity Transfer & Trade Methodology Statement.
 - h. A list of non Recipient ASEPs and the amount of Unsold NTS Entry Capacity available at each, per Available Month
- 6. As part of the trade initiation process, for each Available Month, Users will be invited to make available Capacity (for the purposes of this Proposal such Capacity will be described as surrendered Capacity) from their Firm

NTS Entry Capacity holdings, at any ASEP (if this surrendered Capacity is subsequently allocated, this will effect a trade of NTS Entry Capacity). Users wishing to take part in the process must, within two (2) business days of the invitation being issued, provide the following information to National Grid NTS:

- a. The maximum amount of Capacity per ASEP per Available Month that they are committing to surrender in the Trade and Transfer Auction process (applicable to all auction rounds).
- b. Confirmation that the User holds the Capacity and will continue to hold the Capacity until the Trade and Transfer Auction allocation process is complete.
- c. Where such confirmation as required in 6b is not received National Grid NTS will not utilise such Capacity within the Trade and Transfer Auction process.

Proposal 0156

Auction Invitation

- 7. National Grid NTS will issue an invitation to participate in the Trade and Transfer Auction within five (5) business days of the close of the trade initiation process.
- 8. National Grid NTS will publish the following information:
 - a. A definitive list of ASEPs to be included in the Trade and Transfer Auction as Recipients
 - b. Available Months for each Recipient
 - c. Nodal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) of each Recipient ASEP for each Available Month
 - d. Available Capacity for Allocation in the Trade and Transfer Auction for each zone per Available Month. The Available Capacity for Allocation will be determined by the difference between the Zonal Allocation Maximum and the sum of Firm NTS Entry Capacity and increased by any Capacity offered for surrender by Users in the Trade Initiation Process (for that zone).
 - e. The applicable Exchange Rate within zone as calculated according to the Entry Capacity Transfer & Trade Methodology Statement.
 - f. Exchange Rates between each zone for each Applicable Month as calculated according to the Entry Capacity Transfer & Trade Methodology Statement
 - g. A merit order of ASEPs that will be applied in the allocation process of the Trade and Transfer Auction, for each zone for each Available Month
 - h. All non Recipient ASEPs and the amount of Available Capacity per Available Month per ASEP
 - i. The date of the Auction

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Auction Invitation

- 7. National Grid NTS will issue an invitation to participate in each of the Trade and Transfer Auctions within five (5) business days of the close of the trade initiation process. For clarity, it is anticipated that Auction 2, Round 1 will take place on (or before, if possible) October 1, 2007. Auction 2, Round 2 will take place within 10 business days after Round 1 to ensure all allocations are complete before November and the October RMSEC auction.
- 8. National Grid NTS will publish the following information:
 - a. A definitive list of ASEPs to be included in the Trade and Transfer Auction as Recipients.
 - b. Available Months for each Recipient (e.g. for Auction 1 this shall only be October).
 - c. Nodal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) of each Recipient ASEP for each Available Month.
 - d. Available Capacity for Allocation in each auction round in the Trade and Transfer Auction for each zone per Available Month. The Available Capacity for Allocation will be determined by the difference between the Zonal Allocation Maximum and the sum of Firm NTS Entry Capacity and increased by any Capacity offered for surrender by Users in the Trade Initiation Process (for that zone). For Auction 2, 50% of available capacity shall be made available in each round.
 - e. The applicable Exchange Rate within zone as calculated according to the Entry Capacity Transfer & Trade Methodology Statement.
 - f. Exchange Rates between each zone for each Applicable Month as calculated according to the Entry Capacity Transfer & Trade Methodology Statement.
 - g. A merit order of ASEPs that will be applied in the allocation process of the Trade and Transfer Auction, for each zone for each Available Month.
 - h. All non Recipient ASEPs and the amount of Available Capacity per Available Month per ASEP.
 - i. The dates of the Auctions and Auction Rounds.

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Trade and Transfer Auction bids

- 9. 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 Trade Initiation Process.
- 10. For clarification Users may also bid at any non Recipient ASEP that has Available Capacity for any month that is an Available Month for one or more Recipient ASEPs.

- 11. A bid in respect of an Available Month must state:
 - a. the identity of the User;
 - b. the ASEP;
 - c. the month;
 - d. the amount of Monthly NTS Entry Capacity applied for (in kWh/Day for each Day of the Relevant Month);
 - 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* applying at the ASEP (in the AMSEC auction) in pence/kWh.
- 12. A User may have, at any one time, in aggregate up to, but not more than, three (3) Capacity bids in respect of each Month at each ASEP.
- 13. A User may submit bids, and thereafter withdraw or amend as required during the period 08:00 hours to 16:00 hours.
- 14. National Grid NTS will reject a bid (and it will therefore not be part of the allocation process described below):
 - a. where any of the above requirements are not met; or
 - b. where the transportation credit arrangements require us to do so (as set out in UNC Sections B2 and V3) against a User; or
 - c. if a User submits more than three (3) bids, National Grid NTS may reject all of that User's bids.

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Trade and Transfer Auction bids

- 9. 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 Trade Initiation Process.
- 10. For clarification Users may also bid at any non Recipient ASEP that has Available Capacity for any month that is an Available Month for one or more Recipient ASEPs.
- 11. A bid in respect of an Available Month must state:
 - a. the identity of the User;
 - b. the ASEP;
 - c. the month;
 - d. the amount of Monthly NTS Entry Capacity applied for (in kWh/Day for each Day of the Relevant Month);
 - 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*

applying at the ASEP (in the AMSEC auction) in pence/kWh.

- 12. A User may have, at any one time, in aggregate up to, but not more than, three (3) Capacity bids in respect of each Month at each ASEP.
- 13. A User may submit bids, and thereafter withdraw or amend as required between the period 08:00 hours and 17:00 hours on the day of the Auction.
- 14. National Grid NTS will reject a bid (and it will therefore not be part of the allocation process described below):
 - a. where any of the above requirements are not met; or
 - b. where the transportation credit arrangements require us to do so (as set out in UNC Sections B2 and V3) against a User; or
 - c. if a User submits more than three (3) bids per ASEP, per Available Month, National Grid NTS may reject all of that User's bids for the same ASEP and the same Available Month.

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Bid Allocation Process

15. Users' bids for an Available Month will be allocated as follows:

within zone

- a. Where there is a Recipient with an Available Month a within zone allocation process will be initiated for that Month.
- b. All Capacity bids submitted in relation to all ASEPs within the zone will be ranked in order of Bid Price (the highest price ranking first) i.e. one bid stack is created. Where equal priced bids are submitted, National Grid NTS will rank them according to time stamp and according to the earliest time stamped bid.
- c. Available Capacity for Allocation will be allocated to the highest ranked bid first, and then to each subsequent ranked bid in accordance with the following process;
 - i. For a bid at an ASEP where the bid if allocated is up to or greater than remaining Available Capacity for Allocation where the Bid Amount* requested exceeds the available Capacity for Allocation (taking into account any previous allocations), the User will (subject to following paragraphs) be allocated the remaining unallocated amount;
 - ii. For a bid at a Recipient ASEP where the Bid Amount, if allocated, will result in greater than the Nodal Allocation Maximum at a Recipient ASEP where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocation Maximum level at that Recipient ASEP (taking into consideration any previous allocations to or from that Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount at that Recipient ASEP, and no further allocation shall be made in respect of that

Recipient ASEP;

- iii. For a bid at a non Recipient ASEP, where the Bid Amount, if allocated, results in greater than the Obligated level of Firm NTS Entry Capacity at that ASEP where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Obligated level of NTS Entry Capacity at that non Recipient ASEP (taking into consideration any previous allocations to or from that non Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount within the Obligated level at that non-Recipient ASEP, and no further allocation shall be made in respect of that non Recipient ASEP:
- iv. Where the allocated amount would be less than User specified minimum amount the bid will be rejected.
- d. In the above allocation process, Capacity will be transferred from an ASEP in accordance with the following:
 - i. For each allocated bid at an ASEP, National Grid NTS will initially reduce the amount of Unsold Capacity followed by Surrendered Capacity at an ASEP or ASEPs by the total amount allocated multiplied by the Exchange Rate. Any such amounts are therefore deemed to have been sold for the purposes of National Grid NTS' obligations under its Gas Transporters Licence to make available Obligated Firm NTS Entry Capacity amounts; and
 - ii. Under i above, National Grid NTS will satisfy a bid at an ASEP from the available Capacity at ASEPs according to the merit order published in the Auction invitation, subject to any previous allocated volumes.

out of zone

- 16. Following completion of the process above where there is a Recipient ASEP with an Available Month that has an amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocated Maximum (taking into consideration any previous allocations to that Recipient ASEP) an out of zone allocation process will be initiated for that Month.
 - a. For each ASEP that has either Unsold or Surrendered NTS Entry Capacity available (taking into consideration any previous allocation to or from the ASEP) and is within a zone that has Available Capacity for Allocation (taking into consideration any previous allocations) a bid stack will be created.
 - b. All remaining unallocated bids will be translated into a bid (Translated Bids) at each relevant ASEP, using the inter zone Exchange Rates (as defined within the Entry Capacity Transfer & Trade Methodology Statement) published in the Auction invitation. By translating a bid National Grid NTS will create a Bid Value (Bid Price * Exchange Rate).

- c. Bids will be ranked in order of Bid Value, the highest valued ranking first, i.e. one bid stack is created for each relevant ASEP. Where equal valued bids are submitted National Grid NTS will rank them according to time stamp and according to the earliest time stamped bid.
- d. ASEPs within a zone will be ranked according to the merit order published in the Auction invitation.
- e. Available Capacity for Allocation will be allocated to the highest ranked bid across all relevant ASEPs first, taking into account the merit order of ASEPs, and then to each subsequent ranked bid in accordance with the following process;
 - i. For a bid at an ASEP where the bid, if allocated is up to or greater than the remaining Available Capacity for Allocation where the Bid Amount requested exceeds the available Capacity for Allocation (taking into account any previous allocations), the User will (subject to following paragraphs) be allocated the remaining unallocated amount
 - ii. For a bid at a Recipient ASEP where the bid, if allocated, will result in greater than the Nodal Allocation Maximum at a Recipient ASEP where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocation Maximum at that Recipient ASEP (taking into consideration any previous allocations to or from that Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount at that Recipient ASEP, and no further allocation shall be made in respect of that Recipient ASEP;
 - ii. For a bid at a non Recipient ASEP, where the bid, if allocated, results in greater than the Obligated level of Firm NTS Entry Capacity at that ASEP where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Obligated level at that non Recipient ASEP (taking into consideration any previous allocations to or from that non Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount within the Obligated level at that non Recipient ASEP, and no further allocation shall be made in respect of that non Recipient ASEP;
 - iii. Where the allocated amount would be less than User specified minimum amount the bid will be disregarded.
- f. Where a bid is fully satisfied all associated bids are subsequently rejected.
- g. In the above allocation process, Capacity will be transferred from an ASEP in accordance with the following:
 - i. For each allocated bid, National Grid NTS will initially reduce the amount of Unsold Capacity, followed by the Surrendered Capacity, at an ASEP or ASEP according to the bid amount and

taking into account the applicable exchange rate. Any such amounts are therefore deemed to have been sold for the purposes of National Grid NTS' obligations under its Gas Transporters Licence to make available Obligated Firm NTS Entry Capacity amounts; and

17. 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.

Proposal 0156A

Bid Allocation Process

15. Users' bids for an Available Month will be allocated as follows:

within zone

- a. Where there is a Recipient with an Available Month, a within zone allocation process will be initiated for that Month.
- b. All Capacity bids submitted in relation to all ASEPs within the zone will be ranked in order of Bid Price multiplied by Transfer Rate (the highest price ranking first); i.e. one bid stack is created. Where equal priced bids are submitted (equal in price to four decimal places), National Grid NTS will rank them according to time stamp and according to the earliest time-stamped bid.
- c. Available Capacity for Allocation will be allocated to the highest ranked bid first, and then to each subsequent ranked bid in accordance with the following process;
 - i. For a bid at an ASEP where the bid if allocated is up to or greater than remaining Available Capacity for Allocation where the Bid Amount* requested exceeds the available Capacity for Allocation (taking into account any previous allocations), the User will (subject to following paragraphs) be allocated the remaining unallocated amount;
 - ii. For a bid at a Recipient ASEP where the Bid Amount, if allocated, will result in greater than the Nodal Allocation Maximum at a Recipient ASEP where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocation Maximum level at that Recipient ASEP (taking into consideration any previous allocations to or from that Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount at that Recipient ASEP, and no further allocation shall be made in respect of that Recipient ASEP;
 - iii. For a bid at a non Recipient ASEP, where the Bid Amount, if allocated, results in greater than the Obligated level of Firm NTS Entry Capacity at that ASEP where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Obligated level of NTS Entry Capacity at

that non Recipient ASEP (taking into consideration any previous allocations to or from that non Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount within the Obligated level at that non-Recipient ASEP, and no further allocation shall be made in respect of that non Recipient ASEP;

- iv. Where the allocated amount would be less than User specified minimum amount the bid will be rejected.
- d. In the above allocation process, Capacity will be transferred from an ASEP in accordance with the following:
 - i. For each allocated bid at an ASEP, National Grid NTS will initially reduce the amount of Unsold Capacity followed by Surrendered Capacity at an ASEP or ASEPs by the total amount allocated multiplied by the Exchange Rate. Any such amounts are therefore deemed to have been sold for the purposes of National Grid NTS' obligations under its Gas Transporters Licence to make available Obligated Firm NTS Entry Capacity amounts; and
 - ii. Under (i) above, National Grid NTS will satisfy a bid at an ASEP from the available Capacity at ASEPs according to the merit order published in the Auction invitation, subject to any previous allocated volumes.

out of zone

- 16. Following completion of the process above where there is a Recipient ASEP with an Available Month that has an amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocated Maximum (taking into consideration any previous allocations to that Recipient ASEP), an out of zone allocation process will be initiated for that Month.
 - a. For each ASEP that has either Unsold or Surrendered NTS Entry Capacity available (taking into consideration any previous allocation to or from the ASEP) and is within a zone that has Available Capacity for Allocation (taking into consideration any previous allocations) a bid stack will be created.
 - b. All remaining unallocated bids will be translated into a bid (Translated Bids) at each relevant ASEP, using the inter zone Exchange Rates (as defined within the Entry Capacity Transfer & Trade Methodology Statement) published in the Auction invitation. By translating a bid National Grid NTS will create a Bid Value (Bid Price * Exchange Rate).
 - c. Bids will be ranked in order of Bid Value, the highest valued ranking first (i.e. one bid stack is created for each relevant ASEP). Where equal valued bids are submitted (equal in price to four decimal places), National Grid NTS will rank them according to time stamp and according to the earliest time stamped bid.
 - d. ASEPs out of zone will be ranked according to the merit order

published in the Auction invitation.

- e. Available Capacity for Allocation will be allocated to the highest ranked bid across all relevant ASEPs first, taking into account the merit order of ASEPs, and then to each subsequent ranked bid in accordance with the following process;
 - i. For a bid at an ASEP where the bid, if allocated is up to or greater than the remaining Available Capacity for Allocation where the Bid Amount requested exceeds the available Capacity for Allocation (taking into account any previous allocations), the User will (subject to following paragraphs) be allocated the remaining unallocated amount
 - ii. For a bid at a Recipient ASEP where the bid, if allocated, will result in greater than the Nodal Allocation Maximum at a Recipient ASEP where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocation Maximum at that Recipient ASEP (taking into consideration any previous allocations to or from that Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount at that Recipient ASEP, and no further allocation shall be made in respect of that Recipient ASEP;
 - iii. For a bid at a non Recipient ASEP, where the bid, if allocated, results in greater than the Obligated level of Firm NTS Entry Capacity at that ASEP where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Obligated level at that non Recipient ASEP (taking into consideration any previous allocations to or from that non Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount within the Obligated level at that non Recipient ASEP, and no further allocation shall be made in respect of that non Recipient ASEP;
 - ii. Where the allocated amount would be less than User specified minimum amount the bid will be disregarded.
- f. Where a bid is fully satisfied all other translated bids derived from this bid will be subsequently rejected.
- g. In the above allocation process, Capacity will be transferred from an ASEP in accordance with the following:
 - i. For each allocated bid, National Grid NTS will initially reduce the amount of Unsold Capacity, followed by the Surrendered Capacity, at an ASEP or ASEP according to the bid amount and taking into account the applicable Exchange Rate. Any such amounts are therefore deemed to have been sold for the purposes of National Grid NTS' obligations under its Gas Transporters Licence to make available Obligated Firm NTS Entry Capacity amounts.

17. 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.

Proposal 0156

Treatment of Capacity Made Available by Users

- 18. Where Capacity made available by Users in the Trade Initiation Process has resulted in a given trade (been allocated), the Users will receive a bid price based on the amount(s) allocated multiplied by any relevant Exchange Rate(s). The User's holdings at the ASEP where the Capacity was made available will be reduced accordingly
- 19. Where Capacity that was made available by Users in the Trade Initiation Process has not been allocated. The Users holdings at the ASEP where the Capacity was made available will remain unchanged.

Proposal 0156A

Treatment of Capacity Made Available by Users

- 18. Where Capacity made available by Users in the Trade Initiation Process has resulted in a given trade (capacity has been allocated), the Users will receive a bid price based on the amount(s) allocated multiplied by the relevant Exchange Rate(s). The User's holdings at the ASEP where the Capacity was made available will be reduced accordingly for the period of the transfer. For clarity, no reserve price shall be applicable to the Surrendering User's Capacity.
- 19. Where Capacity that was made available by Users in the Trade Initiation Process has not been allocated, the Users holdings at the ASEP where the Capacity was made available will remain unchanged.

Proposal 0156

Results Publication

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

Proposal 0156A

Results Publication

20. After Auction 1, National Grid NTS will provide to Users their allocations for the Available Month of October within five (5) Business Days after

completion of the single auction round and thereafter within a further two (2) Business Days the following information to all Users:

- a. in respect of each ASEP for each Available Month:
 - i. the highest, lowest and weighted average price of all accepted bids;
 - ii. the aggregate amount of Monthly NTS Entry Capacity allocated;
 - iii. the total Capacity sold
 - iv. the total number of Users that submitted successful bids:
 - v. the total number of Users that submitted unsuccessful bids;
- 21. After Auction 2, Round 1 and again after Auction 2, Round 2, National Grid NTS will provide to Users their allocations within seven (7) Business Days after completion of each Auction round and thereafter within a further two (2) Business Days the following information to all Users:
 - a. in respect of each ASEP for each Available Month:
 - i. the highest, lowest and weighted average price of all accepted bids;
 - ii. the aggregate amount of Monthly NTS Entry Capacity allocated;
 - iii. the total Capacity sold
 - iv. the total number of Users that submitted successful bids;
 - v. the total number of Users that submitted unsuccessful bids;

Proposal 0156

Contingency Arrangements

- 21. It is proposed that the following contingency arrangements are implemented:
 - a. In the event that the Proposal is not implemented prior to the QSEC Auction invitation being issued or during the 2007 QSEC auction period, National Grid NTS proposes that the Trade and Transfer Auction be held on the first reasonably practical business day after the final QSEC round has closed.
 - b. In the event that this Proposal is implemented on such a date that prevents National Grid NTS from completing the Trade and Transfer Auction and Allocation process prior to the commencement of the Capacity Month for which the NTS Entry Capacity has been bought, that Capacity Month will be excluded from the Trade and Transfer Auction.
- 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 available Capacity from other ASEPs. This may result in the avoidance of sterilisation of Capacity and the stranding of gas offshore, and thereby better facilitate the achievement of this objective.

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 would meet the anticipated new Licence obligations on National Grid NTS to facilitate the transfer and trade of Capacity between ASEPs in the constrained period.

Some respondents, however, pointed out that transfer of capacity at an exchange rate other than one to one could lead to inefficient use of capacity.

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 would facilitate the achievement of this objective by use of a pay-as-bid auction for the allocation of any available Capacity, taking effect across ASEPs.

Implementation would also provide Users with the opportunity of surrendering capacity that they did not need. However, some respondents suggested that there would be no certainty of the price and the releasing User would have no entitlement to that capacity at another ASEP. This might limit the quantity of capacity surrendered.

Some respondents, including those that supported implementation expressed concerns that implementation might affect bidding behaviour in the existing auctions. There were more general concerns that implementation would increase complexity, could create market distortions and encourage speculative behaviour, capacity hoarding and gaming.

Proposal 0156

Some respondents, particularly those that favoured 0156A, believed implementation would introduce risk and uncertainty due to the single-round nature of the auction.

Some respondents believed it was difficult to assess the Proposal against achievement of this objective due to the lack of an accompanying methodology statement, including lack of information on zonal maxima.

Proposal 0156A

Two auction rounds for the key winter months could better facilitate the achievement of this objective than a single round, which could limit the value

of the process to Users.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers;

Both Proposals

Implementation would facilitate the achievement of this objective by affording 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 and hence may avoid the sterilisation of entry capacity.

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.

Proposal 0156

Due to the risk and uncertainty associated with a single round auction process, many Users (particularly smaller players or new entrants) might face being either priced-out or may simply not bother with the process, with the result that capacity could be hoarded or not used as economically and effectively as it could be.

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

a) Implications for operation of the System:

Implementation would not adversely affect the physical operation of the System, but may increase physical constraints, requiring further commercial actions. 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 Obligated Firm Entry Capacity, but would reduce the ability for gas to flow at ASEPs where Capacity had not been bought up to expected flow.

Proposal 0156A

In so far as implementation would be expected to further optimise the release of Entry Capacity, the opportunity for gas supplies to be delivered, where demand is in excess of an ASEP's Obligated Firm Entry Capacity, would be further enhanced.

b) Development and capital cost and operating cost implications:

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/Zonal Capabilities and publication of information. The increasing complexity of the regime will have an ongoing overhead associated with it.

Implementation, may also prevent the sterilisation of Entry Capacity and hence costs being inefficiently incurred through this.

In the event of implementation, operational buy-back costs may increase but additional income would result from the auctions introduced in this Proposal. Some respondents pointed out that it was difficult to assess the buy-back risk due to the lack of information on buy-backs and Terminal Flow Advice (TFA) under the current regime.

Proposal 0156A

Additional cost implications related to the delivery of this Proposal are anticipated due to the additional auction round. However, the income from auctions may be expected to better represent the value of the additional Entry Capacity to Users.

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

Both Proposals

National Grid NTS intends to review charging arrangements as part of developing an enduring solution. National Grid NTS has also indicated that it wishes to address any implications in respect of reduction of the TO Commodity Charge, potentially to zero.

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

Both Proposals

National Grid NTS is currently engaged in related pricing consultation.

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

Both Proposals

Implementation would have no material impact on the level of contractual risk of each Transporter.

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

Potential UK Link System implications have been identified and an impact assessment is in progress. It is not believed that these would delay

implementation of this Proposal.

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)

Both Proposals

Implementation would introduce a new, unprecedented auction process into the existing capacity allocation regime and, as such, would require additional analysis, risk management and formulation of bid strategies by Users.

Users wishing to participate would be expected to balance these additional costs against the benefits of being able, through trades and transfers, to secure Capacity where it is valued more.

Development and capital cost and operating cost implications

Implementation would be expected to affect a User's net operating costs.

Additional costs would include those associated with:

- Accepted Trade and Transfer bids
- The User's share of any additional buy-back costs.

These should be balanced against costs associated with:

• Obtaining the same Entry Capacity under the current mechanisms, or through sourcing gas at ASEPs where that User has booked capacity.

Benefits to a User would include:

- Any income from surrendering Entry Capacity.
- Any reduction in the TO Commodity Charge or through adjustment of "k".

Consequence for the level of contractual risk of Users

The increase in buy-back risk for Users should be balanced against reduction of the current risk that Users may not be able to obtain Entry Capacity at ASEPs through current mechanisms, such as Daily Interruptible Capacity, and consequently have to source gas elsewhere.

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

Terminal Operators at recipient ASEPs would be expected to benefit from any additional gas flows that result from increases in Capacity.

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,

Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Both Proposals

It is expected that implementation:

- would facilitate flexibility for available Capacity 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 Obligated level, 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; and
- could be implemented ahead of next Winter

Proposal 0156A

- By providing for more than one auction round pre-winter, is a fair approach for all Users, which limits potential for abuse, unjust speculation and capacity hoarding, which could result from a single round, "one-off" auction.
- Through the use of two rounds, would facilitate more flexibility (than both Modification Proposal 0156 and the status quo) for Capacity to be reallocated to where Users value it most this winter, leading to greater certainty in the market.

Disadvantages

Both Proposals

It is expected that implementation:

- would introduce further auction(s) and hence further complexity into Entry Capacity arrangements; and
- would reduce the unsold level of Firm Capacity available at certain ASEP(s) in the within year Entry Capacity Auctions and may result in other gas not being able to flow on a Firm basis.

Proposal 0156A

• The two rounds in October will be making capacity available for November, which may be considered short notice.

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:

		0156	0156A	Pref
BG Gas Services Limited	(BG)	Support	Support	0156A
BP Gas Marketing	(BP)	Support	Support	0156A
Limited				
British Gas Trading	(BGT)	Support	Support	0156A
Limited				
Centrica Storage Limited	(CSL)	Support	Support	0156A
ConocoPhillips	(COP)	Not in	Not in	None
		Support	Support	
E.ON UK plc	(E.ON)	Qualified	Support	0156A
		Support		
EDF Energy	(EDFE)	Support	Support	0156A
Gaz de France ESS	(GdF)	Qualified	Qualified	0156A
		Support	Support	
National Grid	(NGD)	Qualified	Qualified	0156A
Distribution		Support	Support	
National Grid NTS	(NGNTS)	Support	Support	None
RWE Npower and RWE	(RWE)	Not in	Support	0156A
Trading GmbH		Support		
Scottish and Southern	(SSE)	Support	Support	0156A
Energy				
Scottish Power	(SP)	Not in	Not in	None
		Support	Support	
Shell Gas Direct Limited	(SGD)	Support	Support	0156A
Statoil (UK) Limited	(STUK)	Not in	Not in	0156A
		Support	Support	
Teesside Gas Processing	(TGPP)	Support	Support	0156A
Plant Limited				

Thus, of the sixteen respondents, nine supported implementation of Proposal 0156, three offered qualified support and four did not support implementation.

In respect of Proposal 0156A, eleven supported implementation, two offered qualified support and three did not support implementation.

No respondents preferred 0156 to 0156A, thirteen preferred 0156A to 0156 and three stated no preference. One of those that preferred 0156A to 0156 did not support implementation of either Proposal.

Other Issue Raised

RWE stated that it was unclear how capacity surrendered by more than one User would be allocated.

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.

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.

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

Both Proposals

National Grid NTS would need to do the preparatory work so that it could accept Entry Capacity surrendered by Users and conduct the Trade and Transfer Auction(s). This would include providing relevant information to Users.

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

Both Proposals

An implementation date of 13 August 2007 has been identified.

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 02 August 2007, of the 8 Voting Members present, capable of casting 9 votes, 7 votes were cast in favour of implementing Modification Proposal 0156. Therefore the Panel recommended implementation of Modification Proposal 0156. At the same meeting, 8 votes were cast in favour of implementing Alternative Proposal 0156A. Therefore the Panel recommended implementation of Alternative Proposal 0156A.

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 8 Voting Members present, capable of casting 9 votes, 1 vote was cast in favour of implementing Proposal 0156 in preference to Alternative Proposal 0156A, and 5 votes were cast in favour of implementing the Alternative Proposal 0156A in preference to Proposal 0156. Therefore, the Panel determined that, of

the two Proposals, Proposal 0156A 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

At the request of Ofgem, legal text has been provided and forms part of this Final Modification Report. However, in view of the size of documents associated with these Modification Proposals, the text has been published separately alongside this Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis Chief Executive, Joint Office of Gas Transporters