

Modification Report
Introduction of an Additional Discretionary Release Mechanism for NTS Entry Capacity

Introduction of Additional Pay-as-Bid Auctions for NTS Entry Capacity

Modification Reference Numbers 0216 and 0216A

Version 3.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

0216

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.

Under the current Uniform Network Code* (UNC) arrangements National Grid NTS must make Unsold NTS Entry Capacity* available to Users* subject to a market test. National Grid NTS may also, at its own discretion, make additional Quarterly NTS Entry Capacity* and additional Daily NTS Entry Capacity* (i.e. in addition to Unsold NTS Entry Capacity*) available at an Aggregate System Entry Point*.

National Grid NTS does not propose to change the above arrangements, however these arrangements whilst providing National Grid NTS with a degree of flexibility in releasing NTS Entry capacity to the market also limit when and how that capacity may be released.

National Grid NTS proposes that the UNC be amended to enable National Grid NTS to introduce an additional capacity release mechanism, primarily to release additional NTS Entry Capacity outside of and in addition to the existing Quarterly and Daily auction mechanisms that are currently in place, although under certain circumstances National Grid NTS can envisage that there may also be an associated release of Unsold NTS Entry Capacity.

It is further proposed that any such release of NTS Entry Capacity shall:

- be at the sole discretion of National Grid NTS.
- be subject to the application of a Reserve Price*. For clarification this will be the prevailing AMSEC auction Reserve Price (for each ASEP/s at which the NTS Entry Capacity is released) as specified in the Statement of Gas Transmission Charges.
- be applied solely within that Capacity Year*
- be subject to the provisions of UNC Section V3

For the avoidance of doubt Users will pay Capacity Charges for the capacity allocated through this process i.e. quantity of NTS Entry Capacity allocated

multiplied by the bid price tendered multiplied by the relevant period for which capacity has been allocated.

For the avoidance of doubt, any NTS Entry Capacity allocated through this process shall be considered in respect of overruns.

- Allocated capacity shall be included in the User's aggregate Available NTS Entry Capacity* to determine the Overrun Quantity*.
- Bid prices (in respect of satisfied bids) shall be considered determination of System Entry Overrun Charge* rates at the ASEP where the allocation is made.

Please note that implementation of this Proposal may require National Grid NTS to amend the following:

- 'The Statement of Gas Transmission Charges' and
- 'The Statement of the Gas Transmission Transportation Charging Methodology'

For clarity, if amendments to the above statements are required National Grid NTS will not release NTS Entry Capacity other than through those auction mechanisms that currently allow such a release, until such amendments have been completed.

National Grid NTS will no later than 2 (two) Business Days prior to the first day for which applications for capacity have been made, inform each User of those of its capacity bids that have been accepted, the amount of NTS Entry Capacity which it is registered as holding for the ASEP and the relevant period (for clarification the relevant period will be the period for which the capacity has been allocated).

And no later than one Business Day prior to the first day for which applications for capacity have been made, National Grid NTS will provide information to all Users in accordance with UNC Section B paragraph 2.14.2 other than sub paragraphs (b) and (h).

While not forming part of the proposal, National Grid anticipates that any such release would:

- be subject to a market test mechanism (for clarification National Grid NTS anticipates that this would be a pay as bid auction), with a separate set of Terms and Conditions (in the same way as options tenders are). These Terms and Conditions would:
 - be made available by National Grid NTS a minimum of seven (7) days prior to any release of NTS Entry Capacity. For clarification the Terms and Conditions would be made available as part of the invitation process.
 - be accepted by Users. For clarification the Terms and Conditions will contain the business rules applicable to that release of NTS Entry Capacity. Users will be required to accept the Terms and Conditions prior to participating in the capacity release mechanism.

0216A

Under the current Uniform Network Code (UNC) arrangements, National Grid NTS (NGG NTS) must make Unsold NTS Entry Capacity available to Users subject to a market test. National Grid NTS may also, at its own discretion, make additional Quarterly NTS Entry Capacity and additional Daily NTS Entry Capacity (i.e. in addition to Unsold NTS Entry Capacity) available at an Aggregate System Entry Point. For clarity, E.ON UK does not propose to change the above arrangements.

E.ON UK proposes that the UNC be amended to enable National Grid NTS to introduce one or more additional pay-as-bid auction(s) within the same Capacity Year, to release additional NTS Entry Capacity (including the associated release of Unsold NTS Entry Capacity) outside of, and in addition to, the existing Quarterly and Daily auction mechanisms that are currently in place.

However, E.ON UK proposes that National Grid NTS shall only be entitled to exercise this new discretionary right to effectively break from the current UNC structure of NTS Entry Capacity auctions:

- Until the end of the Capacity Year ending 30 September 2009; at which point the right shall cease to exist under the UNC. The purpose of this is to seek to minimise any unforeseen consequences arising from the new process, whilst allowing time for full industry review of the process, post-winter 2008/9.
- To make available NTS Entry Capacity in strips of no less than one (1) month and no greater than one (1) year.
- By giving a minimum of 28 days notice to Users of a proposed additional pay-as-bid auction to release additional (or associated Unsold) NTS Entry Capacity.
- By running each new pay-as-bid auction with a minimum of two (2) rounds, which should facilitate true price discovery for the new NTS Entry Capacity.

It should be noted that this Proposal does not oblige NGG NTS to release additional NTS Entry Capacity to the market. However, this Proposal does introduce flexibility for NGG NTS to introduce one or more additional pay-as-bid auctions to release more Entry Capacity than would otherwise be the case, but in more transparent and predictable circumstances than proposed under Mod 216. This Proposal places reasonable limits on the complete and sole discretion proposed by NGG NTS (in Mod 216) to potentially release NTS Entry Capacity (both additional and Unsold) at any time and under any circumstance in the same Capacity Year.

If Mod 216 were to be implemented, we do not believe that the current UNC rules provide a satisfactory limit on when and how NG NTS may call a new auction to release additional and associated Unsold NTS Entry Capacity. As a result, if implemented, the Proposer believes that Mod 216 could seriously undermine the existing auction structure and pricing, introducing unacceptable levels of uncertainty for all Users of the NTS; particularly new entrants.

As also specified in Mod 216, it is further proposed that any such release of NTS Entry Capacity shall:

- Be subject to the application of a Reserve Price. For clarification this will be the prevailing AMSEC auction Reserve Price (for each ASEP/s at which the

NTS Entry Capacity is released) as specified in the Statement of Gas Transmission Charges.

- Be applied solely within that Capacity Year.
- Be subject to the provisions of UNC Section V3.

For the avoidance of doubt Users will pay Capacity Charges for the Capacity allocated through this process; i.e. quantity of NTS Entry Capacity allocated multiplied by the bid price tendered multiplied by the relevant period for which capacity has been allocated.

For the avoidance of doubt, any NTS Entry Capacity allocated through this process shall be considered in respect of Overruns. Allocated capacity shall be included in the User's aggregate Available NTS Entry Capacity to determine the Overrun Quantity. Bid prices (in respect of satisfied bids) shall be considered for determination of System Entry Overrun Charge rates at the ASEP where the allocation is made.

National Grid NTS will no later than 2 (two) Business Days prior to the first day for which applications for capacity have been made, inform each User of those of its capacity bids that have been accepted, the amount of NTS Entry Capacity which it is registered as holding for the ASEP and the relevant period (for clarification the relevant period will be the period for which the capacity has been allocated).

And no later then 1 (one) Business Day prior to the first day for which applications for capacity have been made, National Grid NTS will provide information to all Users in accordance with UNC Section B paragraph 2.14.2 other than sub paragraphs (b) and (h).

The Terms and Conditions applicable to the new pay-as-bid auction(s) will:

- Be made available to Users by National Grid NTS a minimum of 28 days prior to release of the NTS Entry Capacity. The Terms and Conditions will form part of the auction invitation process.
- Be accepted by Users. For clarification the Terms and Conditions will contain the business rules applicable to that release of NTS Entry Capacity. Users will be required to accept the Terms and Conditions prior to participating in the capacity release mechanism.

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;

0216

The Proposal would provide additional flexibility in the NTS Entry Capacity release arrangements to allow National Grid NTS to release additional NTS Entry Capacity. This should result in the release of additional capacity to the market and the avoidance of gas being stranded offshore, and thereby better facilitate the achievement of this objective.

0216A

In respect of Standard Special Condition A11 paragraph 1(a), the Proposal would provide additional flexibility in the NTS Entry Capacity release arrangements to allow National Grid NTS to release additional NTS Entry Capacity via a pay-as-bid auction. This should result in the release of more capacity to the market (particularly for Winter 08/09) than would otherwise be the case, reducing the risk of gas being stranded offshore and better facilitating the achievement of this objective.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the coordinated, efficient and economic operation of

- (i) the combined pipe-line system, and/ or*
- (ii) the pipe-line system of one or more other relevant gas transporters;*

0216 and 0216A

Implementation of either Proposal would not be expected to better facilitate this relevant 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;

0216 and 0216A

Implementation of either Proposal would not be expected to better facilitate this relevant objective.

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;*
- (ii) between relevant suppliers; and/or*
- (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

0216

The Proposer and others believed that implementation would promote the securing of effective competition between relevant Shippers by use of a market test mechanism for the allocation of additional NTS Entry Capacity and in general by giving more opportunities to secure capacity.

However, a number of respondents expressed concerns that this Proposal may have adverse consequences for competition between Shippers and a potential for market distortion, and would therefore not facilitate this objective.

Some respondents were concerned that implementation by giving National Grid NTS considerable discretion coupled with the potential short lead times would give an unfair advantage to any Shipper that had been in discussion with National Grid NTS about the release of any additional capacity. This would give such a Shipper more time than others to adjust its expectations of the

market and possibly affect the commodity market.

COR and EDFE pointed out that the seven day notice period in this proposal would potentially affect the supply position within relatively short timescales and this could lead to market distortions, with subsequent impacts on wholesale prices and market confidence. This would be due to Shippers having locked in their trading positions, based on prevailing market information.

0216A

In contrast to 0216, a number of respondents believed implementation would promote achievement of this objective by ensuring certainty for Shippers that capacity bought in previous capacity auctions in the same Capacity Year would not be undermined by release of additional and perhaps unexpected NTS Entry Capacity through an unspecified release mechanism, called at National Grid's discretion.

Implementation would also facilitate achievement of this objective by ensuring that both new and existing Users are aware of the structure of NTS Entry Capacity Auctions and are able to plan and manage risk on this basis. In addition, by time-limiting this Proposal, any potential unintended consequences are minimized and the industry has time to robustly review and improve on this new mechanism before September 2009.

Some respondents believed that the risk of market distortion through 0216A is significantly reduced as it proposes a twenty eight day notice period and the market will therefore have more time to react to changes. Implementation would therefore retain a level playing field between Shippers.

However, another respondent believed this extended notice period to be too lengthy; it might not allow for the efficient provision of additional entry capacity. It might also discourage National Grid NTS from undertaking an additional pay-as-bid auction if it was in close proximity to a RMTTSEC auction taking place.

COR believed that it was more appropriate that monthly periods of capacity were made available as proposed by 0216A. This would avoid treating shippers booking capacity through this mechanism differently from those who have booked capacity through the annual or monthly auction processes.

0216 and 0216A

Two respondents noted that both modifications fail to define the process and criteria for judging competing requests for entry capacity.

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;

0216 and 0216A

Implementation of either Proposal would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

0216 and 0216A

Implementation of either Proposal would not be expected to better facilitate this relevant objective.

0216

One respondent believed the Proposal required further development (more detail) to ensure that it fully met the objectives of the Code.

0216A

Two respondents opposed the inclusion of backstop dates within the UNC as they provided artificial deadlines for implementing regulatory reform and raising numerous UNC Modification Proposals to reset back stop dates could not be viewed as economic or efficient.

By placing a time limit on the discretionary rights to release capacity, ending 30 September 2009, implementation would allow the industry sufficient time to evaluate the impacts of this Proposal and will incentivise a more robust review of the process, to better inform future amendments.

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

0216

National Grid NTS believes that this Proposal, if implemented, may enhance security of supply by allowing Users the opportunity to obtain additional NTS entry Capacity than would otherwise be the case.

National Grid NTS believed that this would remove a barrier to entry for some Users and may therefore increase available gas supplies to the UK market. From discussions with Shippers this facility was particularly important for attracting LNG cargoes which may become available at short notice in response to price signals.

However COR thought it was not clear how a seven day notice period would resolve a security of supply situation prior to the command and control powers of the NEC being invoked.

0216A

E.ON UK believes that this Proposal, if implemented, may enhance security of supply by allowing Users the opportunity to obtain more NTS Entry Capacity than would otherwise be the case; particularly for the forthcoming winter period.

E.ON UK also believes that this Proposal, by limiting how and when National Grid NTS can run a new pay-as-bid auction outside of the current UNC auction structure, will not have an adverse effect on industry or system fragmentation.

4 The implications for Transporters and each Transporter of implementing

the Modification Proposal, including:

a) Implications for operation of the System:

0216

National Grid NTS does not believe this Proposal, if implemented, would adversely affect the physical operation of the System. By optimizing the release of NTS Entry Capacity*, implementation of this Proposal would provide Users with a greater opportunity to ensure gas supplies can be delivered at the earliest opportunity.

BGT was of the opinion that the latitude provided in respect of the nature of the release mechanism would add to the uncertainty that Shippers may already feel about the impacts of an additional capacity release mechanism on both buyer (and seller, in the case of the secondary market) behaviour, the capacity available through established short term capacity release cycles, and the impacts on SO revenues. It was also concerned that overuse or over-reliance on any such discretionary product could lead to a reduction in the booking of obligated capacity with consequential impact on the recovery of TO revenue. There was also potential for this product to undermine the requirement for and value of Trades and Transfers.

0216A

E.ON UK does not believe this Proposal, if implemented, would adversely affect the physical operation of the System. By optimizing the release of NTS Entry Capacity, implementation of this Proposal would provide Users with a greater opportunity to ensure gas supplies can be delivered to market.

b) Development and capital cost and operating cost implications:

0216

National Grid NTS believes this Proposal, if implemented may have cost implications with regards to system implementation and operating costs.

0216A

E.ON UK understands that this Proposal, if implemented may have some cost implications with regards to system implementation and operating costs.

It should be noted, however, that if implemented, this Proposal is likely to make use of the existing MSEC auction as a template and thus use existing functionality. As a result, we do not envisage that the costs would be substantial. In addition, as the Proposal is time limited the additional development costs could be minimised or avoided by a temporary solution using existing systems.

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

0216

National Grid NTS believes that these costs are internal to National Grid NTS and will be recovered through the existing charging regime.

0216A

Based on NGG NTS's statement in Mod 216, E.ON UK believes that these costs are internal to National Grid NTS and will be recovered through the existing charging regime.

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

0216 and 0216A

No such consequences on price regulation have been identified by either party.

- 5 **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**

0216 and 0216A

National Grid NTS and E.ON UK believe that neither Proposal will have a material impact on the level of contractual risk of each Transporter.

- 6 **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**

0216

National Grid NTS envisages that this Proposal, if implemented, will have an impact on the both the Gemini and UK Link systems. We would request that any such impact be assessed by xoserve.

0216A

E.ON UK envisages that this Proposal, if implemented, could have an impact on both the Gemini and UK Link systems.

- 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)

0216 and 0216A

Some implications would be anticipated for Users participating in the proposed releases.

0216A

E.ON UK believes that implementation of this Proposal would retain much-needed certainty for Users about when and how to bid for NTS Entry Capacity.

Development and capital cost and operating cost implications

0216 and 0216A

Some implications would be anticipated for Users participating in the proposed releases.

Consequence for the level of contractual risk of Users

0216 and 0216A

MBL believed that a large alteration to the supply position with just 7 days notice would seriously affect gas prices. Traders and Risk Analysts in the market would be unable to quantify the risk of the sudden, unexpected changes to the supply position. This would lead to market nervousness which could result in reduced liquidity along the traded curve or a high risk premium being built into the price.

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

0216

National Grid NTS was not aware of any implications.

0216A

This Proposal places reasonable limits on the discretion of National Grid NTS and by doing so, introduces certainty for all Users of the NTS about how and when additional NTS Entry Capacity may be released, outside of the established auction structure.

A 28 day notice period for a new pay-as-bid auction limits the gap between the spot market and the sale of capacity, thereby allowing Users to efficiently and economically manage their own risks.

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

0216 and 0216A

No such consequences have been identified by either party.

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

Advantages

0216

National Grid NTS considers that this Proposal will:

- Facilitates additional flexibility in making additional NTS Entry Capacity available to the market, and complements the current auction process.
- Facilitates both long term and short term requests

- Enables NG to respond to either a demand from the market or from direct customer request
- Allows Users the opportunity to secure additional NTS Entry Capacity, therefore allowing gas flows onto the system that may otherwise be prevented.

0216A

- Makes process of capacity release more transparent.
- Avoids undermining both the existing auction structure and NTS Entry Capacity Baselines. If National Grid NTS were to have unrestricted discretion as to when and how to run a new pay-as-bid auction, this could introduce previously unexpected amounts of NTS Entry Capacity to the market, which could undermine the value of capacity bought or sold in other auctions and would also undermine the importance of existing (or future) Baselines.
- Ensures clarity and non-discrimination by ensuring that Users are aware that under this Proposal, additional or associated unsold capacity can only be released via a pay-as-bid auction and not by any other 'release mechanism'.
- By placing reasonable limits on National Grid NTS' discretion, this Proposal creates certainty and transparency for the market about the structure of NTS Entry Capacity auctions. This is particularly important for new entrants.
- Limits the potential for adverse impact on exchange rates in the 'enduring' Trade and Transfer process by restricting the sale of capacity to strips of NTS Entry Capacity greater than one month.
- Limits any unforeseen impacts on the market by placing time restrictions on National Grid's ability to exercise its new discretionary right to call a new auction. This should allow sufficient industry time before September 2009 to evaluate the success (or otherwise) of this new auction process and to plan for the future.
- A minimum two-round auction facilitates better price discovery in the market than a single round auction.
- Extended notice period permits greater bid planning by Shippers.
- Facilitates a solution to near term entry capacity issues and expires at a defined future point, so as not to distort the long term entry capacity mechanism.

Disadvantages

0216

- Tends to reinforce the trend towards greater monopolistic power where NG ultimately has control as to how much capacity it releases, potentially to suit itself rather than its customers.
- As NGG NTS is not exposed to the risks created by this Proposal, it does not have any incentive to ensure its behaviour does not impact market participants.
- Allowing NGG NTS unrestricted discretion when deciding how, when and how much additional capacity to release would undermine the value of Entry Capacity already bought and sold in the established auctions.
- Risk of creating a system of quasi bilateral arrangements for short term capacity, rather than a uniform approach.
- May lead to market distortion; lacks the necessary transparency required to ensure UK gas markets will not be affected by release of additional entry capacity amounts.
- Potentially provides Shippers who have entered negotiations with NG with an unfair commercial advantage.
- 7 day notice period may be insufficient for NTS entry points connected to an LNG re-gasification terminal as it may take longer than 7 days to source and deliver a cargo to take advantage of additional available NTS entry capacity.
- It is unclear what safeguards would be put in place to ensure that 0216 and the Trades and Transfer proposal did not distort or compete with each other.

0216A

- If NGG NTS exercises its discretionary rights conferred under this Modification Proposal, it has been indicated by NGG NTS that releasing more capacity in this way would have an adverse impact on some Trade and Transfer exchange rates.
- Places undue restrictions on how NG can offer non-obligated NTS Entry Capacity to the market.
- The additional measures suggested in this Proposal are too restrictive and possibly counterproductive in relation to the original aim and potential benefits of a discretionary release mechanism.
- Although a two round auction is preferable where possible, it may be that for within month or within week capacity releases this may not be practicable.
- Introduces an additional back stop date into UNC.
- The arrangements proposed may only be suitable for one type of ASEP and this may limit the flexibility available to NG to offer capacity.
- Restricts the range of discretionary considerations available to National Grid by setting definitions on various parameters and ignoring other

aspects of the decision on whether or not to make the capacity available.

- Restrictions prevent additional discretionary capacity being released to exploit short market term opportunities (principally, but not exclusively LNG cargos), particularly as an auction would have to be held before any RMSEC auction for the release of unsold baseline.

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

0216A

The Proposer met with National Grid NTS to discuss the viability of this alternative Proposal before raising it formally.

0216 and 0216A

Representations were received from the following:

Organisation		0216	0216A	Preference
BG Gas Services Limited	BG	Not in Support	Support	0216A
BP Gas Marketing Ltd	BP	Support	Not in Support	0216
British Gas Trading Limited	BGT	Not in Support	Support	0216A
Centrica Storage Limited	CSL	Support	Support	0216
Corona Energy Retail Limited	COR	Not in Support	Support	0216A
EDF Energy plc	EDFE	Support	Support	0216A
EDF Trading Markets Limited	EDFT	Support	Support	0216
Eni UK Limited	ENI	Support	Support	0216A
E.ON UK plc	E.ON	Not in Support	Support	0216A
Macquarie Bank Limited	MBL	Not in Support	Support	0216A
National Grid Gas Distribution	NGD	Support	Support	0216
National Grid NTS	NGNTS	Support	Support	0216
RWE npower plc and GB business of RWE Trading & Supply GmbH	RWE	Support	Support	0216
Scottish Power	SP	Support	Support	0216

Statoil (UK) Ltd	STUK	Not in Support	Support	0216A
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In respect of Proposal 0216, of the fifteen responses received nine supported implementation, and six did not support implementation

In respect of Proposal 0216A, of the fifteen responses received fourteen supported implementation, and one did not support implementation.

Of the fifteen responses, seven indicated a preference for Proposal 0216, and eight indicated a preference for 0216A.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

0216 and 0216A

Implementation of either Proposal is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13 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

0216 and 0216A

Implementation of either Proposal is not 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.

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

0216 and 0216A

No programme of works would be required as a consequence of implementing either Modification Proposal.

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

0216 and 0216A

Either Proposal could be implemented with immediate effect following direction from Ofgem.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

0216 and 0216A

No implications of implementing either Modification Proposal upon existing Code Standards of Service have been identified.

17 Recommendations regarding implementation of these Modification Proposals and the number of votes of the Modification Panel

At the Modification Panel meeting held on 19 June 2008, of the eight Voting Members present, capable of casting nine votes, nine votes were cast in favour of implementing Modification Proposal 0216. Therefore the Panel recommended implementation of Modification Proposal 0216.

At the same meeting, nine votes were cast in favour of implementing Alternative Proposal **0216A**. Therefore the Panel recommended implementation of Alternative Proposal **0216A**.

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 eight Voting Members present, capable of casting nine votes, three votes were cast in favour of implementing Proposal 0216 in preference to Alternative Proposal **0216A**, and three votes were cast in favour of implementing the Alternative Proposal **0216A** in preference to Proposal 0216.

Therefore, the Panel failed to determine which of the two Proposals 0216 and **0216A** 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

The following texts have been provided:

Modification Proposal 0216

UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL DOCUMENT

Section B – System Use and Capacity

Amend paragraph 2.1.2 to read as follows:

“2.1.2 Users may apply for and be registered as holding NTS Entry Capacity:

- (a)
- (b)
- (c)
- (d) paragraph 2.5; and
- (e) as Quarterly, Monthly, Daily or Daily Interruptible NTS Entry Capacity (as the case may be) pursuant to an invitation in accordance with paragraph 2.1.14.”

Insert the following as a new paragraph 2.1.14:

“2.1.14 Discretionary NTS Entry Capacity

- (a) In addition to the other methods set out in Section B2.1.2 by which NTS

Entry Capacity may be made available to Users, National Grid NTS shall be entitled to invite applications for NTS Entry Capacity to Users by such means as National Grid NTS may determine in its sole discretion. The timing of any such invitation, the quantities of NTS Entry Capacity included in such invitation (“Discretionary NTS Entry Capacity”), and the terms which shall apply to the offering of, application for, allocation of and use of such Discretionary NTS Entry Capacity shall also be determined by National Grid NTS in its sole discretion.

- (b) Any Discretionary NTS Entry Capacity included in any invitation made by National Grid NTS pursuant to the provisions of paragraph (a) shall:
 - (i) be subject to the application of a reserve price, which shall be equal to the prevailing reserve price last published pursuant to paragraph 2.2.1(a) (for each Aggregate System Entry Point at which Discretionary NTS Entry Capacity is offered); and
 - (ii) be available for a period of no more than one Capacity Year, such period being specified in the relevant invitation; and
 - (iii) be subject to the provisions of UNC Section V3.
- (c) Each User shall pay Capacity Charges for any Discretionary NTS Entry Capacity allocated to it, and such Capacity Charge shall be determined as the quantity of NTS Entry Capacity allocated multiplied by the bid price tendered multiplied by the relevant period for which such Discretionary NTS Entry Capacity has been allocated.
- (d) For the avoidance of doubt, any Discretionary NTS Entry Capacity allocated to a User pursuant to this paragraph 2.1.14 shall be included in the User’s aggregate Available NTS Entry Capacity.
- (e) The bid prices offered by Users for Discretionary NTS System Entry Capacity shall be considered in the determination of System Entry Overrun Charge rates at the relevant Aggregate System Entry Point.
- (f) National Grid NTS will no later than
 - (i) two (2) Business Days prior to the first day of the period to which the invitation relates, inform each User of those of its capacity bids that have been accepted, the amount of Discretionary NTS Entry Capacity which it is registered as holding for the relevant Aggregate System Entry Point and the period for which the Discretionary NTS Entry Capacity has been allocated); and
 - (ii) one (1) Business Day prior to the first day of the period to which the invitation relates, National Grid NTS will provide information to all Users with the information referred to in paragraph 2.14.2 in relation to Discretionary NTS System Entry Capacity.”

Amend paragraph 2.14.2 to read as follows:

“2.14.2 Following each allocation pursuant to paragraphs 2.1.14, 2.2, 2.4 and 2.5 National Grid NTS will, in accordance with paragraphs 2.1.14(f), 2.6.7 and 2.7.7 and in respect of each Aggregate System Entry Point and relevant long term period or (as the case may be) relevant short term period, notify Users of:

- (a);
- (b) except in relation to an allocation of NTS Entry Capacity pursuant to paragraph 2.1.14, the relevant step price group;

- (c)
- (d)
- (e)
- (f)
- (g); and
- (h)"

Modification Proposal 0216A

UNIFORM NETWORK CODE - - TRANSITION DOCUMENT

PART IIC – TRANSITIONAL RULES

Insert a new paragraph 1.1.9 to read as follows:

“1.1.9 Discretionary NTS Entry Capacity (Section B2)

- (a) The provisions of this paragraph 1.1.9 shall apply until 30 September 2009.
- (b) In addition to the other methods set out in Section B2.1.2 by which NTS Entry Capacity may be made available to Users, National Grid NTS shall be entitled to invite applications for NTS Entry Capacity to Users via one or more auction(s) in each Capacity Year. The timing of any such invitation, the quantities of NTS Entry Capacity included in such invitation (“Discretionary NTS Entry Capacity”), and the terms which shall apply to the offering of, application for, allocation of and use of such Discretionary NTS Entry Capacity shall also be determined by National Grid NTS in its sole discretion, subject to the following:
 - (i) in any such invitation National Grid NTS shall invite bids in respect of NTS Entry Capacity for period of no less than one (1) month and no greater than one (1) year;
 - (ii) National Grid NTS shall give Users not less than twenty eight (28) days notice of any such invitation, and will at the same time advise Users of the terms which shall apply to the offering of, application for, allocation of and use of such Discretionary NTS Entry Capacity; and
 - (iii) any such invitation shall permit Users to bid for NTS Entry Capacity via an auction in not less than two (2) rounds before allocations are made by National Gird NTS pursuant to such invitation.
- (c) In addition to the foregoing, any Discretionary NTS Entry Capacity included in any invitation made by National Grid NTS pursuant to the provisions of paragraph (b) shall:
 - (i) be subject to the application of a reserve price, which shall be equal to the prevailing reserve price last published pursuant to TPD Section B2.2.1(a) (for each Aggregate System Entry Point at which Discretionary NTS Entry Capacity is offered); and
 - (ii) be available for a period of no more than one Capacity Year,

- such period being specified in the relevant invitation; and
- (iii) be subject to the provisions of TPD Section V3.
 - (d) Each User shall pay Capacity Charges for any Discretionary NTS Entry Capacity allocated to it, and such Capacity Charge shall be determined as the quantity of NTS Entry Capacity allocated multiplied by the bid price tendered multiplied by the relevant period for which such Discretionary NTS Entry Capacity has been allocated.
 - (e) For the avoidance of doubt, any Discretionary NTS Entry Capacity allocated to a User pursuant to this paragraph 1.1.9 shall be included in the User's aggregate Available NTS Entry Capacity.
 - (f) The bid prices offered by Users for Discretionary NTS System Entry Capacity shall be considered in the determination of System Entry Overrun Charge rates at the relevant Aggregate System Entry Point.
 - (g) National Grid NTS will no later than
 - (i) two (2) Business Days prior to the first day of the period to which the invitation relates, inform each User of those of its capacity bids that have been accepted, the amount of Discretionary NTS Entry Capacity which it is registered as holding for the relevant Aggregate System Entry Point and the period for which the Discretionary NTS Entry Capacity has been allocated); and
 - (ii) one (1) Business Day prior to the first day of the period to which the invitation relates, National Grid NTS will provide information to all Users with the information referred to in TPD Section B2.14.2 in relation to Discretionary NTS System Entry Capacity (other than sub-paragraphs (b) and (h) thereof)."

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters