CODE MODIFICATION PROPOSAL No 0195A
Introduction of Enduring NTS Exit Capacity Arrangements
Version 1.0

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Proposed Implementation Date: 01/04/2008

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Nature of Proposal

Introduction

Review Group 0166 was established to develop alternative proposals in the light of the Competition Commission decision to uphold the appeal against GEMA's decision to implement Modification Proposal 0116V. The Review Group and a number of follow-up workgroups considered the concept of an off-peak service[i].

It is intended that this proposal can be considered along side the 0116 series of proposals that are also expected to be reconsidered by Ofgem. As well as the flexible user commitment, firm capacity allocation processes and buy-back mechanisms set out in the main Modification Proposal 0195 this proposal exchanges the largely use-it-or-lose-it daily interruptible service for an off-peak service which provides a 'standing offer' that is to be made in off-peak periods where this does not prejudice the rights of firm users. For convenience the main features of the off-peak service are described first, and more detailed rules for the whole enduring NTS Offtake arrangements second. As this service is designed to supplement the arrangements set out in the main proposal most of the detailed rules in this alternative are identical to those set out in main Modification proposal 0195.

For avoidance of doubt any reference to 'current arrangements', 'existing UNC terms' or similar phrases refer to the UNC but do not include the text relevant to Modification Proposal 0116V[ii].

Off-Peak NTS Exit (Flat) Capacity service

Subject to capacity reduction restrictions (set out below) all shipper Users shall be entitled to opt for access on an off-peak basis at all NTS Exit Points. At initialisation of the new regime existing Registered users would be entitled to forgo 'prevailing rights' for Enduring NTS Exit (Flat) Capacity) in full or part.

NGG currently publishes forecast gas demand on the "daily summary report" on its website. By 15:00 hours this report shall also state the next Day (D+1) forecast demand expressed as a percentage of the 1 in 20 peak

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day[iii] demand.

After taking into account the firm holdings of Users NGG would be required, to release Off-Peak NTS Exit (Flat) Capacity up to the maximum theoretical flow rate that can be offtaken at the relevant NTS Exit Point on all Days the where the 15:00 hours D-1 published demand forecast is less than 80% of the 1 in 20 peak day demand.

Overruns for Users flowing in excess of their entitlements would apply on the same basis as the main Proposal 0195; however in addition under this alternative proposal the overrunning User would be required to apply for Enduring NTS Exit (Flat) Capacity for the relevant NTS Exit Point in the next July application window (described below). Such a process is designed to place such a user on the same footing as any other user applying for Enduring NTS Exit (Flat) Capacity.

In the meantime until such Enduring NTS Exit (Flat) Capacity is made available users that are obliged to apply for capacity will remain free to continue to purchase Annual NTS Exit (Flat) Capacity, Daily NTS Exit (Flat) Capacity and Daily Off-Peak NTS Exit (Flat) Capacity.

This alternative Proposal has been developed following detailed discussion at Review Group 0166 "Review of necessary reform of NTS Offtake Arrangements" in respect of enduring NTS Exit Capacity arrangements.

The current arrangements only allow Users to secure NTS Exit Capacity until 30 September [2011], after which there would be no means for them to secure either Firm or Interruptibe NTS Exit Capacity. Implementation of this Proposal would provide enduring NTS Offtake arrangements.

Proposals 0116A, 0116BV, 0116CVV, 0116V and 0116VD are currently with Ofgem for reconsideration following the decision of the Competition Commission to quash the implementation of 0116V. Ofgem has identified that it will also consider any Proposals arising from the work of Review Group 0166, as part of this reconsideration decision.

In the event Modification Proposal 0198 "Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points" is approved by the Authority, the effect of which is to postpone the start of the enduring NTS Offtake arrangements by a year, all the relevant dates in this alternative Modification Proposal would be extended by a year accordingly. Such dates are highlighted in square brackets throughout the remainder of the proposal.

For the purpose of this Proposal **"NTS Exit Points"** shall comprise the following categories:

a.	NTS/LDZ Offtakes
b.	Power Stations/NTS VLDMCs
c.	CSEPs
d.	Storage Connection Points
e.	Interconnectors

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Section 1. NTS Exit Capacity Products

It is proposed that two separate NTS Exit Capacity products be made available to Users as described below:

- **"NTS Exit (Flat) Capacity"** - which shall comprise and be equivalent in all respects with NTS Exit Capacity and NTS Offtake (Flat) Capacity, both as currently defined in the UNC. NTS Exit (Flat) Capacity shall be acquired by all Users thereby providing them with the ability to obtain rights to offtake a Daily quantity of gas at an NTS Exit Point, with the implied obligation to offtake at an even flow rate across the Day. Such a product is anticipated to provide National Grid NTS with clear locational signals for where, when and how much transportation capability may be required by Users to support anticipated end of Day demand, and will facilitate efficient NTS investment planning and operation;

- **"NTS Exit (Flexibility) Capacity"** – which shall comprise and be equivalent in all respects with NTS Offtake (Flexibility) Capacity as currently defined in the UNC. NTS Exit (Flexibility) Capacity shall be acquired by DNO Users so that they can fulfil their licence obligations and demonstrate their provision of sufficient flexibility to meet the requirements of consumers connected to their network. The acquisition of NTS Exit (Flexibility) Capacity by Shipper Users is not included in this proposal who will access offtake flow rate variations in accordance with Section 3 below.

Section 2. Release of NTS Exit (Flat) Capacity

The NTS Exit (Flat) Capacity product is proposed to be made available well ahead of the Day in annual bundles of Daily rights so that an efficient allocation process can be operated whilst avoiding the potential complexity of providing sub-annual products. The release of Daily and within Day Capacity should enable Users to fine-tune their requirements closer to gas flow, and particularly should satisfy the specific needs of counter seasonal loads, such as Storage Operators.

The following classes of NTS Exit (Flat) Capacity will be made available to Users:

- **"Enduring NTS Exit (Flat) Capacity"** - Firm NTS Exit (Flat) Capacity which may be applied for and registered as held by a User at a NTS Exit Point for each Day in that and each following Gas Year unless the User provides a notice to reduce its enduring rights;

- **"Annual NTS Exit (Flat) Capacity**" - Firm NTS Exit (Flat) Capacity which may be applied for and registered as held by a User at a relevant NTS Exit Point for each Day in a Gas Year;

- **"Daily NTS Exit (Flat) Capacity"** - Firm NTS Exit (Flat) Capacity which may be applied for and registered as held by a User at a relevant

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NTS Exit Point for a Day only; and

- **"Daily Off-Peak NTS Exit (Flat) Capacity" -** Interruptible NTS Exit (Flat) Capacity which may be applied for and registered as held by a User at a relevant NTS Exit Point for a Day only.

The key features of each class of NTS Exit (Flat) Capacity in respect of its release are set out below, with other aspects regarding the product described in sections 4 to 10 below.

Release and Reduction of Enduring NTS Exit (Flat) Capacity at NTS Exit Points

To minimise the impact on Users, where possible, of implementation of the enduring arrangements, it is proposed that each User be granted an initial amount of Enduring NTS Exit (Flat) Capacity based on quantities held by that User prior to submission of this Proposal[iv]. This is to avoid Users changing their capacity levels in response to this Proposal to levels which might not reflect their genuine requirements.

National Grid NTS will notify each User by 01 May [2008] of its initial Enduring NTS Exit (Flat) Capacity holdings for each existing NTS Exit Point determined as follows:

- NTS Supply Points and CSEPs – the sum of the User's maximum Firm and Interruptible NTS Exit Capacity that the relevant Shipper User had registered for any Day (**"Maximum Daily Amount[v]"**) in Gas Year [2006/07] at that NTS Exit Point. The aggregate quantity of initial Enduring NTS Exit (Flat) Capacity allocated to Users at an NTS Exit Point shall not be greater than the baseline level of capacity for Gas Year [2011/12] for that NTS Exit Point (in accordance with National Grid NTS' Licence). Where this is the case, each User will initially be allocated Enduring NTS Exit (Flat) Capacity equal to the quantity determined by firstly prorating any Interruptible NTS Exit Capacity, then any Firm NTS Exit Capacity, proportion of the Maximum Daily Amount such that the sum of each User's initial rights equals the baseline. Notwithstanding the above, Users may nominate a User Agent or Overrun User to be the **"Exit Capacity Booking Agent"** to provide the User's initial allocation of Enduring NTS Exit (Flat) Capacity (the **"Agent Allocation"**) subject to the following timetable/process:

  - Each Registered User on the 31 Mar [2008] at the NTS Supply Point or CSEP shall, by the 5th Business Day in April [2008], nominate an Exit Capacity Booking Agent to provide its Agent Allocation;

  - Providing all Registered Users at the NTS Supply Point or CSEP have nominated an Exit Capacity Booking Agent by the 5th Business Day in April [2008], and that Exit Capacity Booking Agent is the same for all Registered Users, National Grid NTS shall by no later than the 10th Business Day of April [2008] provide to the Capacity Booking Agent the aggregate quantity of initial Enduring NTS Exit

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(Flat) Capacity to be allocated;

- Such initial aggregate Enduring NTS Exit (Flat) Capacity to be allocated shall be the lesser of the aggregate Firm and Interruptible NTS Exit Capacity that the relevant Shipper Users had registered at 31 Mar [2008] and the baseline level of capacity for Gas Year [2011/12];

- The Exit Capacity Booking Agent shall by the 15th Business Day in April [2008] provide National Grid NTS with Agent Allocations for each Registered User, which in aggregate shall equal the aggregate quantity notified by National Grid NTS to the Exit Capacity Booking

Agent. For the avoidance of doubt an Agent Allocation for a Registered User could be zero;

- If the Exit Capacity Booking Agent fails to provide valid Agent Allocations for each Registered User by the 15th Business Day in April [2008], National Grid NTS shall allocate initial Enduring NTS Exit (Flat) Capacity as though an Exit Capacity Booking Agent had not been nominated.

- NTS/LDZ Offtakes – the NTS Offtake (Flat) Capacity registered to that DNO User for Gas Year [2011/12] (as stated in the September [2007] Offtake Capacity Statement) at that NTS Exit Point subject to the aggregate quantity of initially allocated Enduring NTS Exit (Flat) Capacity not being greater than the baseline level of Capacity for Gas Year [2011/12] for that NTS Exit Point (in accordance with National Grid NTS' Licence).

In the case of new Firm NTS Supply Points/CSEPs which are commissioned prior to the Enduring Arrangements coming into effect (expected to be Gas Year [2011]), the User's initial Enduring NTS Exit (Flat) Capacity holding will be the Registered NTS Exit Capacity at that new Firm NTS Supply Point /CSEP on the date immediately preceding start of the Enduring Arrangements (ie 30 September [2011]).

Users may apply for initial or additional Enduring NTS Exit (Flat) Capacity rights at any new or existing NTS Exit Point during an **"Annual Application Window"** in July in Gas Year Y_N for use from Gas Year Y_{N+4}, Y_{N+5} or Y_{N+6} onwards (ie if the Annual Application Window was in July 2008, Users may apply in July 2008 for additional enduring rights above its initial levels, if any, for use from October 2011 and/or 2012 and/or 2013 onwards). In the case of new NTS Exit Points, applications shall be accompanied by standard connection documentation used by Users (both Shipper Users and DNO Users) for initiating new NTS Exit Point connections.

Accordingly, Users will have the opportunity to purchase additional quantities of NTS Exit (Flat) Capacity, consistent with their willingness to pay and satisfaction of any **"strength of signal test"** that will be set out in

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the enduring ExCR Methodology Statement. This would apply to each request that National Grid NTS receives to increase its Enduring NTS Exit (Flat) Capacity. The strength of signal test is expected to require Users to commit to be registered and pay for four (4) Gas Years of NTS Exit (Flat) Capacity in order to obtain additional enduring rights, regardless of the baseline level at the NTS Exit Point. This would oblige the User to pay for the NTS Exit Capacity Charges for each of these Gas Years on its revised total amount of Enduring NTS Exit (Flat) Capacity.

Should National Grid NTS not, be able to:

- Make available the quantity of NTS Exit (Flexibility) capacity requested by a DNO User under section B.6.3 of the UNC; or
- Comply with a request from a DNO User to make a permanent change to the Assured Offtake Pressure under section 6 below,

at an NTS/LDZ Offtake and for a Gas Year for which a DNO User has applied for NTS Exit (Flat) Capacity in an Annual Application Window, the DNO User may reasonably adjust the quantity of NTS Exit (Flat) Capacity it applied for accordingly. The DNO User shall advise National Grid NTS of its revised NTS Exit (Flat) Capacity requirement within 5 Business Days of 15 September in that Gas Year.

All Users will be informed of their final allocations by National Grid NTS as soon as possible, but in any event not later than up to two (2) months after the Annual Application Window has closed (ie by 30 September at the latest following the closure of the July Annual Application Window). This will allow National Grid NTS sufficient time to complete credit checks and the incremental release processes under the ExCR Methodology Statement. In the event that acceptance of such applications for Enduring NTS Exit (Flat) Capacity would result in the aggregate level at an NTS Exit Point to be above the baseline from Gas Year Y_{N+4}, National Grid NTS will be obliged under its Licence to consider whether transfer of unsold baseline quantities from other NTS Exit Points may reduce, avoid or defer the need for investment.

In the event a User incurs an NTS Exit (Flat) Capacity Overrun Charge on a Day that User shall be required to apply for Enduring NTS Exit (Flat) Capacity in the next available Annual Application Window. The quantity of Enduring NTS Exit (Flat) Capacity it shall be required to apply for shall be equivalent to the maximum NTS Exit (Flat) Capacity Overrun quantity during the 12 months preceding the commencement of that Annual Application Window.

Users may apply to reduce their Enduring NTS Exit (Flat) Capacity any time between 01 July and 15 July each Gas Year Y_N (the **"Reduction Application Window"**). Applications to reduce Enduring NTS Exit (Flat) Capacity in the Reduction Application Window will specify the date (the **"User Requested Reduction Date"**) from which the User is prepared to relinquish Enduring NTS Exit (Flat) Capacity. A User Requested Reduction

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the first Day of a month.

If the User Requested Reduction Date is earlier than 01 October Gas Year Y_{N+2} and National Grid NTS is able to use the Enduring NTS Exit (Flat) Capacity a User applies to relinquish to satisfy a demand for Enduring NTS Exit (Flat) Capacity at a new or existing NTS Exit Point, National Grid NTS may agree to reduce the User's Enduring NTS Exit (Flat) Capacity from the User Requested Reduction Date, or from the start of any month thereafter up to and including 01 October Gas Year Y_{N+2}. Otherwise the date the User's Enduring NTS Exit (Flat) Capacity will be reduced from will be 01 October Gas Year Y_{N+2} or, if later, the User Requested Reduction Date.

National Grid NTS shall notify Users of when their application to reduce Enduring NTS Exit (Flat) Capacity will be effective no later than the 30 September following the end of the Reduction Application Window.

National Grid NTS may also invite ad hoc applications from Users to reduce their Enduring NTS Exit (Flat) Capacity at times outside the Reduction Application Window in order to satisfy demand for Enduring NTS Exit (Flat) Capacity at a new or existing NTS Exit Point. Such ad hoc applications shall be made on the same basis as applications in the Reduction Application Window except that User(s) shall be required to apply to relinquish Enduring NTS Exit (Flat) Capacity from a date(s) specified by National Grid NTS, and the circumstances under which National Grid NTS would undertake such ad hoc invitations shall be set out in its Exit Capacity Substitution Methodology Statement.

Where a User has requested to reduce its enduring rights, the User must continue to commit to be registered for Enduring NTS Exit (Flat) Capacity Charges in accordance with the strength of signal test before any application to reduce capacity becomes effective, regardless of the date stated in its application. However, if National Grid NTS has been able to satisfy demand for Enduring NTS Exit (Flat) Capacity at a new or existing NTS Exit Point, as a consequence of a User's application to reduce capacity, the User's obligation to commit to be registered for Enduring NTS Exit (Flat) Capacity

in accordance with the strength of signal test will cease, or be reduced proportionally, from the date its Enduring NTS Exit (Flat) Capacity reduction becomes effective.

For the avoidance of doubt, Users may apply to reduce their initial allocation of Enduring NTS Exit (Flat) Capacity, effective from Gas Year [2011/2] (and notified to them by National Grid NTS by 1 May [2008]), in the Reduction Application Windows of each year Y_N, where Y_N is [2008], [2009], [2010] or [2011]. However, in the event a User submits such an application in the Reduction Application Window of [2011], National Grid NTS will only allow the reduction to take effect from 01 October [2011] if it is able to use the Enduring NTS Exit (Flat) Capacity the User applied to relinquish to satisfy a demand for Enduring NTS Exit (Flat) Capacity at a new or existing NTS Exit Point.

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Alternative Process for Release of Enduring NTS Exit (Flat) Capacity at new and existing NTS Exit Points

In the case of new NTS Exit Points, developers or Users (both Shipper Users and DNO Users) may apply for initial Enduring NTS Exit (Flat) Capacity any time between 01 October and 30 June in each Gas Year. Also, Users may apply for increases in Enduring NTS Exit (Flat) Capacity at existing NTS Exit Points in the same period (as an alternative to applying in the Annual Application Window) if the increase would result in their level of Enduring NTS Exit (Flat) Capacity exceeding 125% of the prevailing baseline and any obligated incremental Capacity or greater than 10 GWh/day.

Such applications would be by way of a standard pro-forma, which in the case of new NTS Exit Points would be accompanied by standard connection documentation used for initiating new NTS Exit Point connections. The pro forma would require Users or developers to state:

- The quantity of initial Enduring NTS Exit (Flat) Capacity, or the increase in existing Enduring NTS Exit (Flat) Capacity that they require;

- The earliest and latest dates from which they require such capacity to be allocated to them and from which they would be expected to pay Enduring NTS Exit (Flat) Capacity charges in accordance with the strength of signal test described above; and

- If the quantity of Enduring NTS Exit (Flat) Capacity is required in tranches, the tranche quantity and the earliest and latest dates associated with each tranche.

The earliest date shall not be earlier than the start of the month six (6) months after the date of such application and the latest date shall be the 01 October three (3) years after the expiry of the next applicable Annual Application Window. For example, if an application under this alternative process was made on 15 October 2008, the earliest date would be 01 May 2009 and the latest date would be 01 October 2012 (ie the 01 October which is three (3) years after the expiry of the next applicable Annual Application Window in July 2009). If an application was made on 30 March 2009 the earliest date would be 01 October 2009 and the latest date would be 01 October 2012 (ie the 01 October which is three (3) years after the expiry of the next applicable Annual Application Window in July 2009).

National Grid NTS will be allowed to reject applications it receives which do not comply with the requirements stated above.

As soon as possible after receiving such an application, but in any event within ninety (90) days, National Grid NTS shall be required to make an offer to the User or developer stating the amount of the Enduring NTS Exit (Flat) Capacity that can be made available and the date(s) it can be made available by. The amount of Enduring NTS Exit (Flat) Capacity that can be

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date(s) shall not be earlier than the earliest date or later than the latest date specified in the application. National Grid NTS shall be required to use its reasonable endeavours to offer Enduring NTS Exit (Flat) Capacity in the quantities required as close as possible to the earliest date specified in the application. For the avoidance of doubt, the earliest and latest dates may be the same. National Grid NTS may, with agreement from the applicant User or developer, extend the period they are required to offer the User or developer Enduring NTS Exit (Flat) Capacity beyond ninety (90) days.

Within thirty (30) days of receiving an offer from National Grid NTS, the developer or User, may accept the offer and reserve Enduring NTS Exit (Flat) Capacity in the quantities and from the date(s) specified in the offer. Offers may not be accepted in part or for a date(s) earlier or later than that specified in the offer. Offers shall expire thirty (30) days after their date of issue, unless mutually agreed between National Grid NTS and the User or developer.

National Grid NTS shall be entitled to reject a User's acceptance of its offer if it is subject to a Credit Restriction at that time.

In the event National Grid NTS needs to invest in pipeworks (excluding ROV installations connecting pipeworks from the NTS to the NTS Exit Point) or make upstream system reinforcements in order to make the Enduring NTS Exit (Flat) Capacity detailed in its offer available, there shall be included in the offer a **"Demonstration Date"**. The Demonstration Date shall be set by National Grid NTS and shall correspond to the latest date National Grid NTS would require demonstration (as described below) in order to award binding contracts for any investment that may be needed (in accordance with their established investment programme) to make the Enduring NTS Exit (Flat) Capacity available by the date(s) specified in their offer.

Once a User or developer has reserved Enduring NTS Exit (Flat) Capacity by accepting an offer under this alternative process, then strength of signal obligations as set out in the enduring ExCR Methodology Statement shall apply which are expected to require:

- The User to commit to be registered and pay for; or
- The developer to pay for,

  four (4) years of NTS Exit (Flat) Capacity.

Such obligations will apply from the date the reservation is effective from (the **"Reserved Date")**.

National Grid NTS shall publish the following details of any Enduring NTS Exit (Flat) Capacity reserved under this alternative process to all Users within ten (10) days of acceptance of the offer:

- NTS Exit Point;

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- Quantity of Enduring NTS Exit (Flat) Capacity reserved;
- Reserved Date; and
- Demonstration Date (if applicable).

If a Demonstration Date applies, the Users or developer will be required by the Demonstration Date to demonstrate to National Grid NTS that its relevant consents have been secured, or are securable, and that its relevant construction programme at the NTS Supply Point is on target to offtake gas by the Reserved Date. If the User or developer is unable to demonstrate this to the reasonable satisfaction of National Grid NTS, or if the User is subject to a Credit Restriction, National Grid NTS shall be entitled not to proceed with the investment in pipeworks or upstream system reinforcement necessary to make the reserved Enduring NTS Exit (Flat) Capacity available by the Reserved Date if it so chooses. National Grid NTS shall, at the same time, extend the Demonstration Date by one (1) year, unless National Grid NTS and the User/developer mutually agree an earlier date, and shall be entitled to extend the Reserved Date by no more than one (1) year.

National Grid NTS may from time to time publish guidance regarding the criteria they will use to determine whether a User has demonstrated to their reasonable satisfaction that relevant consents have been secured, or their construction programme is on target to offtake gas by the Reserved Date.

In the event the developer or User fails to demonstrate to the reasonable satisfaction of National Grid NTS on three separate occasions, the reservation of Enduring NTS Exit (Flat) Capacity shall be cancelled, unless mutually agreed otherwise. Once cancelled the User or developer will no longer be bound by the strength of signal obligations. It will however be liable for any design work costs incurred by National Grid NTS in relation to pipeworks (excluding ROV installations connecting pipeworks from the NTS to the NTS Exit Point) or upstream system reinforcement, but not for any capital costs.

The obligations on National Grid NTS and Users in relation to this alternative process for the release of Enduring NTS Exit (Flat) Capacity at new and existing NTS Exit Points shall be laid out in the UNC. However, as developers are not party to the UNC, National Grid NTS shall ensure that acceptance of any offer they make to a developer, under an **"Advanced Reservation of Capacity Agreement (ARCA)"**, for the reservation of Enduring NTS Exit (Flat) Capacity at new NTS Exit Points under this alternative process is conditional on these same obligations applying as if the developer were a User.

A developer may nominate any Shipper User to register all or part of the reserved Enduring NTS Exit (Flat) Capacity for an NTS Exit Point, subject to the agreement of that Shipper User. After nomination of such a User any remaining strength of signal obligations shall pass to that User, subject to the User not being subject to a Credit Restriction, and the User will be entitled to register the quantity of Enduring NTS Exit (Flat) Capacity from the Reserved Date.

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Contractual arrangements (if any) between National Grid NTS and Users or developers to construct connecting pipelines from the NTS to the ROV installation of new NTS Exit Points sit outside this alternative process and are subject to currently established connection contracts and processes. However, if the User or developer is unable to demonstrate it will be able to offtake gas at the new or existing NTS Exit Point by the Reserved Date due to the failure of National Grid NTS to meet the timescales stated in contract it has entered into to provide a connecting pipeline to that NTS Exit Point, National Grid NTS shall not be allowed to revise the Reserved Date and/or the Demonstration Date.

Release of Annual NTS Exit (Flat) Capacity

Users may apply for Annual NTS Exit (Flat) Capacity during the Annual Application Window of each Gas Year Y_N for Gas Years Y_{N+1}, Y_{N+2} and Y_{N+3}. These applications will be for a set quantity of NTS Exit (Flat) Capacity for each Day of the Gas Year and may enable Users to adjust their portfolio if Annual NTS Exit (Flat) Capacity holdings as their demand forecasts become more certain.

National Grid NTS will give Users at least twenty eight (28) days notice of the Annual NTS Exit (Flat) Capacity (if any) to be made available at each NTS Exit Point consistent with its obligations under its Licence. This is anticipated to comprise baseline amounts for each NTS Exit Point set to reflect the physical capability of the NTS. National Grid NTS' obligation to release capacity may exceed such a baseline at an NTS Exit Point, subject to Users meeting the incremental release test, or reduced below such a baseline if this may avoid, reduce or defer investments in accordance with processes to be defined in the ExCR Methodology Statement.

Subject to meeting required credit limits, Users will be able to make one application for Annual NTS Exit (Flat) Capacity at an NTS Exit Point per Gas Year during the Annual Application Window, stating their desired quantity. Such quantity shall not be greater than that National Grid NTS have notified as being available and will not be less than 100,000 kWh/d. If allocated, the User will be required to register and pay for the amount of Annual NTS Exit (Flat) Capacity allocated to it at the rate prevailing at that NTS Exit Point throughout the relevant Gas Year(s). Applications may be withdrawn or replaced at any time during the application window.

National Grid NTS will allocate applications for Annual NTS Exit Flat Capacity in each Gas Year at each NTS Exit Point in full where the aggregate quantity applied for is less than or equal to than the amount of NTS Exit (Flat) Capacity National Grid NTS is required to release under its licence at that NTS Exit Point. In the event the aggregate quantity applied for in each Gas Year at each NTS Exit Point is greater than the amount of NTS Exit (Flat) Capacity National Grid NTS is required to release under its licence at an NTS Exit Point, applications will be pro rated accordingly.

Users will be informed of their allocations by National Grid NTS no later

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Window.

Release of Daily Firm NTS Exit (Flat) Capacity

Daily Firm NTS Exit (Flat) Capacity will be made available through **"pay-as-bid"** auctions held ahead of the Day at 15.00 and during the Day at 08:00, 14:00, 18:00, 22:00 and 01:00. National Grid NTS will also be permitted to hold additional auctions at its discretion by inviting Users to participate in such an auction with at least sixty (60) minutes notice. This is intended to provide certainty of the times at which auctions will be undertaken while retaining the flexibility for National Grid NTS to respond to market requirements in respect of requests for additional capacity.

The amount of capacity to be made available will be consistent with National Grid NTS' obligations under its Licence. National Grid NTS will also be able to release, at its discretion, non-obligated NTS Exit (Flat) Capacity in a Daily flat auction. The provision of such additional NTS Exit (Flat) Capacity above baseline levels is the subject of a Licence requirement on National Grid NTS to encourage efficient trade-offs between incremental NTS Exit (Flat) Capacity release and potential capacity management costs.

Users will be able to place bids, subject to meeting required credit limits, for NTS Exit (Flat) Capacity stating in each bid their desired quantity and the price they are willing to pay for such a quantity. Users may submit up to 10 bids per NTS Exit Point from seven (7) days before the Day until 00:00 hours on Day. The quantity of Daily NTS Exit (Flat) Capacity bid for cannot be less than the minimum eligible amount of 100,000 kWh. The price of the bid must be greater than or equal to the reserve price as stated in National Grid NTS' **"Statement of Gas Transmission Transportation Charges."** It is proposed that Users can make fixed or reducing bids consistent with the principles in place for Daily auctions of System Entry Capacity. All bids will be ranked in price order and allocated sequentially, taking the highest price first at each NTS Exit Point until all available capacity is allocated or there are no further bids to satisfy, subject to the following:

- Where a capacity bid exceeds the remaining available amount, the User will be allocated an amount equal to the remaining unallocated amount;

- Where two or more bids have the same bid price and the sum of the requested quantities exceeds the remaining available amount, then these bids will be allocated by pro rating the amounts applied for in each such bid; and

- Where the amount to be allocated in respect of a bid would be less than the minimum amount specified in the capacity bid, the bid will be disregarded.

National Grid NTS will determine User allocations within sixty (60) minutes after completion of each auction.

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Release of Daily Off-Peak NTS Exit (Flat) Capacity

It is proposed that Daily Off-Peak NTS Exit (Flat) Capacity will be made available at 15:00 ahead of the Day through a pay-as-bid allocation process. The quantity to be offered will be determined as:

- A Use-it-or-Lose-It (UIOLI) amount - the difference between the Firm NTS Exit (Flat) Capacity holdings at the NTS Exit Point and the quantity of NTS Exit (Flat) Capacity that is expected to be utilised by Users for the purposes of facilitating gas flows (assessed from a rolling average over a thirty (30) Day period from D-36 to D-7 inclusive);

- Where the published Forecast Total System Demand at 15.00 hours (D-1) is less than 80% of the 1-in-20 peak day demand, the difference between the Maximum Supply Point Offtake Rate multiplied by 24 and the aggregate Firm Exit (Flat) Capacity holdings (where positive); and

- Any additional amount that National Grid NTS may make available at its discretion without jeopardising supplies to Firm NTS Exit (Flat) Capacity holders on the System

For avoidance of doubt, the release of Daily Off-Peak NTS Exit (Flat) Capacity on this basis would not change Firm NTS Exit (Flat) Capacity holders' rights at the NTS Exit Point.

The Maximum Supply Point Offtake Rate is the rate of offtake (in kW) which NGG NTS determines to be the maximum instantaneous rate at which it is feasible to make gas available for offtake at a given Exit Point. This shall be the maximum technically feasible rate of offtake under optimum operating conditions taking into account the capability of the gas consuming plant. The value shall not be less than the "maximum offtake rate" that may be specified in the relevant Network Exit Agreement, CSEP Network Exit Agreement or Storage Connection Agreement or the relevant "connection' or "minimum-offtake" agreements agreed with the project developer during construction or expansion of the relevant connection facilities.

For existing NTS Exit Points NGG shall notify the Registered Users of the Maximum Supply Point Offtake Rate applicable on 1 May 2008 (the date on which existing users are also notified of their 'prevailing' rights which, if they choose, can continue to be held as Enduring NTS Exit (Flat) Capacity.

For new NTS Exit Points or NTS Exit Points where the capability of the connected gas consuming plant and/or the connecting pipeline has been upgraded NGG shall notify the Register User(s) (or where such User(s) does not yet exist the relevant connected party) of the Maximum Supply Point Offtake Rate or revised Maximum Supply Point Offtake Rate no later than the date from which it is technically feasible offtake gas/more gas.[vi]

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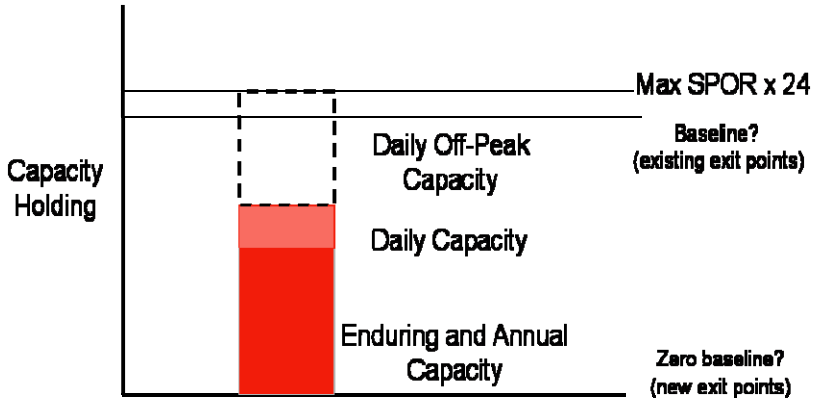
Release of Daily Off-Peak Capacity



Users will be able to place bids and will be allocated Daily Off-Peak NTS Exit (Flat) Capacity in accordance with the same provisions as for Daily Firm NTS Exit (Flat) Capacity.

National Grid NTS may withdraw Daily Off-Peak NTS Exit (Flat) Capacity (ie effectively scale-back) at any time during the Day to manage any exit transportation constraint. No compensatory payments would be due for curtailment of Interruptible NTS Exit (Flat) Capacity rights.

Section 3. Release of NTS Exit (Flexibility) Capacity

DNO Users requests for and acquisition of NTS Exit (Flexibility) Capacity on an ongoing basis will be undertaken in the same way as they currently request and acquire NTS Offtake (Flexibility) Capacity under section B.6.3 of the UNC.

Shipper Users are not required to acquire NTS Exit (Flexibility) Capacity and will continue to access offtake flow rate variations by the submission of an OPN. These OPN submissions will be provided in accordance with the site's relevant NExA provisions in terms of ramp rates and notice periods, where National Grid NTS require, and will be accepted if the offtake flow variations are within system capability for that Day and will not, of themselves, give rise to an Operational Balancing Requirement (but it is recognised that such change or rates of offtake may contribute to any such requirement at any later time).

Section 4. Transfers and Assignments

Transfers

It is proposed that a User (**"Transferor"**) will be able to transfer (subject to the restrictions outlined below):

- Firm NTS Exit (Flat) Capacity at an NTS Exit Point to another User (**"Transferee"**) at the same NTS Exit Point;

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- National Grid NTS will facilitate such transfers via a transfer registration process which will allow Users to inform National Grid NTS of the quantities, periods and points of the requested transfers. This will be facilitated in August [2010] for Gas Year [2011] onwards.

For transfers of NTS Exit (Flat) Capacity at an NTS Exit Point between Users, such transfers may not be notified in respect of any Day later than 04:00 on the Day.

Transfers may be rejected by National Grid NTS where the requested transfer quantity exceeds the Transferor User's Daily NTS Exit (Flat) Capacity holding.

If a requested transfer has been matched by the Transferor and Transferee User and has not been rejected by National Grid NTS within sixty (60) minutes of the confirmation by the Transferee User, the transfer will be deemed to have been accepted by National Grid NTS.

Any accepted transfers will be deducted from the Transferor's holdings and added to the Transferee's holdings for the purposes of determining NTS Exit (Flat) Capacity Overrun charges. The Transferor User will remain liable for the payment of NTS Exit (Flat) Capacity charges and any commitments associated with Enduring NTS Exit (Flat) Capacity.

Assignment

It is proposed that a User (**"Assignor"**) will be able to assign, subject to the restrictions outlined below, from a specified day (the **"Assignment Day"**):

- All of its Enduring NTS Exit (Flat) Capacity and Annual NTS Exit (Flat) obtained through the release mechanisms described above at an NTS Exit Point to another User (**"Assignee"**) at the same NTS Exit Point.

National Grid NTS will facilitate such assignments via an assignment registration process which will allow Users to inform National Grid NTS of the date from which such assignments are requested to take place. This will be facilitated starting in August [2010] for Gas Year [2011] onwards.

Assignments may not be notified later than five (5) Business Days before the Assignment Day.

Assignments will be rejected by National Grid NTS where the Assignee User does not have the required credit worthiness.

If a requested assignment has been matched by the Assignor and Assignee User and has not been rejected by National Grid NTS within four (4) Business Days of the confirmation by the Assignee User, the assignment will be deemed to have been accepted by National Grid NTS.

Any accepted assignments will be deducted from the Assignor's holdings

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and added to the Assignee's holdings for the purposes of determining NTS Exit (Flat) Capacity Overrun charges, and the Assignee will become liable for the payment of the associated NTS Exit (Flat) Capacity Charges and any commitments associated with Enduring NTS Exit (Flat) Capacity.

Users shall have the right to assign[vii] in full or part any obligation to apply for Enduring NTS Exit (Flat) Capacity to another Registered User at the relevant Exit Point provided that notice is given to NGG 5 clear working days before commencement of the July capacity application window. NGG will confirm the transfer from one User to another within 5 working days of receipt of such transfer notice. Where an Agent has been appointed the Agent can notify the transfer.

Section 5. Exit Capacity Management

Shipper Capacity Management

As under this proposal the release of Daily Off-Peak NTS Exit (Flat) Capacity will effectively be a 'standing-offer' rather than the limited (largely use-it-or-lose-it interruptible capacity) offered under the main proposal, Users will be in a position to pro-actively manage their capacity holdings and adjust their NTS sourced gas consumption activities accordingly in line with the overall projected usage of the system.

National Grid NTS Capacity Management

National Grid NTS requires adequate tools to maintain its ability to manage the NTS in a safe, economic and efficient manner. It is therefore proposed that a range of exit Capacity management tools will be available to National Grid NTS as follows:

- Curtailment of any Daily Off-Peak NTS Exit (Flat) Capacity.

  Where National Grid NTS determines either within or ahead of the Day that there will be a shortfall in NTS Exit (Flat) Capacity, National Grid NTS may issue an Interruptible Exit (Flat) Capacity Curtailment Notice to Users at the relevant NTS Exit Point(s). Such a notice will specify when the curtailment is to take effect (not less than four (4) hours after the notice is issued), and the factor by which all Users' Interruptible NTS Exit (Flat) Capacity holdings at that NTS Exit Point are required to be scaled-back;

- Buy-back of Firm NTS Exit (Flat) Capacity.

  Users may offer to surrender NTS Exit (Flat) Capacity to National Grid NTS by submitting offers in a similar manner to those used for making Capacity bids for the release of Daily NTS Exit (Flat) Capacity via pay-as-bid auctions. National Grid NTS will rank all offers in increasing price order and will allocate such offers as for Daily Capacity bids. National Grid NTS will not accept any Capacity offers until after 15:00 ahead of the Day, and will then only do so at its discretion;

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- Exit Capacity Management Agreements.

  These may comprise of forward agreements (pursuant to which a User will surrender a particular quantity of Firm NTS Exit (Flat) Capacity in relation to a period of one or more Days) or option agreements (pursuant to which National Grid NTS may require a User to surrender a particular quantity of NTS Exit (Flat) Capacity in relation to any Day in a period of one or more Days). National Grid NTS may at any time issue a tender for the buy-back of Firm NTS Exit (Flat) Capacity at an NTS Exit Point To the extent that National Grid NTS considers that it would be efficient and economic to accept these offers they will be accepted and the associated payments made.

- Within day flow reductions.

  National Grid NTS may invite Users to make offers for the reduction of a specified amount of flow over a specified period within the Day. Such offers may be made and will be allocated in a similar manner as for Capacity buy-back offers (as described above). Such a tool is anticipated to allow National Grid NTS to better manage any unacceptable forecast of within day linepack depletion in a particular section of the NTS.

For clarity, the processes and principles for use of such tools to resolve NTS Exit Capacity constraints will be described in the System Management Principles Statement (SMPS).

Section 6. Liabilities and User Obligations

Failure to make gas available for offtake

National Grid NTS will, subject to the obligations contained in Condition C.8.E.1.g of its licence, be required to buy back Firm NTS Exit (Flat) Capacity from Users in the event it is unable to meet User requests for gas they wish to offtake from the NTS within their Firm NTS Exit (Flat) Capacity entitlements (eg due to plant failure or locational Transportation Constraints). However, it is proposed that National Grid NTS will not be exposed to such liabilities in the following circumstances:

- If the rate of offtake exceeds the aggregate Maximum Permitted Rate for the NTS Exit Point (as described below);

- If there is an aggregate NTS Exit (Flat) Capacity overrun at the NTS Exit Point; or

- For any Day that is notified as a planned maintenance day in accordance with Section L of the UNC and is within the permitted number of days as set out in the relevant Network Exit Agreement for NTS Supply Points and CSEPs, or current provisions within UNC OAD Section I for NTS/LDZ offtakes.

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NTS Exit Point and as a result National Grid NTS fails to make gas available for offtake at another NTS Exit Point, then it is proposed that the Users which have incurred an overrun charge be liable for relevant amounts of the buy back costs incurred by National Grid NTS. Each User will be liable for a share of National Grid NTS' buy back payment based on each User's proportion of the aggregate overrun quantity.

Pressure Commitments

It is proposed that the current basis on which pressure commitments are made to Users at NTS Supply Points/CSEPs and NTS/LDZ Offtakes continue under the enduring arrangements. This will however require definition of the level of Assured Offtake Pressures for each NTS/LDZ offtake from October [2011] to inform DNO's investment planning process.

It is proposed that these Assured Offtake Pressures are issued to each DNO User by 30 September each year in the **"Offtake Pressure Statement"**. This will replace the current Offtake Capacity Statement in place as part of the interim/transitional arrangements and is in effect the same except for removal of capacity holding information and provision of information for the following six (6) (as opposed to five (5)) Gas Years.

Initially these levels are proposed to be set at implementation of this Proposal by rolling over the pressure commitments that have been granted to DNOs at each of its NTS/LDZ offtakes for Gas Year [2010/11] as part of the September [2007] Offtake Capacity Statement (ie these pressures are set for Gas Years [2011/12], [2012/13] and [2013/14]). For each Gas Year thereafter, the Assured Offtake Pressures in the Offtake Pressure Statement issued in September of Gas Year Y_N will be set as follows:

- For any Gas Year, the same as the Assured Offtake Pressures specified in the preceding year's statement, subject to agreed changes as explained below; and

- For Gas Year Y_{N+6}, the same as the Assured Offtake Pressures for Gas Year Y_{N+6} specified in the preceding year's statement, subject to agreed changes as explained below

Both the relevant DNO and National Grid NTS will have the ability to request of each other increases or decreases to the relevant Assured Offtake Pressures in place post October [2011] for specified Gas Years (**"permanent"** changes).

National Grid NTS will also have the ability to request of a DNO a decrease to relevant Assured Offtake Pressures in place post October [2011] for specified Days (**"temporary"** changes). This is to avoid potential inefficient operation of the NTS typically at off-peak periods in a Gas Year when a DNO may not require the peak pressures set for the entirety of the Gas Year. The ability for DNOs to request such temporary changes is not considered necessary as they should already have the required pressures for that Gas Year. In addition, the ability for both National Grid and DNOs to request

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temporary changes could be confusing if pressure change requests are made by each party, but in opposite directions, for the same period at the same NTS Exit Points.

National Grid NTS may request permanent changes in April each year, with effect from the following Gas Year at the earliest, with response required from the relevant DNO by 30 June (ie within two (2) months). Similarly, DNOs may request permanent changes in July each year, with effect from the following Gas Year at the earliest, National Grid NTS shall be required to provide indicative Offtake Pressure Statement's to each DNO User by 15 September each Gas Year., Each DNO User will, within 5 Business Days, be entitled ask National Grid NTS to clarify or reconsider the Assured Offtake Pressures detailed in the indicative statement, and National Grid NTS will provide each DNO User with a final Offtake Pressure Statement by 30 September (ie within two (2) months).

National Grid NTS may request of a DNO a reduction for any Day or period of Days (up to a maximum of thirty (30) Days) with a response required within ten (10) Business Days. Requests must be accepted by the DNO unless it would prejudice the safe and efficient operation of its network.

Non-compliant Gas

In the event that National Grid NTS makes available non-compliant gas, the amount of compensation paid by National Grid NTS to the relevant Users will continue as specified under current UNC TPD Section J provisions.

User Offtake Obligations

It is proposed that Shipper Users take all reasonable steps to not offtake gas at an NTS Exit Point at a rate that exceeds the **"Maximum Permitted Rate"** for that NTS Exit Point defined as sum of:

- The Shipper User's NTS Exit (Flat) Capacity at the NTS Exit Point divided by twenty four (24);

In the event that the rate of offtake exceeds or is expected to exceed the aggregate Maximum Permitted Rate to such an extent that National Grid NTS considers the security of the NTS may be jeopardised, upon notification by National Grid NTS to the relevant Shipper User(s) of such impending risk of a local Gas Supply Emergency, the relevant Shipper User(s) must promptly reduce their rate of offtake to within their Maximum Permitted Rate.

Section 7. Charges and Credit Arrangements

This section summarises charges which will be invoiced and payable in accordance with TPD Section S and associated credit arrangements. For clarity, invoices will be issued the month following each month in which Capacity is utilised ie the first set of invoices under the enduring regime will be issued November [2011].

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NTS Exit Capacity Charges

The NTS Exit (Flat) Capacity Charge payable by a User in respect of each Day will be determined for each NTS Exit Point as follows:

- In respect of Enduring NTS Exit (Flat) Capacity and Annual NTS Exit (Flat) Capacity, the relevant NTS Exit (Flat) Capacity charge as stated in National Grid NTS' Statement of Transmission Transportation Charges for that Day; and

- In respect of Daily NTS Exit (Flat) Capacity and Daily Off-Peak NTS Exit (Flat) Capacity, the bid price submitted by the User and allocated for the relevant Gas Day.

Bid prices submitted in any NTS Exit Capacity auctions must be at or above the relevant reserve price as specified in National Grid NTS' Statement of Transmission Transportation Charges.

NTS Exit (Flat) Capacity Overrun

It is proposed that an overrun mechanism will be put in place to discourage any under-booking of NTS Exit (Flat) Capacity for each Day while affording Users the benefits of aggregation at an NTS Exit Point.

NTS Exit (Flat) Capacity overrun charges at an NTS Exit Point will be triggered if the aggregate end of Day quantity of all Users at that NTS Exit Point exceeded the aggregate end of Day Firm and Interruptible NTS Exit (Flat) Capacity held by all Users at that NTS Exit Point.

In the event that an aggregate overrun quantity occurs at an NTS Exit Point, a User would incur an overrun charge reflective of the extent that its individual end of Day quantity had exceeded its registered Firm and Interruptible NTS Exit (Flat) Capacity at the NTS Exit Point (NB this may be negative). If the sum of the Users' individual overrun quantities at the NTS Exit Point exceeded the aggregate overrun quantity, then each User's overrun quantity would be reduced in line with its overrun quantity to ensure matching – this will determine the User's NTS Exit (Flat) Capacity overrun quantity.

Any NTS Exit (Flat) Capacity transfers/assignments at the NTS Exit Point will be taken into account in the determination of NTS Exit (Flat) Capacity overruns.

A User's NTS Exit (Flat) Capacity Overrun charge will be determined by multiplying the User's NTS Exit (Flat) Capacity Overrun amount by the highest of:

- 8 times the highest price paid by Users at the relevant NTS Exit Point to National Grid NTS for any class of NTS Exit (Flat) Capacity for that Gas Day;

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- 8 times the highest reserve price at the relevant NTS Exit Point for any NTS Exit (Flat) Capacity auctions;

- 1.1 times the highest price paid by National Grid NTS for NTS Exit (Flat) Capacity at the relevant NTS Exit Point through any exit constraint management action.

A single User may be appointed (the **"Overrun User"**) in respect of any Day at an NTS Exit Point by all Registered Users to be liable for all amounts payable by any relevant User by way of NTS Exit (Flat) Overrun Charges at the NTS Exit Point. For clarity, each User's NTS Exit (Flat) Capacity Overrun Charge at the NTS Exit Point will continue to be calculated in accordance with the above provisions, but the Overrun User (where appointed) will be liable for payment of such charges.

Any User facing an NTS Exit (Flat) Capacity Overrun Charge shall be required to apply for Enduring NTS Exit (Flat) Capacity as set out under Release and Reduction of Enduring NTS Exit (Flat) Capacity (above).

NTS Exit Capacity Buy-Back Charges

Where National Grid NTS accepts a Daily Capacity offer made by a User for buy back of NTS Exit Capacity, National Grid NTS will pay to the User the amount of the NTS Exit Capacity for which the offer was accepted multiplied by the offer price.

Credit Arrangements

The current credit rules in respect of System Entry Capacity will be extended to accommodate NTS Exit Capacity.

Following the approval of Modification Proposals 0144AV "Quantification of Value At Risk (VAR) to determine a User's minimum Code Credit Limit Requirement" and 0145 "Management of Users Approaching and Exceeding Code Credit Limit", which come into effect on 01 February 2008, it is expected this will require all Users to have an appropriate level of credit based on a Value at Risk (VAR) mechanism. Where a User's VAR exceeds 80% of its credit limit, National Grid NTS will notify the User of such a breach and if, following this notice, the User's VAR exceeds 100% of its credit limit National Grid NTS will be entitled:

- To reject or refuse to accept applications or bids by the User for NTS Exit (Flat) Capacity (and/or System Entry Capacity);

- To reject or refuse to accept a User's acceptance of its offer for Enduring NTS Exit (Flat) Capacity (and/or System Entry Capacity) under the alternative process;

- To reject or refuse to accept requests for such a User to be assigned NTS Exit (Flat) Capacity (and/or System Entry Capacity); and

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- Not to proceed with investment in pipeworks or upstream system reinforcement necessary to make the reserved Enduring NTS Exit (Flat) Capacity available by the Reserved Date under the alternative process.

each event being a **"Credit Restriction"**.

National Grid NTS's credit checks and a User's VAR are expected to take into account any payments that are due from the User in the next 12 months ie any Entry Capacity or Exit Capacity charges due by the User in this period.

Section 8. Other Impacts

NTS/LDZ Operational Flows

For clarity, it is proposed that the following provisions under UNC OAD Section I will cease to have effect on 1 October [2011]:

- Interruption – Under OAD Section I5.0, National Grid NTS can provide a request that a DNO interrupts LDZ Interruptible Supply Points. Under the enduring regime, National Grid NTS would need to use its constraint management tools to resolve any NTS Exit Capacity constraints.

However National Grid NTS' ability under OAD Section I2.4 to request that a DNO revises its Offtake Profile Notices while maintaining the aggregate rate of offtake into an LDZ will remain. This facility will also be extended, based on the same principles, to allow DNO Users to request that National Grid NTS accept Offtake Profile Notices which will transfer, but not increase in aggregate, its NTS Exit (Flat) Capacity holdings between two or more of its NTS/LDZ offtakes within an NTS Exit Zone consistent with the requested flow requirements in the Offtake Profile Notices. This is to provide DNO Users sufficient certainty that National Grid NTS will transfer its NTS Exit (Flat) Capacity between such NTS/LDZ offtakes, where it would not jeopardise the safe and efficient operation of the NTS, to prevent potential inefficient over-booking of capacity.

In addition, the current arrangements in respect of revisions to OPNs in accordance with Notice Period and Ramp Rate provisions by DNO Users (OAD Sections I2.3) will continue to apply under the enduring arrangements. Similarly, the provisions in respect of revisions to OPNs by Shipper Users at NTS Supply Points and CSEPs will continue to apply as currently defined in TPD Section J and associated Network Exit Agreements.

For clarity, where there is an operational event on a Transporter's network under the enduring arrangements, the relevant Transporters will co-operate to ensure security of supply. Such arrangements will require to be described in each Transporter's Safety Case consistent with this Proposal, if implemented. In addition, during a Network Gas Supply Emergency, commercial arrangements will be suspended and, in particular, Users will not be liable for any exit capacity overrun changes that may arise.

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CSEP Ancillary Agreements

Currently there exists a number of CSEP Ancillary Agreements in respect of the UK – Continent Interconnector, the GB Ireland Interconnector, as well as a number of generic NTS DM CSEP Ancillary Agreements, in force between National Grid NTS and CSEP Users. The text of these are identical in many respects and all contain provisions which will no longer be applicable in the enduring exit regime, namely Capacity booking processes, the concept of Firm CSEP and Interruptible CSEPs and associated default allocation provisions to apportion liability between CSEPs based on Firm and Interruptible CSEPs. These provisions will be superceded by the proposed new enduring Offtake arrangements under the UNC

Ideally, on the commencement of the enduring exit regime, the remaining provisions of the CSEP Ancillary Agreements would be replaced by provisions in UNC. However this is not proposed within this Proposal, and instead National Grid NTS will issue an explanatory note of provisions within such agreements that would be redundant in the event that this Proposal is implemented.

Section 9. Information Publication

By no later than 15:00 (D-1) National Grid NTS shall publish the forecast System demand expressed as a percentage of the 1 in 20 peak day demand on its website “daily summary report”.

By no later than 1st October [2008] National Grid NTS will, for each Day(D), publish the sum of the:

- Quantity of gas offtaken by all Users between 06:00 hours and 22:00 hours;
- Quantity of gas offtaken by all Users for the whole Day; and
- Quantity of NTS Exit (Flexibility) Capacity used by all Users, albeit Shipper Users are not required to acquire NTS Exit (Flexibility) Capacity,

by NTS Exit Zone.

Such information will be published on National Grid NTS's website by12:00 Days (D+1) and (D+6) after that may be updated if more accurate information becomes available. NTS Exit Zones shall be as specified in National Grid NTS's Exit Capacity Release Methodology Statement.

By no later than 01 October [2009] National Grid NTS will, for each Day (D), publish for each Linepack Area:

- The opening linepack position; and
- The actual closing linepack position for each hour of the Day.

Such information will be published on National Grid NTS's website by12:00

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Days (D+1) and (D+6) after that may be updated if more accurate information becomes available. Linepack Areas will be as specified in National Grid NTS's Exit Capacity Release Methodology Statement.

National Grid NTS will publish aggregated information to the industry in respect of release and surrender of capacity rights as summarized in Table 1.

National Grid NTS will also publish information in relation to Exit Capacity Management Agreements in respect of each class of NTS Exit Capacity, each NTS Exit Point or NTS Exit Zone, and each period, for which any tender was carried out or as the case may be, option was exercised, as published for Entry Capacity Management Agreements.

Table 1. Aggregate Capacity Release and Surrender Information to be

Published

Type of Capacity invitation/ invitation date	**Time by which information is to be published**	**Information to be released (see key below)**									
		A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**
Enduring Flat / July window	Not later than 24 hours post Users being informed of their allocations	Y	Y	N	N	Y	Y	N	N	Y	Y
Enduring Flat / acquired outside the July window	Within 10 days of acceptance by an User of an offer from National Grid NTS	N	N	N	N	N	N	N	N	N	Y
Annual Flat / July window	Not later than 24 hours post Users being informed of their allocations	Y	Y	N	N	Y	Y	Y	N	N	N
Daily Firm Flat	Not later than 1 hour after Users being informed of their allocations	N	Y	Y	Y	Y	Y	Y	Y	N	N
Daily Off-Peak	Not later	Y	Y	Y	Y	Y	Y	N	Y	N	N

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Flat	than 1 hour after Users being informed of their allocations		*								
Annual Flex/Sep	Not later than 30 September after final allocation	N	N	N	N	N	N	N	N	Y	Y
Exit Capacity Buyback/Within Day Flow Reduction	Not later than 1 hour after acceptance of offers	N	Y	Y	N	N	N	N	N	N	N

*** Revised after any scale-back**

Key

A Total bid/offer volume
B Total successful bid/offer volume
C Highest successful bid/offer (price and volume)
D Lowest successful bid/offer (price and volume)
E Total number of bidders
F Total successful bidders
G Unsold Flat Capacity / Max available Flex
H Weighted average bid/offer price
I Reduction Quantity Allocated (and relevant Gas Year from which reduction effective)
J Incremental Quantity Allocated

Section 10. Transitional Timetable

The following table describes the transitional timetable leading up to full implementation of the enduring regime, taking into consideration timescales for system functionality to be developed and periods for which the **"Transitional Arrangements"** are still in effect.

Table 2. Summary of Transitional Timetable

Date Held	**Product (Flat/Flex)**	**Auction/ Application**	**Annual/Long/ Medium/Short Term**	**Period**
July [2008] (reductions by 15 July)	Flat	Applications by all Users	Long Term (Increase and reductions)	October [2011] onwards
July [2008]	Flexibility	Applications by DNO Users	Long Term (Increase and reductions)	October [2011] to September [2013]

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July [2009] (reductions by 15 July)	Flat	Applications by all Users	Long Term (Increase and reductions)	October [2012] onwards (increases) and October [2011] (reductions)
October [2008]	Flexibility	Aggregate Daily Flow and Flexibility Usage by NTS Exit Zone		Each Day from 2 October [2008] Onwards
July [2009]	Flexibility	Applications by DNO Users	Long Term (Increase and reductions)	October [2011] to September [2014]
July [2009]	Flat	Applications by all Users	Medium Term	October [2011] to September [2012]
October [2009]	Linepack	Opening and Closing Linepack position by Linepack Area		Each Day from 2 October [2009] Onwards
July 2010] (reductions by 15 July)	Flat	Applications by all Users	Long Term (Increase and reductions)	October [2013] onwards (increases) and October [2011] (reductions)
July [2010]	Flexibility	Applications by DNO Users	Long Term (Increase and reductions)	October [2011] to September [2015]
July [2010]	Flat	Transfers/Assignments		October 2011] onwards
July [2010]	Flat	Applications by all Users	Medium Term	October [2011 to September [2013]
Oct-[2010]	Flat	Holdings considered in security/indebtedness processes.		October [2011]

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July [2011] (reductions by 15 July)	Flat	Applications by all Users	Long Term (Increase and reductions)	October [2014] onwards (increases) and October [2011] (reductions)
July [2011]	Flexibility	Applications by DNO Users	Long Term (Increase and reductions)	October [2011] to September [2016]
July [2011]	Flat	Applications by all Users	Medium Term	October [2011] to September [2014]
24 September [2011]	Flat	Bidding	Short Term	01 October [2011]
30 September 2011	Flat (Day ahead) + Flat (Off-Peak)	Auctions	Short Term	01 October [2011]
01 October [2011]	Flat (within Day)	Auction	Short Term	01 October [2011]
November [2011]	Flat	Invoices issued		For October [2011]

Purpose of Proposal

The current arrangements only allow Users to secure Exit Capacity until 30 September [2011], after which there would be no means for them to secure this capacity. In common with the main Proposal this alternative would incorporate a flexible, four year user commitment and a firm capacity allocation process together with a buy-back mechanism. Also a mandatory enduring capacity application process for overrun Users strengthens the 'ticket to ride' principle. In addition this proposal seeks to address the deficiencies of the 0116V (and by implication 0116CVV) interruption regime identified by the Competition Commission. The proposal is less complex than the 0116CVV proposal on which it is based.

At the handing down hearing on 10 July 2007 the Competition Commission stated,

"We have found the decision less satisfactory in relation to interruptible capacity. We have had concerns about the efficiency of this reform in relation to the use of the network on days when there is spare capacity on the NTS."

In addition in the Decision document itself, paragraphs 6.78, 6.79 and 6.85 respectively the Competition Commission explain their thinking further,

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"In our view, whether firm and interruptible users are relevantly similar or relevantly different depends on whether the provision of the two types of service imposes the same or different costs on NG. On the face of it, firm services and interruptible services are different services, and one would expect NGG to incur different capacity costs in providing those different services."

"However, this straightforward analysis may not apply to the NTS at the current time. One reason is that there is currently an excess of capacity on the NTS, so that it cannot be simply be said that firm users and interruptible users impose different costs on NGG. Rather, at points on the NTS where there is currently an excess of capacity it may be said that NGG incurs no capacity cost in providing firm capacity and makes no saving of capacity cost if a user is interruptible."

"We accept in principle GEMA's argument that 116V can be expected to deliver efficiency gains through competition for interruptible services and though more efficient investment decisions by NGG as a result. However, the overall efficiency of the interruptible arrangements under 116V will also depend, at least in part, on the considerations identified by Mr Shuttleworth[viii] – namely, that interruptible services all network usage to be increased in days where there is spare capacity. Given that proposal 116V withdraws the current long-term interruptible product, it may increase charges to certain users who place low value on interruptible capacity and so may lead to a reduction in network usage."

In this context the challenge would seem to be to design an interruptible service that is demonstrably different form a firm service. Such an interrruptible service should:

- not allow users to use peak capacity,
- not require investment on the system or alternatively should provide scope for future reductions in planned investment
- facilitate the use of spare capacity and the possibility of a reduction in unit transportation charges for all users.

Spare capacity in this context can be defined as existing capacity that can be made available to interruptible users without detrimental impact to the continuity of supply to firm users.

Unfortunately the withdrawal of the 'standing-offer' interruptible service and the lack of clear service definition for 0116V (in terms of availability and price) would have meant particular classes of users would have had little option but to go firm despite the fact they use, or have the ability to use, the system on an off-peak basis and thereby place different costs on the system. In addition as the reserve price[ix] for the 116V daily firm service was unknown and the interruptible service was effectively little more than a use-it-or-lose-it service limited to the agreed baseline[x] the sale of spare capacity did not appear to be a consideration.

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Particular classes of offtake such as storage, and interconnectors with both import and export capability will almost certainly be delivering into the system rather than offtaking from the system on peak days. Indeed this pattern of flow may in fact be releasing ('creating') temporal capacity. Charging such users high NTS Exit Capacity charges under such circumstances would seem to be discriminatory given the different impact they have on the system.

Other users that use the NTS as a back-up or an alternative supply can choose to avoid using the NTS during off-peak periods, that later doing so only if the NTS transportation charges are competitive. Some generators and other large customers maybe also prepared to switch to an alternative fuels during peak periods and will be willing to provide such constraint management interruption as they are already likely to have systems in place to support commercial demand-side contracts with their supplier.

This alternative proposal also seeks to build in the main proposal and reconcile the different legal interpretations of Transmission Access regulation EC No 1775/2005. On the one hand *"The price of interruptible capacity shall reflect the probability of interruption"* and this means parties must consider whether the current or indeed any of the '0116 series' of proposals are compliant with this Article 4.1(b). On the other hand Article 4.1(c) states transmission system operators must *"offer to network users both long and short-term services"*, i.e. series with a duration of one year or more. Thus the withdrawal of the 'standing-offer' interruptible under 116V can be considered to be contrary to European Law[xi].

Finally reform of the exit capacity and interruptions regime was originally intended to provide greater 'choice and value' to customers. Unfortunately the proposal to withdraw the 'standing-offer' interruptible service and its suggested replacement with a universal-firm/buy-back regime (under 0116V or 0116CVV) means customer choice in terms of access is eroded and in many cases no longer exists. Customer-focused organisations tend to design services that meet the different needs of different customers. This proposal seeks to retain a customer driven service which is compatible with efficient use and development of the NTS. Customers pro-actively avoiding peak periods of system usage should help NGG NTS better manage constraints that might otherwise emerge on the network.

Whilst Ofgem made a direction to implement Modification Proposal 0116V this decision was quashed by the Competition Commission and Ofgem has identified that this Proposal together with Proposals 0116A, 0116BV, 0116CVV and 0116VD will be reconsidered. The following paragraphs, therefore, assume that the status quo is represented by the Uniform Network Code as it stood prior to this direction.

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

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Urgent procedures are not requested.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

Given that this Proposal has been discussed and developed at Review Group 0166, and subsequent workstreams in draft form it assumed that this proposal can proceed according to the same timetable as the main proposal 0195.

2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would remove the uncertainty of the current "sunset clause" and provide a degree of assurance of funding associated with a four year commitment from Users.

This may help provide a stable investment framework for National Grid NTS to efficiently provide physical capacity in the NTS. Such investment would be expected to benefit the operation of the NTS and so facilitate the achievement of this objective.

The inclusion of the Daily Off-Peak NTS Exit (Flat) Capacity service will facilitate use of spare capacity[xii] on the system thereby encouraging increased utilisation of the system.

The clearer release mechanism for Daily Off-Peak NTS Exit (Flat) Capacity linked directly to how close the system is to a 1 in 20 peak day will allow shippers to pro-actively manage their use of the system thereby reducing the need of NGG NTS to manage constraints in a more reactive fashion.

Standard Special Condition A11.1 (b): So far as is consistent with sub-paragraph (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;

Implementation would provide enduring arrangements under which both National Grid and the DNs could make efficient investment decisions. Such investment might be expected to benefit the combined operation of the System and so facilitate the achievement of this objective.

Standard Special Condition A11.1 (c): So far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation, by providing an enduring framework for efficient investment

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decisions by National Grid NTS, DNs and Shipper Users, might better facilitate provision of capacity to meet 1 in 20 requirements and transporters' obligations to meet all reasonable demands for gas.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (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;

Implementation would remove the uncertainty associated with the current sunset clause and thus facilitate the achievement of this objective.

As this alternative, like the main proposal 0195, is derived from 0116CVV it is likely to suffer from the similarly high implementation costs attributed to 0116CVV. Shipper's views of such costs were extensively articulated in a number of consultant reports commissioned by the Gas Forum[xiii].

However, the adverse consequences faced by particular shippers particularly those that happen to use storage and interconnectors, or supply 'back-up' supplies to certain power stations is mitigated by the proposed Daily Off-Peak NTS (Flat) Capacity product which effectively provides a 'standing offer' for interruptible capacity in off-peak periods. This customer-focus product allows shippers to manage access risks more effectively thereby enhancing their ability to compete in the market. This in turn improves overall competition between shippers.

Compared to the main proposal 0195 (or indeed 0116V or 116CVV) this proposal should result in more cost reflective charges as off-peak users would not be obliged to pay firm charges despite the fact that they do not drive investment in system capacity and make a material contribution to fixed exit related NTS costs. Compared to the status quo however, interruptible or (rather Off-Peak) Users would be required to pay NTS Exit Capacity charges[xiv]

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

Given that Ofgem are now re-considering the 0116 series of Modification Proposals following the Competition Commission decision it is important to consider whether this proposal is to be preferred relative to 0116V or 0116CVV. The efficiency in the implementation and administration of the UNC is surely best served if the right of appeal to Competition Commission is kept open should the UNC Panel consider this proposal is preferable to 0116V or 0116CVV. This is especially relevant given that it is anticipated that Ofgem will be considering each of proposals along side each other as "one decision".

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

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

a) The implications for operation of the System:

To the extent that implementation would promote economic and efficient investment in the System, the operation of the System would be expected to benefit. Implementation would also give National Grid NTS a wider range of system management tools which might make it better able to manage any transportation constraint.

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

Implementation might be expected to promote improvement to economic and efficient investment in the System and thus avoid inefficiently incurred costs. Any implications for operating costs are expected to be minor.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

No proposal for specific cost recovery is included.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

By introducing a four year commitment on NTS Exit Capacity procurement, implementation would be expected to reduce the current level of contractual risk.

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

The removal of interruptible status requires that the Transporter Safety Cases to be re-visited.

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

Implications for the UK Link System would be expected to be similar for those associated with Modification Proposal 0116CVV. However, a full assessment has not yet been conducted. It should be noted that implementation of the flexibility and linepack information portion of this Proposal is likely to affect National Grid's website rather then directly affect UK Link. There may also be impacts on related computer systems to reflect the new User Commitment Term.

Where Users are mandated to apply for Enduring NTS Exit (Flat) capacity as a result of an Overrun a minimum application quantity would have to be set in the

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relevant July Application Window. Given that the number of overrunning users is likely to be relatively small a manual workaround solution should suffice rather than a fully systematised approach.

UNC requires UK Link Modifications to conform to three release dates per annum and to give the UK Link Committee six months notice of all changes directly affecting Users. This is inconsistent with the proposed implementation date but the UK Link Committee is able to waive this requirement.

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

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

Users would be expected to adjust their administrative arrangements to reflect the User Commitment Term and other changes to the NTS Exit Capacity application processes.

b) The development and capital cost and operating cost implications

The major cost implication for Users would be associated with the User Commitment Term and the management of the various new capacity products.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

As the User Commitment Term is longer than the current commitment term it is expected that the contractual risk of Users would increase. This is in accordance with the basis of the User Commitment Model, which seeks to reapportion the current risks between Transporters and Shippers.

8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

It is expected that some Non-Code Parties would wish to enter into ARCA arrangements which embody the principles of User Commitment.

Where existing shippers take on the User Commitment, there may be consequences for the operators and consumers associated with that NTS Supply Point or CSEP.

New NTS Exit points would not have a baseline defined under these arrangements. Some users may be happy to use Daily Off-Peak NTS Exit (Flat) Capacity and therefore need not make User Commitments and as such would not be driving new System investment. Procedures for customers at these new exit points may be required especially where non-code parties may not be aware of the risks associated with not acquiring enduring access rights to the system.

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

This proposal specifically addresses the deficiencies identified by the Competition Commission in relation to 0116V in terms of the use and pricing of spare capacity. Although this proposal does not provide for long-term (i.e. greater than 1 year) interruptible service, the effective 'standing-offer' provided by the release of Daily Off-Peak NTS Exit (Flat) Capacity at the Maximum Supply Point Offtake Rate multiplied by 24, means that the proposal is consistent with the spirit and intent of Regulation 1775.

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

Advantages

- It better meets the needs of storage users and 'bi-directonal' interconnectors (both of which will typically be delivering rather than offtaking in peak demand periods), those supplying 'back-up' gas supplies to particular power stations and those willing to use alternative fuels during peak periods.

- Better addresses the concerns set out in the Competition Commission decision and handing-down statement than the main proposal 0195 and 0116CVV.

- The mandatory capacity application process for overrunning Users together with substantial Overrun Charges ensures that non firm users do not receive a firm service at low cost.

- Charges for Off-Peak users are likely to be more 'cost reflective' than under (0116V, 116CVV and 0195) where the release of daily interruptible (read largely use-it-or-lose-it) capacity is unnecessarily constrained so that spare capacity is not guaranteed to be made available.

- Provides an enduring set of Exit Arrangements that would enable parties to plan for new NTS Supply Points, or capacity increases at existing NTS Supply Points or Offtakes with greater confidence.

- Provides all Users with the ability to pace a value of short term capacity and buyback

- Provides National Grid NTS with a wider range of system management tools to potentially allow them to better manage the NTS in a safe, economic and efficient manner

- Provides Users with aggregated information in respect of capacity applications and bookings which may better inform User intentions in respect of future use of the NTS

- Provision of zonal linepack information represents a major step forward in allowing Users to better understand the risks associated with the purchase of particular capacity products. Given that this proposal transfers risk from NGG

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NTS to Users it is only right that this information is made available so that they can better manage those risks.

Disadvantage

- Costs to shippers remain much higher than 0116A and are likely to be almost as high as 0116CVV.
- Off-peak users arguably pay too much compared to existing interruptible users as they are likely to pay an even greater contribution towards fixed costs).
- Increases the contractual risk for Users or Non-Code Parties entering into an ARCA.
- May not be entirely consistent with Regulation 1775 which requires TSOs to offer long-term interruptible services. Nevertheless it appears to take into account the requirements of this Regulation better than 0195, 0116V and 0116CVV.
- Like the main proposal and 0195, 0116V and 0116CVV the removal of interruptible status requires changes to NGG's Safety Cases. However, the fact that Off-Peak interruptible capacity will not be released under this proposal during peak demand conditions means off-peak users are likely not to be offtaking case under the most likely gas emergency scenarios.

11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

Representations are now invited.

12 Detail of all other representations received and considered by the Proposer

The Proposal has been extensively discussed in a Review Group 0166 and represents the consensus view of the various representations made.

13 Any other matter the Proposer considers needs to be addressed

None

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

It is recommended that this Proposal be implemented on 1 April 2008. However, for this to take place, National Grid NTS has to be able to implement the system changes and consent would have to be given through the UK Link Modification process.

15 Comments on Suggested Text

Text has not been provided at this stage but Detailed Business Rules are available for the main proposal 0195 and it is anticipated that this can be adapted to reflect

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the changes set out in this alternative proposal.

16 Suggested Text

None

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) B – System Use and Capacity

Proposer's Representative

Peter Bolitho, E.ON UK

Proposer

E.ON UK

Attachments

E.ON's submission in relation to the relationship between the pricing of interruptible capacity and the Transmission Access Regulation.

http://www.gasgovernance.com/NR/rdonlyres/F7C8E3DE-B275-4855-9AC4-E2C13DC0288C/18791/EONssubmissioninrelationtotherelationshipbetweenth.pdf

E.ON's response to GEMA's note re capacity and commodity charges

http://www.gasgovernance.com/NR/rdonlyres/C647763A-CAB3-4668-97AA-66559F90DC42/18790/EONsresponsetoGEMAsnoterecapacityandcommoditycharg.pdf

Most recent NERA report commissioned by the Gas Forum

http://www.gasgovernance.com/NR/rdonlyres/DDAF8111-85E2-419B-926B-7B8CA4631248/13667/NeraReport6.pdf

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[i] E.ON UK originally suggested an off-peak service as a simple change to the long-term, interruptible status requested by shippers under the current UNC, thereby effectively establishing a 'universal firm' regime but without the added complexity and cost associated with a proposal derived from 0116CVV. When the Review Group chose to develop an enduring offtake arrangements proposal derived from 0116CVV, it became clear that it would not be feasible to have a long-term off-peak service sitting along side multi-year, annual and daily firm or use-it-or-lose-it capacity products due to the added complexity of release and allocation mechanisms arising form the interactions between these products. Hence the proposer decided to exchange the daily interruptible service with a daily off-peak service, which in fact fortuitously turns out to be more in keeping with the 'universal firm' philosophy favoured by Ofgem.

[ii] The implementation notice for 0116V has been removed from the Joint Office of Gas Transporters' website but a formal notice of non-implementation has not been issued to UNC parties.

[iii] The 1 in 20 peak day demand calculated for a particular Gas Year in NGG's most recent Ten Year Statement.

[iv] The user can in full or part decline to take up this right and at his own risk rely on purchases of shorter-tem capacity services including Daily Off-Peak NTS Exit (Flat) Capacity.

[v] Note the allocation of Daily Off-Peak NTS Exit (Flat) Capacity up to the Maximum Supply Point Offtake Rate multiplied by 24 (see detailed rules for the release of such capacity) may take the total daily NTS Exit Capacity holdings above the baseline figure. This should not matter as this Daily Off-Peak NTS Exit (Flat) Capacity service can be curtailed at any time and as such it is designed to facilitate use of spare capacity on the network. New NTS Exit Points can legitimately have a zero baseline and it is perfectly acceptable for users that are prepared to take the risk to rely solely on Daily Off-Peak NTS Exit (Flat) Capacity.

[vi] This is essentially the maximum theoretical flow rate at which the connecting facilities have been designed for and typically will be specified in the relevant design documentation agreed between the project developer and NGG.

[vii] For avoidance of doubt the proposer does not envisage that this would require a complex system solution but simply the manual recording of the capacity application obligation and a process to ensure that the relevant User makes an application greater than or equal to the obligation in the July application process.

[viii] E.ON's submission in relation to the relationship between the pricing of interruptible capacity and the Transmission Access Regulation (attached).

[ix] NGG had previously issued a number of pricing consultation documents which appeared to suggest that the reserve price for daily firm capacity should be set at a level of 1/365th of the annual level, however no decision ad been made on this matter.

[x] It is assumed that for new NTS Exit Points the 4 year User Commitment for Enduring NTS Exit (Flat) Capacity would effectively obviate the need for a new baseline – the User Commitment is the new baseline?. Some users may wish to rely on an Off Peak product instead e.g. Users of a new storage facility, but under 0195, 0116V or 0116CVV without a baseline there is no assurance that daily capacity will be made available.

[xi] E.ON's response to GEMA's note re capacity and commodity charges (attached).

[xii] But to no greater extent than 0116A.

[xiii] The most recent being, "A report produced by NERA for the Gas Forum on Modification Proposal 0116V and associated Proposals" dated 7 December 2006. This document cross-references previous Gas Forum

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reports setting extensive analysis of the enduring offtake proposal first mooted as part of Ofgem's consideration of the Gas Distribution Sales.

[xiv] The reserve price is not yet known but is expected to be zero. Should there be competition Daily Off-Peak Interruptible Capacity access would be rationed on the basis of price although one would expect that the clearing prices would be lower than the daily firm capacity product should this be simultaneously available for sale.

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