

CODE MODIFICATION PROPOSAL No xxxx
“Transfer of Sold Capacity between ASEPs”
Version x.x

Date:

Proposed Implementation Date: 02/07/2007

Urgency: [Urgent]

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Under current UNC arrangements, a User (the “Transferor User”) is able to transfer all or part of its NTS Entry Capacity holding to another User (the “Transferee User”) at the same Aggregate System Entry Point (ASEP) for any Gas Day or consecutive number of Gas Days (the “Transfer Period”). This is undertaken by both the Transferor User and Transferee User notifying National Grid NTS of their desire to trade by providing the required supporting information. The effect of such System Capacity Transfers is that the amount of capacity transferred is deducted from the Transferor User’s holding and added to the Transferee User’s holding for the purposes of entry capacity overrun and neutrality charge determination. The Transferor User however remains liable for capacity charges in respect of the amount of capacity transferred.

Ofgem has proposed as part of their Final Proposals for the Transmission Price Control Review (TPCR) that an obligation is placed on National Grid NTS to meet reasonable requests from a User for determination of a “trade” rate or rates to facilitate the transfer of Sold capacity to itself between ASEPs. Such rates are proposed to be calculated in accordance with a new methodology statement (the “Entry Capacity Transfer and Trade Methodology Statement”). National Grid NTS has accepted in principle Ofgem’s Final Proposals for the TPCR, however drafting of the GT Licence in respect of the NTS to implement the TPCR is still in progress.

For clarity implementation of this modification proposal is dependent upon Ofgem approval of the Entry Capacity Transfer and Trade Methodology Statement.

In light of this new Licence obligation, this Proposal seeks to amend the UNC to allow Users to request such rates (referred to as “Transfer Rates” within this Proposal) and undertake System Capacity Transfers of Sold NTS Entry Capacity between ASEPs. It is intended to complement UNC Modification Proposal 0133, raised by National Grid NTS, that seeks to allow the transfer of Unsold capacity between ASEPs via the introduction of the AMTSEC auction.

National Grid NTS propose to hold the “Transfer of Sold NTS Entry Capacity process” via a transfer window, the transfer window will be opened after the AMTSEC auction process has ended.

The Transfer Window will be used to facilitate the transfer of Sold capacity to a “Recipient ASEP”. For the purpose of this modification proposal a Recipient ASEP is an ASEP at which (for a minimum period of one month) all the capacity that National Grid NTS is obliged to make available, up to the date of the transfer

window, has been sold, taking into account all of the capacity sold via the auction processes, including the AMTSEC auction.

National Grid NTS will identify the relevant months (“Available Months”) for the Transfer process i.e months where one or more Recipient ASEP is sold out and publish these as part of the invitation process. For this coming winter period National Grid NTS will only consider Available Months that fall within the period October 2007 to March 2008.

The proposed process to allow Users to seek to transfer Sold capacity is outlined below:

Transfer Invitation Process

1. Where National Grid NTS, identifies additional scope to increase the baseline at a Recipient ASEP, National Grid NTS will within [5] business days of publication of the results of the AMTSEC Auction but giving at least [7] business days notice, issue an invitation to Users containing:
 - a. The opening date and time after which applications to Transfer may be made (the opening of the transfer window)
 - b. The closing date and time after which applications to transfer may not be made (the closing of the transfer window)
 - c. The Recipient ASEP(s) – for the purposes of this proposal an ASEP at which there is no Unsold capacity available (either all capacity made available in the preceding AMSEC has been sold or all Unsold capacity available within the AMTSEC has been sold)
 - d. The communication medium to be utilised by National Grid NTS for the current transfer process i.e. fax
2. The Transfer Window will be for a duration of [1] business day
3. A User may submit a transfer request during the period 08:00 hours to 17:00 hours on the day of the Transfer Window.

Transfer Request Process

4. For clarity - until such time that National Grid NTS implements a full system solution the transfer request process will be an off-line fax based process.
5. A User (“Transferor User”) may request at any time within the transfer window that National Grid NTS provides a Transfer Rate or Rates to facilitate the transfer of all or part of its Monthly NTS Entry Capacity at an ASEP to itself (“Transferee User”) at a Recipient ASEP.
6. The Transfer Request must be:
 - a. at a Recipient ASEP
 - b. for a month or months where all the capacity made available in the preceding AMSEC and/or AMTSEC auctions has been “sold out”

- c. for 1 Transferor ASEP – Transferee ASEP combination
 - d. for those Available Months notified by National Grid NTS (for the first transfer window these will be those months within the October 2007 - March 2008 range where Sold capacity can be transferred to the Recipient ASEP)
7. A Transfer Request may be for a minimum of 1 month and a maximum of 6 months.
 8. To request Transfer Rate(s) for a specific month(s), the Transferor User must notify National Grid NTS of the intended inter-nodal System Capacity Transfer to National Grid NTS specifying:
 - a. The identity of the Transferor User
 - b. The “Transfer System Points” i.e. the ASEP from which the capacity is desired to be transferred (the “Transferor ASEP”) and the ASEP to which the capacity is to be transferred (the “Transferee ASEP”);
 - c. The “Transfer Amount” i.e. the amount of Monthly NTS Entry Capacity desired to be transferred from the Transferor ASEP (in kWh/d);
 - d. The Available Months i.e. the month(s) for which Monthly NTS Entry Capacity is desired to be transferred.
 9. Each User is limited to one transfer request per transfer window.
 10. Upon providing such a request, the Transferor User commits to pay an application fee to National Grid NTS (as stated in National Grid NTS’ Transportation Charging Statement to cover costs of determining the Transfer Rate(s).
 11. After a Transferor User has confirmed the transfer request, it can not be modified, but it may be withdrawn up to the business day upon which National Grid NTS commences determination of the requested Transfer Rate.
 12. Where the transfer request is withdrawn prior to National Grid NTS commencing determination of the Transfer Rate, the application fee will not be applied.

Transfer Request Rejection

13. National Grid NTS may reject a request for an inter-nodal System Entry Transfer where:
 - a. for any requested month the requested Transfer Amount exceeds the Transferor User’s Monthly NTS Entry Capacity holding at the Transferor ASEP, at the time the transfer request is submitted;

- b. the Transferor User does not notify the transfer request in accordance with paragraph [9];
- c. in accordance with Section V3.

Provision of Transfer Rate

- 14. National Grid NTS will determine Transfer Rates on a first come first served basis for each Transfer Request i.e. each request for a Transfer Rate will be time stamped by National Grid NTS and assessed in sequence. Where there is more than one “live” request for a Transfer, a queue will therefore be developed. This will provide the necessary stability for National Grid NTS to undertake the required risk assessment process to determine the requested Transfer Rate.
- 15. National Grid NTS will provide to the Transferor User the Transfer Rate within [5] business days of the request becoming the first in the queue.
- 16. The Transfer Rate will be determined by National Grid NTS in accordance with the Entry Capacity Trade and Transfer Methodology Statement. National Grid NTS intends to consult on this statement in parallel with the consultation on this Proposal. It is expected that National Grid NTS will be obliged under its GT Licence to determine Transfer Rates that avoid undue increases in the costs (including the costs incurred in respect of the non delivery of obligated entry capacity rights) that are reasonably expected to be incurred as a result of effecting the trade of obligated entry capacity.
- 17. Where National Grid NTS is able to provide a transfer rate but is unable to accommodate the full transfer amount at the Transferee ASEP, National Grid NTS will inform the Transferor User of the maximum transfer amount that can be transferred.

Transfer Rate Acceptance

- 18. The Transferor User must confirm acceptance of the Transfer Rate and if applicable, the transfer amount provided by National Grid NTS (i.e. where the Users transfer request is for an amount greater than National Grid NTS can support at the Transferee ASEP, National Grid NTS will provide the User with a revised transfer amount that can be supported by the Transferee ASEP), to National Grid NTS within [2] business days of its issue by National Grid NTS in order to undertake the requested transfer. If such confirmation is not received then the relevant request will be deemed failed and closed.
- 19. National Grid NTS will begin assessment of the next sequential transfer request upon the first business day after completion of step 18. The only exception to this is where that day falls within step 22.

Unsuccessful Transfer Requests

- 20. National Grid NTS will inform Users when their transfer request has been unsuccessful in accordance with the communication process outlined within the invitation.

21. National Grid NTS will inform Users when; the transfer process is finished or no further transfer requests can be processed at a particular ASEP due to time constraint (i.e. there is insufficient time remaining to process the transfer request prior to the commencement of the capacity delivery period), the nodal maximum being reached or the risk limit has been reached.

Transfer Request restrictions

22. In the event that a Transfer Request does not become the first in the queue for the first Transfer Month of the Transfer Request prior to [7] business days of the commencement of that Transfer Month, then that month will be no longer form part of the Transfer Request.

Process to reflect Transfer on the Gemini System

23. National Grid NTS will set up a National Grid Trading Account at each ASEP, this will then be used to reflect confirmed Transfers in the Gemini System via the following process:
 - a. The Transferor User on receipt of a Transfer Rate must place a trade for the full Transfer Amount with the National Grid NTS Trading Account at the Transferor ASEP
 - b. National Grid NTS on confirmation of this trade will then place a trade for the Transfer Amount, adjusted through application of the Transfer Rate, at the Transferee ASEP
 - c. The Transferor User must then confirm the trade at the Transferee ASEP
24. All successful transfer requests must be reflected on the Gemini system within office hours (08:00 to 17:00) and within [4] business days of confirmation of the transfer rate by the Transferor User.

Effect of Transfers

25. Upon completion of the Transfer Request, the Transfer Amount for the relevant Transfer Month will be:
 - a. deducted from the Transferor User's Monthly NTS Entry Capacity holdings at the Transferor ASEP this will reduce the Transferor Users level of obligated capacity accordingly and hence the overall obligated level of capacity at the Transferor ASEP;
 - b. adjusted through multiplication by the Transfer Rate, and then the resulting amount (the "Adjusted Transfer Amount") added to the Transferor User's Monthly NTS Entry Capacity holdings at the Transferee ASEP, increasing the Transferor Users level of obligated capacity accordingly and hence the overall obligated level of capacity at the Transferee ASEP.
26. The Transferor Users revised Monthly NTS Entry Capacity holdings will be used in the calculation NTS Entry Capacity Overrun Charges, NTS Entry Capacity Neutrality Charges and any other liabilities associated with

NTS Entry arrangements (i.e. based on the User's Fully Adjusted Available NTS Entry Capacity).

27. The Transferor User, at the Transferor ASEP, will continue to be liable for Monthly NTS Entry Capacity charges for the Transfer Amount. For clarity, the Transferor User will not become liable for Monthly NTS Entry Capacity charges for the Adjusted Transfer Amount at the Transferee ASEP.
28. The National Grid NTS Trading Account will at no time be liable for Monthly NTS Entry Capacity charges.
29. The National Grid NTS Trading Account holdings will at no time be liable for NTS Entry Capacity Overrun Charges, NTS Entry Capacity Neutrality Charges or any other liabilities associated with NTS Entry arrangements.
30. For clarity, inter-nodal System Capacity Transfers will not affect the level of Unsold NTS Entry Capacity at the Transferor ASEP (i.e the level of Unsold NTS Entry Capacity will be as it was before the transfer)

Invoicing

31. Where a transfer request has been assessed, with the exception of steps 12 and 22, the Transferor User will be invoiced for the relevant Application Fee.

Publication

32. National Grid NTS will publish [on a monthly basis] to applicants for Transfer Rates their position in the queue.
33. National Grid NTS will publish [on a monthly basis] to the industry for each Transfer Month:
 - a. Number of "live" transfer requests and the relevant Recipient ASEPs
 - b. Number of "completed" transfer requests and the quantity transferred at each Recipient ASEP
34. National Grid NTS will publish to Users when no further transfer requests can be actioned at a particular ASEP.
35. Steps 32 to 34 will be communicated to Users in accordance with the method outlined by National Grid NTS in the invitation process.

Subsequent Transfer Windows

36. Where National Grid NTS, upon completion of all outstanding Transfer Requests, identifies additional scope to increase the baseline obligated firm entry capacity at a Recipient ASEP, National Grid NTS will open a new transfer window.

Effect of Termination

37. In the event that a transfer request has been undertaken and the Transferor

User is terminated before or during the Transfer Month, the same rules as for treatment of System Capacity Transfers at an ASEP will apply.

38. The Terminated Users Transfers will be cancelled, the Transferor User will retain liability and National Grid NTS would resell the capacity at the original Transferor ASEP.

Contingency arrangements for reflecting Transfers on the Gemini System

39. National Grid NTS has proposed to hold the transfer window within [12] business days of publication of the AMTSEC auction results. Allowing for the transfer window to close, the transfer rate to be calculated and then agreed with the User, National Grid NTS will be required to have confirmed the results of the first transfer request within [19] business days of publication of the AMTSEC auction results.

40. Due to uncertainty over the timeframes required (both by National Grid NTS and Xoserve) to institute the system changes required to facilitate the transfer of sold capacity between ASEPs, there is a risk that the facility to reflect confirmed transfers in Gemini may not be available for those initial successful transfer requests. If this scenario were to occur National Grid NTS propose that affected transfers be confirmed but not reflected in Gemini until the facility to do so is available

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

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.

National Grid NTS seeks this Modification Proposal to proceed direct to consultation in accordance with Section 7.3 of the modification procedures in the UNC.

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

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

- in respect of Standard Special Condition A11 paragraph 1(a), the Proposal would provide Users the opportunity to transfer sold capacity between ASEPs. This could result in the avoidance of the stranding of gas offshore, and thereby better facilitate the efficient and economic operation of the NTS pipeline system;

- in respect of Standard Special Condition A11 paragraph 1(c) (the efficient discharge of the licensee's obligations under this licence), the Proposal is anticipated to support meeting a new Licence obligation on National Grid NTS to facilitate the transfer of sold capacity between ASEPs.

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

National Grid NTS believes that this Proposal, if implemented, may enhance security of supply by allowing Users to move capacity consistent with intended changes in gas supplies.

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

a) The implications for operation of the System:

National Grid NTS does not believe this Proposal, if implemented, would adversely affect the operation of the System. By optimizing the utilisation of sold entry capacity, this Proposal would provide a greater opportunity to ensure gas supplies can be delivered where demand is in excess of an ASEP's baseline capacity.

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

National Grid NTS believes this Proposal, if implemented, would have cost implications related to the delivery of the required system changes, operation of the additional transfer functionality and calculation of the Transfers Rates.

National Grid NTS further believes that there will be ongoing Xoserve process costs attributable to the proposed method for reflecting transfers on the Gemini system i.e. in ensuring that the National Grid Trading Account at no time generate NTS Entry Capacity charges, overrun charges or any other liabilities associated with NTS entry arrangements.

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:

National Grid NTS believes that this Proposal, if implemented, would require it to recover the costs associated with the system development. Operating costs in respect of determination of Transfer Rates and the Xoserve process costs for suppression of liabilities associated with the National Grid Trading Account are intended to be recovered by an application fee to be described in the Transportation Charging Methodology.

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

National Grid NTS believes that the Proposal has no impact on the level of contractual risk of each Transporter.

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)

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

If this Proposal were to be implemented National Grid NTS envisages that this will have an impact on the Gemini System and consequently its links to the UK Link System. National Grid NTS notes that system development is required to allow Users to apply for capacity transfers, the relevant changes made to User's capacity holdings for overrun and neutrality charge calculation purposes where transfers are undertaken. Analysis on the timescales for development of such system changes will be undertaken once this Proposal has been completed.

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

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

National Grid is not aware of any implications but would welcome responses from Users in this area.

b) The development and capital cost and operating cost implications

National Grid is not aware of any implications but would welcome responses from Users in this area.

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

National Grid NTS believes that this Proposal would increase the levels of competition, and consequently contractual risk, faced by Users when bidding for NTS Entry Capacity within the AMSEC auction, from those Users seeking to purchase capacity at an ASEP with the explicit intention of transferring it elsewhere.

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)

National Grid is not aware of any implications but would welcome responses from Users in this area.

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

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

Advantages

National Grid NTS considers that this Proposal:

- would allow flexibility for sold capacity (i.e. amounts of obligated baseline capacity that have been sold) to be reallocated to where Users require it most;
- allow Users the opportunity to secure additional capacity at specific ASEPs, than would otherwise be the case;
- avoids placing restrictions upon when User are able to request Transfer Rates.

Disadvantages

National Grid NTS considers that this Proposal:

- utilises a first come first approach to capacity trading which may result in queues forming. However at this stage, it is uncertain whether this will actually be an issue;
- may encourage Users to purchase unsold capacity at ASEPs with “cheap” reserve prices solely to transfer to other ASEPs.

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)

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

13 Any other matter the Proposer considers needs to be addressed

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

15 Comments on Suggested Text

To be advised

16 Suggested Text

To be advised

Code Concerned, sections and paragraphs

Uniform Network Code

Transition Document

Section(s) IIC & UNC TPD Section B

Proposer's Representative

Fergus Healy (National Grid NTS)

Proposer

Martin Watson (National Grid NTS)