

Section 1. NTS Exit Capacity Products

It is proposed that NTS Exit Capacity is made available to Users as described below: -

- “NTS Exit Capacity” - which shall comprise of NTS Exit Capacity and NTS Offtake (Flat) Capacity, both as currently defined in the UNC. NTS Exit Capacity shall be acquired by Shipper Users and NTS Offtake (Flat) Capacity shall be acquired by DNO Users thereby providing all Users 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.

Section 2. Release of NTS Exit Capacity

The NTS Exit 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 Capacity will be made available to Users:

- “Prevailing NTS Exit Capacity” - Firm NTS Exit Capacity which may be applied for and registered as held by a User at a relevant NTS Exit Point for each Day in every Gas Year unless the User provides a notice to reduce its prevailing rights;
- “Annual NTS Exit Capacity” - Firm NTS Exit 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 Capacity" - Firm NTS Exit Capacity which may be applied for and registered as held by a User at a relevant NTS Exit Point for a Day only;
- "Daily Interruptible NTS Exit Capacity" - Interruptible NTS Exit 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 Capacity in respect of its release are set out below, with other aspects regarding the product described in sections 4 to 10.

Release and Reduction of Prevailing NTS Exit 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 is granted an initial amount of Prevailing NTS Exit Capacity based on quantities held by that User prior to submission of this Proposal. 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 1st July 2008 of its initial Prevailing NTS Exit 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”) in Gas Year 2006/07 at that NTS Exit Point. In all cases the aggregate amount of initial Prevailing NTS Exit 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 a Prevailing NTS Exit Capacity holding equal to the amount determined by firstly prorating any interruptible NTS Exit Capacity, then any firm NTS Exit Capacity, proportion of the Maximum Daily Amount down such that the sum of each User’s initial rights equals the baseline. Notwithstanding the above, where a User Agent or Overrun User replaces the User's initial allocation of Prevailing NTS Exit Capacity notified by National Grid NTS with a different allocation (the "Agent Allocation") the Agent Allocation will be accepted provided:
 - each User at the NTS Exit Point accepts their Agent Allocation; and
 - the aggregate amount of Agent Allocations 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.
- NTS/LDZ Offtakes – the NTS Offtake Capacity DNO User registered to the relevant 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 amount of initially allocated Prevailing NTS Exit 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 Prevailing NTS Exit Capacity holding will be the first Registered NTS Exit Capacity at that new Firm NTS Supply Point /CSEP on the date immediately preceding start of the enduring Arrangements (i.e. 30th September 2011).

Users may apply for initial or additional Prevailing NTS Exit Capacity rights at any new or existing NTS Exit Point during an Annual Application Window in July in Gas Year Y for use from Gas Year Y+4, Y+5 or Y+6 onwards (i.e. if the Annual Application Window was in July 2008, Users may apply in July 2008 for additional prevailing 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 the enduring ExCR Methodology Statement. This would apply to each request that National Grid NTS receives to increase its Prevailing NTS Exit Capacity.

The 'strength of signal test' requires Users to commit to be registered or pay for 4 years of NTS Exit Capacity at the price prevailing throughout this period in order to obtain additional prevailing 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 years on its revised total amount of Prevailing NTS Exit Capacity.

Users will be informed of their allocations by National Grid NTS as soon as possible but in any event not later than up to 2 months after the Annual Application Window has closed (i.e. by 30 September at the latest following the close of the July 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 Prevailing NTS Exit Capacity would result in the aggregate level at an NTS Exit Point to be above the baseline from Gas Year Y+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.

Users may apply to reduce their Prevailing NTS Exit Capacity anytime between 1st July and 15th July each year (the 'Reduction Application Window'). Applications to reduce Prevailing NTS Exit Capacity in the Reduction Application Window will specify the earliest and latest dates from which the User is prepared to relinquish Prevailing NTS Exit Capacity. The earliest date shall not be earlier than 1st October following the end of the Reduction Application Window and the latest date shall be the 1st October in the year following the end of the Reduction Application Window. For the avoidance of doubt the earliest and latest dates may be the same.

National Grid NTS can agree to reduce the User's Prevailing NTS Exit Capacity anytime between the earliest and the latest date specified in the User's application if National Grid NTS is able to use the Prevailing NTS Exit Capacity a User applies to relinquish in the Reduction Application Window to satisfy a demand for Prevailing NTS Exit Capacity at a new or existing NTS Exit Point. Otherwise the date the User's Prevailing NTS Exit Capacity will be reduced will be the latest date specified in the User's application. National Grid NTS shall notify User's of when their application to reduce Prevailing NTS Exit Capacity is effective no later than the 30th September following the end of the Reduction Application Window.

National Grid NTS may also invite ad hoc applications from Users to reduce their Prevailing NTS Exit Capacity at times outside the Reduction Application Window in order to satisfy demand for Prevailing NTS Exit 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 Prevailing NTS Exit 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 their Exit Capacity Substitution Methodology Statement.

Where a User has requested to increase its prevailing rights, the User must continue to pay Prevailing NTS Exit Capacity charges in accordance with the 'strength of signal test' regardless of any reductions in their Prevailing NTS Exit Capacity throughout that period, unless National Grid NTS have been able to utilise a User's relinquished capacity to satisfy demand for Prevailing NTS Exit Capacity at a new or existing NTS Exit Point. If this is the case the User's obligation to pay Prevailing NTS Exit Capacity charges in accordance with the 'strength of signal test' will cease, or be reduced proportionally, from the point where their Prevailing NTS Exit Capacity is reduced.

For the avoidance of doubt the latest date a User is able to apply to reduce its initial Prevailing NTS (Exit) Flat Capacity is the 15th July in the year preceding implementation of the Enduring Arrangements (i.e. 15th July 2010).

Alternative Process for Release of Prevailing NTS Exit Capacity at new and existing NTS Exit Points

The obligations on National Grid NTS and Users in relation to this alternative process for the release of Prevailing NTS Exit 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 for the release of Prevailing NTS Exit Capacity at new NTS Exit Points under this alternative process is conditional on these same obligations applying as if the developer were a User.

In the case of new NTS Exit Points developers or Users (both Shipper Users and DNO Users) can apply for initial Prevailing NTS Exit Capacity at anytime. Also Users can apply for increases in Prevailing NTS Exit Capacity at existing NTS Exit Points at anytime (as an alternative to applying in the Annual Application Window) if the increase would result in their level of Prevailing NTS Exit Capacity exceeding [125% of the prevailing baseline and any obligated incremental Capacity or 10GWh/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 Prevailing NTS Exit Capacity, or the increase in existing Prevailing NTS Exit 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 Prevailing NTS Exit Capacity charges in accordance with the 'strength of signal test' described above;
- if the quantity of Prevailing NTS Exit 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 [6] months after the date of such application and the latest date shall be the 1st October three years after the expiry of the next applicable Annual Application Window. For example, if an application under this alternative process was made on 15th October 2008, the earliest date would be 1st May 2009 and the latest date would be 1st October 2012 (i.e. the 1st October which is 3 years after the expiry of the next applicable Annual Application Window in July 2009). If an application was made on 30th March 2009 the earliest date would be 1st October 2009 and the latest date would be 1st October 2012 (i.e. the 1st October which is 3 years after the expiry of the next applicable Annual Application Window in July 2009).

National Grid NTS shall be allowed to reject applications they receive which do not comply with the requirements stated above.

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

Within [30] days of receiving an offer from National Grid NTS, the developer or User, may accept the offer and reserve Prevailing NTS Exit 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 [30] days after their date of issue, unless mutually agreed between National Grid NTS and the User or developer.

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 Prevailing NTS Exit 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 need to award binding contracts for any investment that may be needed (in accordance with their established investment programme) to make the Prevailing NTS Exit Capacity by the date(s) specified in their offer.

Once a User or developer has reserved Prevailing NTS Exit Capacity by accepting an offer the 'strength of signal' obligations described above will apply from the date the reservation becomes effective (the "Reserved Date"). National Grid NTS shall publish the following details of any Prevailing NTS Exit Capacity reserved under this alternative process to all Users within [10] days of acceptance of the offer:

- NTS Exit Point
- Quantity of Prevailing NTS Exit Capacity reserved
- Reserved Date
- 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 his relevant consents have been secured, or are securable, and that his 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, National Grid NTS shall be entitled not to proceed with the investment in pipeworks or upstream system reinforcement necessary to make the reserved Prevailing NTS Exit Capacity available by the Reserved Date. National Grid NTS shall then be entitled to revise the Reserved Date and/or the Demonstration Date by one year, unless National Grid NTS and the User/developer mutually agree an earlier 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 Prevailing NTS Exit 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. They 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.

A developer may nominate any Shipper User to register all or part of the reserved Prevailing NTS Exit Capacity for an NTS Exit Point, subject to the agreement of that Shipper User. After nomination of such a User the 'strength of signal' obligations shall pass to that User, subject to the User meeting the required credit checks, and the User will be entitled to register the quantity of Prevailing NTS Exit Capacity from the Reserved Date.

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 of this alternative process and are subject to currently established connection contracts and processes. However, if the a User or developer is unable to demonstrate they 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 they have 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 Capacity

Users may apply for Annual NTS Exit Capacity at an NTS Exit Point during a window of three business day in August of each Gas Year Y for Gas Years Y+1, Y+2 & Y+3. These applications will be for a set quantity of NTS Exit Capacity for each day of the Gas Year and may enable User's to adjust their portfolio if Annual NTS Exit Capacity holdings as their demand forecasts become more certain.

National Grid NTS will give Users at least 28 days notice of the application window and will at the same time publish details of the Annual NTS Exit Capacity (if any) to be made available at each NTS Exit Point consistent with its obligations under its Licence. 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 Capacity at an NTS Exit Point per Gas Year during the 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/per Gas Year. If allocated the User shall be required to register and pay for the amount of Annual NTS Exit Capacity allocated to them at the rate prevailing at that NTS Exit Point throughout the relevant Gas Year(s). Applications can 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 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 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 within [2] business days of the 31st August each year.

Release of Daily Firm NTS Exit Capacity

Daily Firm NTS Exit 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 able to hold additional auctions at its discretion by inviting Users to participate in such an auction with at least 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 anticipates that it will be able to meet such obligations by releasing any unsold baseline Capacity in auctions held at 15:00 D-1 and 08:00 D. National Grid NTS will also be able to release, at its discretion, non-obligated NTS Exit Capacity for any daily flat auction. The provision of such additional NTS Exit Capacity above baseline levels is anticipated to be the subject of a Licence incentive on National Grid NTS to encourage efficient trade-offs between incremental NTS Exit Capacity release and potential Capacity management costs.

Users will be able to place bids, subject to meeting required credit limits, for NTS Exit 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 7 days before the Day until 00:00 hours on Day. The quantity of daily NTS Exit 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 as in place for daily auctions of System Entry Capacity. All bids will be ranked in price order and allocated highest price first at each NTS Exit Point using the same allocation rules as for annual auctions of NTS Exit Capacity.

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

Release of Daily Interruptible NTS Exit Capacity

It is proposed that daily Interruptible NTS Exit 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 Capacity holdings at the NTS Exit Point and the quantity of NTS Exit Capacity that is expected to be utilised by Users for the purposes of facilitating gas flows (assessed from a rolling average over a 30 day period from D-36 to D-7 inclusive); and
- any additional amount that National Grid NTS may make available at its discretion without jeopardising supplies to firm Users.

For avoidance of doubt, the release of interruptible NTS Exit Capacity on this basis would not change firm NTS Exit Capacity holders' rights at the NTS Exit Point.

Users will be able to place bids and will be allocated Daily Interruptible NTS Exit Capacity in accordance with the same provisions as for Daily Firm NTS Exit Capacity.

National Grid NTS may withdraw interruptible NTS Exit Capacity (i.e. 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 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.

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

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

- prior to completion of the last Annual NTS Exit Capacity allocation, annual bundles of NTS Exit Capacity by specifying the quantity of NTS Exit Capacity to be transferred for each Gas Year;
- after completion of the last Annual NTS Exit allocation, daily amounts of Daily NTS Exit Capacity by specifying the quantity of Daily NTS Exit Capacity to be transferred for each Day.

For transfers of NTS Exit 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 amount exceeds the Transferor User's Daily NTS Exit Capacity holding.

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

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 and NTS Exit Capacity Neutrality Charges. The Transferor User will remain liable for the payment of NTS Exit Capacity charges and any commitments associated with Prevailing NTS Exit 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 Prevailing NTS Exit Capacity and Annual NTS Exit 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 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 Assignee User within 4 Business Days of the confirmation of the requested assignment by the Assignor User, the assignment will be deemed to have been accepted by National Grid NTS. If not it will be deemed to have been rejected.

Any accepted assignments will be deducted from the Assignor’s holdings and added to the Assignee’s holdings for the purposes of determining NTS Exit Capacity Overrun charges and NTS Exit Capacity Neutrality Charges, and the Assignee will become liable for the payment of the associated NTS Exit Capacity charges and any commitments associated with prevailing NTS Exit Capacity.

Section 5. Exit 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 Interruptible NTS Exit Capacity. Where National Grid NTS determines either within or ahead of the Day that there will be a shortfall in NTS Exit Capacity, National Grid NTS may issue an Interruptible Exit 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 4 hours after the notice is issued), and the factor by which all Users’ Interruptible NTS Exit Capacity holdings at that NTS Exit Point are required to be curtailed;

- buy-back of Firm NTS Exit Capacity. Users may offer to surrender NTS Exit 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 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.

- Exit Capacity Management Agreements. This may comprise of forward agreements (pursuant to which a User will surrender a particular amount of Firm NTS Exit 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 amount of NTS Exit 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 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 be required to buy back Firm NTS Exit 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 Capacity entitlements (e.g. 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 Capacity overrun at the NTS Exit Point;
- 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.

In addition, if there is an aggregate NTS Exit Capacity overrun at the 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 2010 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 6 (as opposed to 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 2009/10 as part of the September 2006 Offtake Capacity Statement (i.e. these pressures are set for Gas Years 2010/11, 2011/12 and 2012/13). For each Gas Year thereafter, the Assured Offtake Pressures in the Offtake Pressure Statement issued in September of Gas Year Y 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;
- for Gas Year Y+6, the same as the Assured Offtake Pressures for Gas Year Y+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 2010 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 2010 for specified Gas 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 the year. In addition, the ability for both National Grid and DNOs to request 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 (i.e. within 2 months). Similarly, DNOs may request permanent changes in July each year, with effect from the following Gas Year at the earliest, with a response required from National Grid NTS by 30 September (i.e. within 2 months).

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

User Offtake Obligations

It is proposed that 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 Exit Point defined as sum of:

- the User's NTS Exit Capacity at the NTS Exit Point divided by 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 User(s) of such impending risk of a local Gas Supply Emergency, the relevant 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 i.e. the first set of invoices under the enduring regime will be issued November 2011.

NTS Exit Capacity Charges

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

- in respect of Prevailing NTS Exit Capacity and Annual NTS Exit Capacity, the relevant NTS Exit Capacity charge as stated in National Grid NTS' "Statement of Transmission Transportation Charges" for that Day;
- in respect of Daily NTS Exit Capacity and Daily Interruptible NTS Exit 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 Capacity Overrun

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

NTS Exit Capacity overrun charges at an NTS Exit Point will be triggered if the aggregate end of day flow of all Users at that NTS Exit Point exceeds the aggregate end of day NTS Exit 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 gas flow has exceeded its registered NTS Exit Capacity at the NTS Exit Point. If the sum of the Users' individual overrun quantities at the NTS Exit Point exceeds 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 Capacity Overrun amount.

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

Where there is an aggregate overrun(s) in a month at an NTS Exit Point, a User's NTS Exit Capacity Overrun charge for that month will be determined by multiplying the User's largest NTS Exit Capacity Overrun amount in that month by the highest of:

- 2 times the Applicable Annual Rate if the overrun(s) occurred in any of the months December to March inclusive;
- 0.5 times the Applicable Annual Rate if the overrun(s) occurred in any of the months October, November, April, May;
- 0.2 times the Applicable Annual Rate if the overrun(s) occurred in any of the months June to September; or
- 1.1 times the highest price paid by National Grid NTS for NTS Exit Capacity at the relevant NTS Exit Point through any exit constraint management action taken during the month the overrun(s) occurred.

Where aggregate overruns occur on two consecutive months at an NTS Exit Point, the second month is between December and March inclusive, and the User's largest NTS Exit Capacity Overrun quantity in the second month is less than or equal to the User's largest NTS Exit Capacity Overrun quantity in the first month, a multiplier of 0.5 will apply to the second month.

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 Overrun Charges at the NTS Exit Point. For clarity, each User's NTS Exit 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.

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.

Failure to Interrupt Charges

Where a Shipper User's UDQO at an NTS Exit Point with a Daily Interruptible NTS Exit Capacity holding exceeds their Firm NTS Exit Capacity holding (if any), plus a Shutdown Tolerance, failure to interrupt charges will apply as currently defined in Section G.6.9 of the UNC if the Shipper User fails to curtail its offtake when instructed to do so by National Grid NTS in pursuance of its Exit Capacity Management activities.

Credit Arrangements

The current credit rules in respect of System Entry Capacity will be extended to accommodate NTS Exit Capacity. These rules 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 indebtedness exceeds 100% of its credit limit National Grid NTS will be entitled to reject or refuse to accept

- applications by the User for NTS Exit Capacity (and/or System Entry Capacity);
- requests for such a User to be assigned NTS Exit Capacity (and/or System Entry Capacity).

National Grid NTS's credit checks will take into account any payments that are due from the User in the next 12 months i.e. 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:

- Low Demand Days - Under OAD Section I2.5, National Grid NTS may instruct a DNO to offtake gas in aggregate for an LDZ at an even flow rate when demand is forecast to be less than 50% of the 1-in-20 peak day demand. In effect this would reset the DNOs NTS Exit (Flexibility) Capacity rights to zero in aggregate across all NTS/LDZ offtakes for that LDZ where National Grid NTS exercises its option. Under the enduring regime National Grid NTS would need to seek to buy-back NTS Exit (Flexibility) Capacity if such entitlements could not be met;
- 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 constrain management tools to resolve any 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 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 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.

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 superseded 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

National Grid NTS shall by 11:00 each day publish the previous Day's aggregate amount of NTS Exit (Flexibility) Capacity used by all DNO Users and the aggregate amount of NTS Exit (Flexibility) Capacity used by all Shipper Users, albeit Shipper Users are not required to acquire NTS Exit (Flexibility) Capacity. At the same time National Grid NTS shall also publish the sum of the NTS Exit (Flexibility) Capacity used by all Users by NTS Exit Zone, such zones to be 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
Prevailing 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
Prevailing 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 / August window	Not later than 48 hours following closure of each auction round and 24 hours after final allocation	Y	Y	Y	Y	Y	Y	Y	Y	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 Interruptible Flat	Not later than 1 hour after Users being informed of their allocations	N	Y	Y	Y	Y	Y	N	Y	N	N
Annual Flex/Sep	Not later than 30 th Sept 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

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 th July)	Flat	Applications by all Users	Long Term (Increase and reductions)	Oct-2011 onwards
July 2008	Flexibility	Applications by DNO Users	Long Term (Increase and reductions)	Oct-2011 to Sep-2016
July 2009 (reductions by 15 th July)	Flat	Applications by all Users	Long Term (Increase and reductions)	Oct-2012 onwards
July 2009	Flexibility	Applications by DNO Users	Long Term (Increase and reductions)	Oct-2012 to Sep-2017
August 2009	Flat	Auctions	Medium Term	Oct-2011 to Sep-2012
July 2010 (reductions by 15 th July)	Flat	Applications by all Users	Long Term (Increase and reductions)	Oct-2013 onwards
July 2010	Flexibility	Applications by DNO Users	Long Term (Increase and reductions)	Oct-2013 to Sep-2018
Aug 2010	Flat	Transfers/Assignments		Oct 2011 onwards
August 2010	Flat	Auctions	Medium Term	Oct-2011 to Sep-2013
Oct-2010	Flat	Holdings considered in security/indebtedness processes.		Oct-2011
July 2011 (reductions by 15 th July)	Flat	Applications by all Users	Long Term (Increase and reductions)	Oct-2014 onwards
July 2011	Flexibility	Applications by DNO Users	Long Term (Increase and reductions)	Oct-2014 to Sep-2019
August 2011	Flat	Auctions	Medium Term	Oct-2011 to Sep-2014

24 th Sept 2011	Flat	Bidding	Short Term	1-Oct-2011
30 th Sep-2011	Flat (day ahead) + Flat (Interruptible)	Auctions	Short Term	1-Oct-2011
01 st Oct-2011	Flat (within day)	Auction	Short Term	1-Oct-2011
2 nd Oct-2011	Flexibility	Aggregate usage of NTS Exit (Flexibility Capacity)		Each Day from 2-Oct- 2011 onwards
Nov-2011	Flat	Invoices issued		For Oct- 2011