

CODE MODIFICATION PROPOSAL No xxxx

“Alterations to the RMSEC Auction to Accommodate Transfer and Trade of Capacity between ASEPs”

Version 0.1

Date: xx/xx/07

Proposed Implementation Date: 01/[06]/2008

Urgency: Non-Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Background

Where capitalised words and phrases are used within this Modification Proposal*, those words and phrases shall usually have the meaning given within the Uniform Network Code, “UNC”, (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk (*) when first used. This Modification Proposal, as with all Modification Proposals, should be read in conjunction with the prevailing UNC.

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

On 5th September 2007 the Authority (Ofgem) issued a Section 23 direction placing obligations on National Grid NTS through its Gas Transporter Licence in respect of the NTS (the “Licence”) to facilitate the Transfer and Trade of Firm NTS Entry Capacity* between ASEPs. In July 2007 National Grid NTS raised UNC Modification Proposal 0156, proposing that a single round auction be used to facilitate the Transfer and Trade of Capacity between ASEPs for winter 07/08. Industry subsequently raised Modification Proposals 0156A, 0169 and 0169A. Ofgem approved the implementation of Modification Proposal 0169 on 6th September 2007.

The amendments introduced by UNC Modification 0169 facilitated the Transfer and Trade of unsold and Surrendered Capacity through a two round auction, held in September/October 2007, to apply to the months November 2007 to March 2008 inclusive.

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The purpose of this proposal is to provide an enduring Transfer and Trade process. It is proposed that the Transfer and Trade process be carried out monthly, as part of the rolling monthly NTS Entry Capacity (“RMSEC”) process, commencing in [June 2008] for allocations relating to capacity month [July 2008].

Summary of this Proposal:

National Grid NTS proposes utilising the existing RMSEC auctions to facilitate the Transfer and Trade of Firm NTS Entry Capacity between ASEPs.

Prior to the RMSEC auction, users will be able to surrender capacity they hold at any ASEP. All unsold and Surrendered Capacity (as defined below under Trade Initiation Process) will be offered in the Initial Stage of the RMSEC auction and will be termed the ‘Available Capacity’. Any unsatisfied bids from the Initial Stage will then progress to the Transfer and Trade Stage. See below for definitions of Initial Stage and Transfer and Trade Stage.

For the purposes of this Modification Proposal:

- a Transfer is where unsold NTS Entry Capacity at one ASEP is allocated to another ASEP as part of the Transfer and Trade Stage; and
- a Trade is where a User has surrendered Firm NTS Entry Capacity at an ASEP and this capacity has subsequently been re-allocated.

For the avoidance of doubt, NTS Entry Capacity that is not Firm NTS Entry Capacity will not be eligible for surrender.

For the purposes of this Modification Proposal:

- a “Recipient” ASEP is an ASEP at which there are unsatisfied bids remaining following completion of the Initial Stage.
- a “Donor” ASEP is an ASEP at which there are no unsatisfied bids remaining following completion of the Initial Stage and there remains Available Capacity (as defined below).

For clarity, implementation of this Modification Proposal is dependent upon Authority approval of the Entry Capacity Transfer and Trade Methodology Statement (“the Methodology Statement”) which National Grid NTS has revised to align to the process detailed.

In order to facilitate Transfer and Trades within a monthly cycle a number of amendments are proposed to the RMSEC process.

- Users will be allowed to surrender capacity at an ASEP where they no longer have any requirement for that capacity. This capacity, made available through the Trade Initiation Process will be made available for allocation to other Users in the RMSEC allocations.
 - All unsold and Surrendered Capacity will be available for allocation in the RMSEC auction and will be termed the “Available Capacity”.
 - Bids placed in the RMSEC auction can be satisfied from existing unsold capacity and/or Surrendered Capacity. Surrendered Capacity will be allocated before unsold capacity.
- Two separate stages will be created for assessing User capacity bids and subsequent allocation of capacity.
 - The Initial Stage will allow qualifying bids at an ASEP to be satisfied by allocation of Available Capacity at that ASEP. At each ASEP, bids will be satisfied on the basis of highest bid price first. This will be followed by:

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- The Transfer and Trade Stage which will allow allocation of any remaining Available Capacity at an ASEP to any other ASEP, subject to the application of an Exchange Rate (as defined in the Methodology Statement). Bids will be satisfied on the basis of highest bid first (but subject to grouping of bids as detailed below) irrespective of which ASEP the bid applies to.

The two stages will be carried out as a continuous process by National Grid NTS to provide a single RMSEC allocation.

- It is National Grid NTS' intention that the RMSEC auction will be undertaken as close as possible to the end of month prior to the month for which capacity is to be allocated. However, initially, i.e. from June 2008, the RMSEC auction will be held toward the start of the month to allow time for the Transfer and Trade Stage, but as experience is gained from undertaking Transfer and Trades the auction date will be moved to nearer the end of the month.

For the avoidance of doubt, the RMSEC process shall comprise all the stages detailed in this Proposal, including, but not limited to:

- Trade Initiation Process;
- Rolling Monthly Invitation;
- Initial Stage; and
- Transfer and Trade Stage.

For clarity the first RMSEC auction to which it is proposed that the changes should apply is the RMSEC auction to be held in [June 2008] in respect of capacity made available for use in [July 2008].

National Grid believes that off-line procedures can be developed to enable this Proposal to be run in June 2008, i.e. prior to full systems implementation. Any alternative processes may require implementation to a different timetable.

Trade Initiation Process

No more than five (5) Business Days prior to the issuing of the rolling monthly invitation National Grid NTS will initiate the trade process by inviting Users to make available capacity at any ASEP from their Firm NTS Entry Capacity holdings, for allocation to Users requesting capacity in the RMSEC auction (for the purposes of this Proposal such capacity will be described as Surrendered Capacity).

For the avoidance of doubt, the surrendering User shall remain liable for Capacity Charges in respect of the Surrendered Capacity even if such capacity is subsequently re-allocated. In the event that the Surrendered Capacity is not reallocated then the surrendering User shall remain the Registered holder for all purposes.

The Trade Initiation Process invitation will state:

- When the Trade Initiation Process will take place and how Users should place their offers to surrender capacity at an ASEP. This will be a single day no more than two Business Days after the invitation being issued.
- The minimum eligible quantity of surrender offers (100,000 kWh)
- The month for which the User will be offering to surrender capacity
- The requirement that Users will not offer to surrender a greater quantity than their Firm NTS Entry Capacity holdings at that ASEP for that month.

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Users wishing to take part in the Trade Initiation Process must, between 0800 and 1700 on the date specified, provide the following information to National Grid NTS via the surrender process run on the Gemini system:

- The ASEP;
- The maximum quantity of Firm NTS Entry Capacity per ASEP that they are offering to surrender. This must be equal to or greater than the minimum eligible amount*;
- A minimum price, the "Surrender Price", which shall not be greater than the prevailing reserve price* for capacity at that ASEP, below which the capacity will not be made available;
- The calendar month to which the surrender offer applies; and
- Confirmation that the User holds the capacity and will continue to hold the capacity until the RMSEC allocation process is complete.

Where such confirmation as is required in the above paragraph is not received National Grid NTS will not accept the capacity as Surrendered Capacity.

The Trade Initiation Process will take place over one day from 08:00 hours until 17:00 hours. Users can amend or withdraw their offers at any time until 17:00 hours.

Rolling Monthly Invitation

In respect of any ASEP (irrespective of whether there is any Available Capacity at that ASEP) National Grid NTS will invite applications (a "rolling monthly invitation") for Monthly NTS Entry Capacity (without limit on the maximum quantity that a User can request) in respect of the ASEP for the relevant calendar month to which the auction applies in accordance with this Modification Proposal.

No later than five (5) Business Days before the RMSEC auction takes place, National Grid NTS will issue the rolling monthly invitation. The invitation will specify the allocation period, the process for publication of results and a reminder that bids not satisfied in the Initial Stage will be carried forward to the Transfer and Trade Stage. In addition, the following information will be provided:

- the date (a "rolling monthly" invitation date*) being one of the twenty (20) Business Days preceding the last Business Day in the calendar month preceding the relevant calendar month for which applications may be made on which applications pursuant to the rolling monthly invitation may be made; and
- for each ASEP,
 - the total amount of Available Capacity (including Surrendered Capacity);
 - the reserve price to be applied
 - the amount of Surrendered Capacity, any Surrender Price(s) applying and the quantity to which the Surrender Price(s) applies.

The RMSEC auction will be held in accordance with the following rules:

1. Users will bid for capacity at an ASEP(s) and National Grid NTS will allocate any available capacity at that ASEP(s) through the Initial Stage and/or the Transfer and Trade Stage to meet the requirements of successful bids.
2. Users may apply for Monthly NTS Entry Capacity in respect of any Aggregate System Entry Point in the relevant calendar month on a rolling monthly invitation date.
3. Users may have, at any one time, in aggregate in respect of each rolling monthly invitation date up to but not more than twenty (20) monthly capacity bids per ASEP.

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4. An application (a "rolling monthly" capacity bid) for Monthly NTS Entry Capacity shall specify:
 - the identity of the User;
 - the Aggregate System Entry Point;
 - the calendar month for which Monthly NTS Entry Capacity is applied for;
 - the amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity applied for (in kWh/Day);
 - the minimum amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity which the User is willing to be allocated; and
 - the amount (the "bid price"), which shall not be less than the reserve price which the User is willing to pay by way of Capacity Charge in respect of the Monthly NTS Entry Capacity applied for.
5. A rolling monthly capacity bid:
 - may not be submitted before 08:00 hours or after 17:00 hours on a rolling monthly invitation date; and
 - may be withdrawn or amended until, but not after, 17:00 hours on a rolling monthly invitation date.
6. National Grid NTS shall reject a rolling monthly capacity bid where:
 - the bid price is less than the reserve price;
 - any other requirement of sub-paragraph 4, above, is not complied withand National Grid NTS may reject a rolling monthly capacity bid in accordance with UNC Section V3.

Initial Stage

Following the submission of rolling monthly entry capacity bids, Monthly NTS Entry Capacity will be allocated for a relevant month in accordance with this section.

For the month for which the auction applies, Monthly NTS Entry Capacity in respect of an Aggregate System Entry Point will be allocated pursuant to capacity bids submitted in respect of such month as follows:

- i. all capacity bids submitted in respect of the month and ASEP (excluding any bid rejected) will be ranked in order of bid price (the highest price ranking first);
- ii. National Grid NTS will allocate Available Capacity at that ASEP to the highest bidder.
- iii. subject to paragraphs (iv) and (v) and the minimum eligible amount criteria, where the amount of NTS Entry Capacity applied for under a bid exceeds the amount (the "remaining unallocated amount") of Available Capacity remaining unallocated after allocation to higher priced bids, the User will be allocated an amount equal to the remaining unallocated amount;
- iv. subject to paragraph (v) and the minimum eligible amount criteria, where each of two or more bids ("equal priced bids") specifies the same bid price, and the amount of capacity applied for in aggregate under such bids exceeds the remaining unallocated amount, the remaining unallocated amount will be allocated pro rata to the amounts applied for in each such bid;
- v. where the amount to be allocated in respect of a bid pursuant to paragraph (iii) or (iv) is less than the minimum amount specified in the capacity bid, the bid will be disregarded (and of no effect), and a revised allocation will be made between

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remaining equal price bid(s) under paragraph (iv), or (as the case may be) an allocation made in respect of the next priced bid.

Where the amount to be allocated in respect of any bid pursuant to the Initial Stage is less than the minimum eligible amount, National Grid NTS will not accept any further capacity bids at that ASEP as part of the Initial Stage.

Bids that cannot be wholly satisfied within the Initial Stage may be partially allocated (subject to the above criteria). Any unsatisfied bids, plus the remainder of any partially satisfied bids will pass through to the Transfer and Trade Stage.

Transfer and Trade Stage

All Available Capacity unallocated in the Initial Stage will be made available for the Transfer and Trade Stage to meet the requirements of bids remaining unsatisfied after the Initial Stage.

As capacity can be moved between ASEPs most efficiently when considering larger quantities all remaining unsatisfied bids from the Initial Stage at each Recipient ASEPs shall be put into groups, "Recipient ASEP Groups". These groups shall also be used to determine a ranking which shall define the sequence with which qualifying bids are considered under the Transfer and Trade Stage.

- i. All unsatisfied bids in respect of each Recipient ASEP will be grouped such that each Recipient ASEP Group ("Group") contains 25% of the total unsatisfied bid quantity for that ASEP. Bids will be assigned to a Group on the basis of bid price: highest priced bids assigned to the highest ranked Group. Where equally priced bids span a Group threshold all such bids shall be included in the highest Group.
- ii. Where a bid crosses a Group boundary it shall be placed in the highest Group and the size of the next lower Group shall be reduced accordingly, e.g. if there are 10 equally sized bids with progressively lower prices, the Groups will be sized at 30, 20, 30, 20 units respectively. Where there are insufficient bids of appropriate size distribution there may be less than four Groups.
- iii. The weighted average bid price ("WAP") shall be determined for each Group.
- iv. All Groups shall be ranked according to WAP; highest WAP first. Hence each Recipient ASEP will normally appear four times in the ranking. The Groups for each ASEP may or may not appear successively in the list.
- v. If two Groups have the same WAP they shall be ranked by:
 - i. Highest individual bid within the Group; then by
 - ii. Quantity of the Group; then by
 - iii. Timestamp of the first bid included within the Group.
- vi. Where a Recipient ASEP appears successively in the ranking of Groups the successive Groups shall be grouped together.

All Transfer and Trades shall be subject to an Exchange Rate calculated in accordance with the Methodology Statement.

Transfer and Trades will not be permitted where:

- the Exchange Rate exceeds 10:1; or

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- the physical capability of the system (as described in the Methodology Statement) will be exceeded. Where applicable, the allocation breaching the physical capability shall be reduced accordingly;
- the Unit Offer Price (as defined in section headed “Treatment of Capacity Made Available by Users) is less than the Surrender Price;
- the Transfer or Trade would lead to existing (or committed) commitments not being maintained. These commitments will include, but not be limited to, statutory and regulatory requirements and commercial agreements; or
- any allocation of capacity determined by the Transfer and Trade Stage would be less than:
 - the minimum eligible amount; or
 - the User’s specified minimum acceptable allocation quantity.

Allocation of capacity shall be in accordance with the following process:

- i. The highest ranked Recipient ASEP Group shall be identified;
- ii. National Grid NTS shall determine the ASEP, the “Donor ASEP”, with the most favourable Exchange Rate available to satisfy, in part or in whole, bids in the highest ranked Recipient ASEP Group. The determination of the Donor ASEP shall be made based on the total quantity of bids in that Group, regardless of whether all of those bids would be satisfied by the Donor ASEP.
- iii. Subject to sub-paragraph x and the minimum eligible amount criteria, National Grid NTS shall allocate the maximum possible¹ capacity to Users.
- iv. Allocations will be allowed that only partially satisfy a capacity bid.
- v. Where there is one or more remaining unsatisfied bids in the Recipient ASEP Group the next most favourable Donor ASEP shall be determined and steps iii to iv shall be repeated, but based on the remaining quantity of unsatisfied bids.
- vi. Step v shall be repeated until all bids in the Recipient ASEP Group have either been satisfied or no further allocations at that ASEP are possible.
- vii. Any unsatisfied bids within a Recipient ASEP Group, including any partially allocated bids, shall be cascaded to the next lower relevant Recipient ASEP Group. If there are no lower relevant Recipient ASEP Groups then the unsatisfied bids shall remain unsatisfied. The WAP of any Group shall not be revised following any cascading of unsatisfied bids.
- viii. Where one or more bids within a Recipient ASEP Group remain unsatisfied National Grid NTS shall allocate capacity to those Users making the highest bids, i.e. allocations shall be made on the basis of the highest individual bid price first.
- ix. If there are two or more bids at the same price that cannot be fully satisfied then they shall be ranked according to:
 - Time of receipt of the bid.
- x. National Grid NTS shall identify the next highest ranked Recipient ASEP Group and steps ii to ix shall be repeated until either:
 - all bids are satisfied; or

¹ It could be that allocation is stopped with remaining capacity at the Donor ASEP and unsatisfied bids at the Recipient ASEP.

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- there is no remaining Available Capacity; or
- remaining bids can be satisfied only:
 - with an Exchange Rate > 10:1; or
 - with Surrendered Capacity with a Surrender Price higher than the bid price divided by the relevant Exchange Rate.

Capacity will be allocated from Donor ASEPs subject to the following sequences:

- Surrendered Capacity at the Donor ASEP will be allocated before unsold capacity.
- Surrendered Capacity will be allocated on the basis of highest minimum Surrender Price first.
- Where Surrendered Capacity is surrendered by more than one User with the same Surrender Price then the capacity Traded shall be allocated pro rata to a User's surrendered quantity.

Where any allocation of capacity determined by the Transfer and Trade Stage is less than the minimum eligible amount then that allocation will not be made.

Partial allocations will be made providing it satisfies the above criteria.

All bids not satisfied at the end of the Transfer and Trade Stage shall be rejected.

Treatment of Capacity Made Available by Users

Where Surrendered Capacity made available by Users in the Trade Initiation Process has been re-allocated (at the same ASEP or via a Trade) the Users will receive a payment, the Unit Offer Price. The Unit Offer Price (p/kWh/Day) is determined via the following calculation incorporating the Exchange Rate and the bid price at the Recipient ASEP. Where the Trade is to the same ASEP the Exchange Rate shall be 1:1.

$$\text{Unit Offer Price} = \text{Recipient bid price} / \text{Exchange Rate.}$$

Where the Unit Offer Price is less than the Surrender Price then the allocation will not be made.

In the event that more than one Transfer or Trade is made with capacity surrendered by more than one User and/or by a combination of Surrendered Capacity and unsold capacity then each surrendering Users' Unit Offer Price such be determined by:

- Exchange rate for the whole Group shall be determined;
- The highest bid in the Recipient ASEP Group shall be mapped to the highest Surrendered Capacity with the highest Surrender Price to calculate the User's Unit Offer Price;
- The next highest bid / Surrender Price shall then be considered.

Notwithstanding the User's ongoing liability with respect to Capacity Charges the User's Available* System Capacity at the ASEP where capacity was surrendered will be reduced accordingly.

Reduction in surrendering User's allocation = Recipient allocation quantity * Exchange Rate

For the avoidance of doubt, any revenue received by National Grid NTS in respect of re-allocated Surrendered Capacity will be passed through to the surrendering User. National Grid NTS will be revenue neutral in Trades. The surrendering User shall remain liable for Capacity Charges in respect of any re-allocated Surrendered Capacity.

Any rounding errors shall be corrected by adjustment to the sum received by the surrendering User, such that the sum received is equal to that to be paid by the Transferee User(s).

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Where Surrendered Capacity that was made available by Users has not been (fully) allocated the Users' holdings at the ASEP will only be reduced by the allocated amount (if any).

Information Provision

National Grid NTS will, no later than three (3) Business Days prior to the last Business Day in the calendar month preceding the calendar month for which applications may have been made inform Users of their capacity allocations in relation to allocations made pursuant to the RMSEC auction. Information provided will include, for each ASEP for each User that is registered as holding capacity for the relevant month:

The ASEP

Bids placed in the RMSEC auction which have been allocated (either in full or in part);

- The amount of Monthly NTS Entry Capacity which it is registered as holding for the calendar month for the relevant ASEP. This shall include capacity allocated through previous mechanisms and capacity allocated in the current RMSEC allocations minus any Surrendered Capacity that the User made available that has been reallocated.

The amount (included in the above quantity) of Monthly NTS Entry Capacity which it has been allocated as a result of the Transfer and Trade Stage.

National Grid NTS will, no later than three (3) Business Days prior to the last Business Day in the calendar month preceding the calendar month for which applications may have been made, inform surrendering Users (in addition to the allocation information) of the resulting allocations in respect of Surrendered Capacity that they made available. Information provided will include for each ASEP where capacity was surrendered:

The ASEP;

The quantity offered for surrender;

- The quantity reallocated (at the same ASEP or at a different ASEP);

The Exchange Rate(s);

The Unit Offer Price(s).

Thereafter, within a further one (1) Business Day information will be provided to all Users in accordance with UNC Section B paragraph 2.14.2. In addition the following information will be provided:

In respect of each ASEP for the relevant month:

- the aggregate amount of Monthly NTS Entry Capacity allocated under
 - the Initial Stage; and
 - the Transfer and Trade Stage;
- the aggregate amount of Surrendered Capacity re-allocated;
- the revised quantity of NTS Entry Capacity, if any, that National Grid NTS is obliged to make available for sale at future, i.e. Daily, auctions.
- In respect of each Donor ASEP
 - the aggregate amount of unsold Monthly NTS Entry Capacity allocated to each Recipient ASEP under the Transfer and Trade Stage;
- In respect of each Recipient ASEP:
 - the highest, lowest and WAP of all accepted bids in the Transfer and Trade Stage;
 - The order in which Recipient ASEP Groups were satisfied.
 - The aggregate Exchange Rate in respect of each relevant Donor ASEP.

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Charges and Overruns

Subject to the Initial and the Transfer and Trade Stages, National Grid NTS will accept bids in respect of which NTS Entry Capacity is allocated in accordance with those stages.

In respect of a Transfer each User whose bid is so accepted will be registered as holding NTS Monthly Entry Capacity (in the amount so allocated) for the relevant month in respect of the Aggregate System Entry Point. Each User when tendering in respect of each capacity bid will bid a price and agrees by making such application to pay by way of NTS Entry Capacity Charges the relevant bid price for the relevant month in respect of the NTS Entry Capacity allocated in accordance with these processes pursuant to such capacity bid.

In respect of a Trade the Transferor User whose Surrendered Capacity is reallocated shall remain the registered hold of NTS Monthly Entry Capacity (in the amount so reallocated) for the relevant month in respect of the Aggregate System Entry Point and will remain liable for Capacity Charges. Except in respect of Capacity Charges, the Transferee User shall be treated as holding NTS Monthly Entry Capacity (in the amount so reallocated) for the relevant month in respect of the Aggregate System Entry Point. The Transferee User, when tendering in respect of each capacity bid will bid a price and agrees by making such application to pay by way of NTS Entry Capacity Charges the relevant bid price for the relevant month in respect of the NTS Entry Capacity allocated in accordance with these processes pursuant to such capacity bid.

For the avoidance of doubt, in respect of a Trade, any payment made by the Transferee User will be processed through Capacity Neutrality Arrangements such that the surrendering User receives the payment made by the Transferee User.

For the avoidance of doubt, Users will pay Capacity Charges as for the capacity allocated in the RMSEC auction i.e. quantity of NTS Entry Capacity allocated multiplied by the bid price tendered.

For the avoidance of doubt, any capacity allocated through the Initial Stage or the Transfer and Trade Stage shall be considered in respect of overruns.

- Allocated capacity shall be included in the User's aggregate Available NTS Entry Capacity (determined as Fully Adjusted*) to determine the overrun quantity*;
- RMSEC bid prices shall be considered in the determination of System Entry Overrun Charge* rates.

Contingency

In the event that this Modification Proposal is accepted but the notice of implementation from the Authority is received too late for implementation in June 2008 then it shall apply from the earliest practicable date. For the avoidance of doubt implementation shall be according to the dates below.

Notice of implementation received before	Implementation in	Relevant period for release of capacity
[1 st April 2008]	June 2008 RMSEC auction	July 2008
[1 st May 2008]	July 2008 RMSEC auction	August 2008
[1 st Month M] (where M is after May 2008)	M+2 RMSEC auction	M+3

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Implementation of this Modification Proposal is dependent upon Authority approval the revised Entry Capacity Transfer and Trade Methodology Statement. National Grid NTS has revised the Methodology Statement to align to this Modification Proposal.