

Stage 01: Modification

0501C:

Treatment of Existing Entry Capacity Rights at the Bacton ASEP to comply with EU Capacity Regulations, including a capped capacity return option and an aggregate overrun regime.

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This Modification Proposal seeks to facilitate compliance with Commission Regulation (EU) No 984/2013 (Capacity Allocation Mechanisms) and continued compliance with Annex I to regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks with regards to the Congestion Management Procedures.



The Proposer recommends that this modification should be

- assessed by a Workgroup



High Impact:
Shippers and National Grid NTS



Medium Impact:



Low Impact:

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About this document:

This modification was presented to the panel on 20 November 2014.

The panel considered the proposer's recommendation and agreed the modification should be referred to a Workgroup for assessment.



Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this modification is not suitable as a self-governance modification because it is likely to have a material impact on National Grid NTS and Users in respect of NTS Entry Capacity at Bacton.

Why Change?

On 14 October 2013 the European Commission adopted rules (EU Regulation 984/2013) establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (CAM), which seek to harmonize transparent and non-discriminatory access to transmission capacity at applicable interconnection points across the European Union. These rules supplement Regulation (EC) 715/2009 and integrate with Congestion Management Procedures. As a consequence of these, changes to the UNC are required to ensure compliance.

In order to ensure that CAM/CMP procedures are only applied at Interconnection Points (IPs), the existing Bacton ASEP within the GT Licence which National Grid Gas holds in respect of the NTS will need to be split into two new ASEPs (Bacton UKCS ASEP and Bacton IP ASEP)¹. Existing UNC processes would continue to apply at the new Bacton UKCS ASEP and newly developed CAM processes would then apply at the new Bacton IP ASEP.

As long-term bookings have already been allocated for NTS Entry Capacity at the Bacton ASEP for the period after the planned implementation of CAM, the booked capacity will need to be either returned to National Grid NTS or reallocated between the two new ASEPs to ensure that CAM/CMP procedures are only applicable at the Bacton IP ASEP.

This modification proposal has been submitted as an alternative to proposals 0501, 0501A and 0501B and builds on the methodology set out in 0501A by seeking to maintain the total value within existing long-term NTS Entry Capacity bookings at the Bacton ASEP through a combination of capacity return and flexibility preservation.

The proposer acknowledges that the proposed Bacton split is an exceptional, one-off event in response to the requirements of implementing European CAM.

In these exceptional circumstances, where existing capacity holders' rights are proposed to be retrospectively altered in a very significant manner, an equitably implemented split must be a primary consideration. The proposer considers that an equitable split can be achieved by:

- (a) preserving the existing rights of long-term capacity holders to flexibly flow across the various sub-terminals within the Bacton ASEP; and
- (b) restoring the value balance for existing holders of long-term capacity at Bacton through a limited hand-back right.

The proposer considers that Modification 501C will, in addition to furthering compliance with Relevant Objectives b), c), d) and g), restore the flexibility and value balance post-split.

On the other hand, the proposer believes that Modification 0501 is a manifestly inadequate response to the exceptional circumstances facing Users at the Bacton ASEP, insofar as:

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¹ Note that this will be the subject of an Ofgem consultation. The process described in this Modification can only be applied once the relevant changes to the GT Licence have been directed (including the setting of the proposed Obligated levels of NTS Entry Capacity to apply at the Bacton UKCS ASEP and the Bacton IP ASEP).

- (a) there is no recognition of the radical change to the Bacton capacity market through the creation of an asset-specific ASEP for Interconnector assets in circumstances where no long term signal or market price for guaranteed long-term availability of entry capacity has been made²;
- (b) the price paid by long-term capacity holders was based on a radically different value and flexibility proposition, and as such, existing capacity products are likely to be incorrectly priced, the effect of which is to discriminate against existing capacity holders at Bacton and to confer a cross-subsidy to the rest of the shipper community (contrary to effective competition between shippers);
- (c) the proposal's disregard to the existing rights of long-term capacity holders means that shippers may be deterred from entering into long-term capacity commitments (in case the regulatory goalposts are moved on them), which may have negative implications for price signals to National Grid NTS should it need to develop new entry capacity in the future;
- (d) existing capacity holders who have their capacity allocated at unwanted terminals in case of oversubscription and who cannot now use their capacity in a flexible way will have to send an incremental investment signal to regain the long-term capacity lost at their desired ASEP, which is likely to:
 - (i) result in lower utilisation of already booked capacity at the unwanted ASEP;
 - (ii) lead to artificial constraint, and to unwarranted and inefficient applications for incremental capacity at Bacton ASEP (which may, in turn lead to unnecessary investment by National Grid NTS in response to artificial price signals);
- (e) existing capacity holders will be prevented from exercising their existing rights to flexibly support flows via any sub-terminal contained within the Bacton ASEP, the effect of which is that capacity bookings may need to be replicated in order to achieve the same gas flows, resulting in a disproportionately high allocation of capacity costs to such Users;
- (f) a User may be allocated capacity at a new Bacton ASEP at which that User is unable to utilise the capacity, enabling National Grid NTS to release more discretionary and interruptible capacity, which in combination represents a cross subsidy from existing capacity holders to the rest of the shipper community; and
- (g) existing capacity holders at Bacton are discriminated against vis-à-vis holders of capacity at other ASEPs:
 - (i) whose existing rights are not being retrospectively altered;
 - (ii) who may continue to use their capacity flexibly to support flows via any sub-terminal contained within a single ASEP; and
 - (iii) whose existing rights are not subjected to a diminution in value.

Against this background, the proposer believes that 0501C responds to the unique challenge by restoring the value and flexibility balance in the context of the substantive structural changes needed to deliver CAM in the simplest manner.

In summary, the proposer believes that this Modification has the following significant advantages over proposal 0501:

- Recognition of the unique and fundamental change at the existing Bacton ASEP through the creation of an asset-specific ASEP for Interconnector assets in circumstances where no long term signal or market price for guaranteed long-term availability of entry capacity has been made³. Accordingly, this

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² Based on Ofgem's minded-to position, as at the date of this Modification, to set the new Bacton IP ASEP by reference to the sum of the maximum technical capacity of IUK and BBL interconnectors.

³ Based on Ofgem's minded-to position, as at the date of this Modification, to set the new Bacton IP ASEP by reference to the sum of the maximum technical capacity of IUK and BBL interconnectors.

proposal seeks to preserve the value of existing long-term capacity bookings at Bacton and will ensure that: (a) long-term entry capacity products are correctly priced; (b) there is no deterrence for shippers to enter into long-term capacity commitments in the future; (c) there are no negative implications for price signals to National Grid should it need to develop new entry capacity; and (d) Interconnector assets and their Users are not competitively advantaged by virtue of the proposed Bacton split. In short, this proposal seeks to overcome those aspects of proposal 501 which a) undermine confidence in the entry capacity regime, and b) result in undue discrimination between Users⁴. In terms of restoring the competitive balance at Bacton following the “split”, the proposer believes that the limited capacity return right restores the value proposition for existing capacity holders whose competitive position at Bacton has been significantly altered through the creation of an asset-specific ASEP for Interconnector users. The promotion of this value balance, in conjunction with the preservation of flexibility, seeks to restore the total value inherent in existing capacity products.

- The flexibility⁵ inherent in existing Bacton long-term capacity bookings and the value which Users ascribed to it, will be preserved.
- Some or all of the capacity elected to be returned to National Grid NTS will be available for bundling at the Bacton IP ASEP sooner; this will better facilitate compliance with Relevant Objective g).
- Enabling the return of capacity will reduce the likelihood of capacity being over-subscribed at either of the new Bacton ASEPs, this will better facilitate compliance with relevant objectives b) and c).

In the event of over-subscription, a final opportunity to return capacity in excess of that requested at a new Bacton ASEP will ensure that Users do not have unwanted capacity entitlements forced upon them and consequently reduces the likelihood of capacity being sterilised and prevents Users from having to replicate existing capacity bookings in order to flow the gas that they would be entitled to flow based on existing bookings.

- This will better facilitate compliance with Relevant Objectives b) and c)
- Permitting the return of entry capacity at Bacton will be more consistent with the likely early termination of enduring NTS Exit (Flat) Capacity rights and will therefore better facilitate compliance with relevant objectives b) and c).
- The disproportionate and discriminatory treatment of Users of the Bacton ASEP will be mitigated (therefore facilitating compliance with Relevant Objective c)) vis-à-vis Users of other ASEPs, at which:
 - (i) NTS Entry Capacity is not arbitrarily allocated to a User without that User having signalled for that capacity; and
 - (ii) NTS Entry Capacity may continue to be used flexibly to support flows via any sub-terminal contained within a single ASEP.

This solution also recognises that holders of existing capacity bookings may have made significant commercial decisions (including, for example, secondary trades) based on capacity being available across the entire current Bacton ASEP.

This will be achieved by:

1. Allowing Users first to return their existing NTS Entry Capacity to National Grid NTS up to the Obligated level of NTS Entry Capacity ascribed to the new

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⁴ This is particularly the case in the event that Ofgem determines that the new Bacton IP ASEP baseline quantity should be equal to the maximum technical import capacity of the combined interconnectors.

⁵ Users currently enjoy the ability to freely utilise NTS Entry Capacity to support flows from any supply source connected to the Bacton ASEP.

Bacton IP ASEP as bears proportion to the aggregate Obligated level of NTS Entry Capacity across both new Bacton ASEPs (per the proposed GT Licence change), which, subject to the outcome of Ofgem’s consultation, is anticipated to be a 72.77% (the “Maximum Return Percentage”).

2. Allowing Users to then reallocate remaining or “Residual Capacity” between the new Bacton ASEPs as they so wish.
3. Allowing Users to return capacity to National Grid NTS in the event that an over-subscription at one of the new Bacton ASEPs results in the User being allocated more capacity than it requested at the other of the new Bacton ASEPs. In this event the User can specify that it wants its capacity capped at the requested level(s) in the final allocation round.
4. Allowing Users to continue to use their Residual Capacity flexibly between the two new Bacton ASEPs. This is proposed to be achieved through the introduction of an aggregate overrun regime whereby an individual User will be entitled to use Unutilised Residual Capacity to flexibly flow through the other new Bacton ASEP without incurring System Entry Overrun Charges, as more particularly described below. For the purposes of this Modification, “Unutilised Residual Capacity” is, in respect of a Day, a User and a new Bacton ASEP, Residual Capacity which is not utilised by that User to deliver gas to the Total System on that Day at that new Bacton ASEP.
5. Where a User purchases⁶ a bundled Bacton IP ASEP product to use Unutilised Residual Capacity, allowing the User to receive a rebate for the NTS Entry Capacity Charge embedded within the bundled Bacton IP ASEP product but only to the extent of its Unutilised Residual Capacity (excluding any Residual Capacity deemed to be used to receive relief from System Entry Overrun Charges) – the purpose of which is to ensure that the User is not required to pay the NTS Entry Capacity Charge twice in order to use that Unutilised Residual Capacity. The amount to be rebated will be the actual NTS Entry Capacity Charge embedded within the price paid for the bundled Bacton IP ASEP product (i.e. the reserve price plus premium, if any). At the new Bacton IP ASEP, as between the aggregate overrun regime and the bundled Bacton IP product rebate regime, a User’s Unutilised Residual Capacity at the new UKCS ASEP will be deemed to be used:
 - (a) firstly, to receive relief from System Entry Overrun Charges pursuant to the aggregate overrun regime; and
 - (b) thereafter, to receive rebate relief pursuant to the rebate regime.

Solution

This Modification introduces a one-off process to enable Users to return their existing NTS Entry Capacity at Bacton to National Grid NTS, up to a maximum of the Maximum Return Percentage.

In parallel Users would indicate where they wish their Residual Capacity to be held following implementation of CAM and the Bacton split. The process will be held after the March 2015 auction for Quarterly NTS Entry Capacity has been allocated and will only apply to those NTS Entry Capacity rights held by Users at the existing Bacton ASEP from 01 November 2015 onwards.

For each Month over the period 01 November 2015 to 30 September 2016 and each Quarter from 01 October 2016 to 30 September 2031⁷ (as relevant), for the Bacton Capacity Return and Initial Reallocation Invitation, Users will be invited to:

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⁶ Whilst it is anticipated that User would be inclined to purchase an unbundled Bacton IP ASEP product if available, there may be instances of price divergence and accordingly, the User’s commercial decision to purchase a bundled Bacton IP ASEP product should not be fettered.

⁷ The invitation will specify months for the initial year of the period as the NTS Entry Capacity could have been bought through either AMSEC or QSEC auctions so different amounts of NTS Entry Capacity could be held for different months. Whereas for the period 1 October 2016 onwards, the capacity could only have been bought in QSEC auctions and so the amounts of NTS Entry Capacity will only vary per quarter.

- (a) Specify the quantity of their existing NTS Entry Capacity rights to be returned to National Grid NTS up to the Maximum Return Percentage; and
- (b) For the remaining existing NTS Entry Capacity rights following any returns made in accordance with sub-paragraph (a)⁸ (the “Residual Capacity”) indicate how they wish their Residual Capacity to be allocated between the newly created Bacton UKCS and Bacton IP ASEPs.

In respect of Residual Capacity, where the aggregate level of Users’ capacity holdings at each new ASEP is less than or equal to the proposed new obligated levels at each of the new ASEPs, their NTS Entry Capacity reallocations will be granted in full subject to any restrictions arising from NTS Entry Capacity Transfers. If this is not the case, a further invitation and allocation process will be undertaken. If after both processes have been followed, the aggregate level of Users’ capacity holdings is still in excess of the proposed obligated levels at either of the two new ASEPs, National Grid NTS will re-apportion the holdings such that the obligated levels are not exceeded by the aggregate level of capacity holdings for the relevant periods. As part of this process a User will have a further opportunity to return capacity to National Grid NTS but only to the extent that the allocation at an ASEP exceeds the allocation that the User had most recently requested.

Where existing NTS Entry Capacity is returned by a User to National Grid NTS, the User will be relieved of any NTS Entry Capacity Charges that would otherwise pertain to it. The returned capacity will therefore be available to National Grid NTS to offer it for sale in subsequent capacity auctions at the applicable new Bacton ASEPs.

In respect of any relevant month or quarter, Users (and, in respect of NTS Entry Capacity Transfers, Transferor Users) should ensure that the quantities they specify under the above processes are entirely consistent with their existing NTS Entry Capacity rights and are consistent with allocating existing Bacton ASEP NTS Entry Capacity Transfers to the new Bacton ASEPs, except in the following circumstances.

If in respect of an invitation, a User specifies a quantity of NTS Entry Capacity to be returned which exceeds the Maximum Return Percentage, as a default rule, the quantity to be returned to National Grid NTS shall be automatically scaled-down to match the Maximum Return Percentage.

The quantity of NTS Entry Capacity specified to be returned by the User shall be added to the quantity of NTS Entry Capacity specified to be re-allocated by the User. If that aggregate quantity:

- (a) exceeds 100% of that User’s existing NTS Entry Capacity, then the quantity of Residual Capacity nominated by the User shall be scaled-down; or
- (b) is less than 100% of that User’s existing NTS Entry Capacity, then the quantity of Residual Capacity nominated by the User shall be scaled-up,

such that the aggregate quantity of returned NTS Entry Capacity and nominated Residual Capacity equals 100% of that User’s existing NTS Entry Capacity.

In each case, the quantity of Residual Capacity subjected to such scale-down or scale-up shall, by default, be automatically allocated to the new Bacton ASEPs in proportion to the indicated split specified by the User in response to the relevant invitation.

With the exception of the above scale-down and scale-up scenarios, in the event that a User specifies quantities of Residual Capacity that are not consistent with these conditions, National Grid NTS will, for the relevant month or quarter, reject the User’s request and invoke a default reallocation on the User’s behalf.

The default reallocation will, for the relevant month or quarter, reallocate existing NTS Entry Capacity rights between the new Bacton ASEPs in proportion to the obligated

⁸ Based on Ofgem’s minded-to position as at the date of this Modification to set the new Bacton IP ASEP by reference to the sum of the maximum technical capacity of IUK and BBL interconnectors, the minimum Residual Capacity cannot be less than 23.99%.

levels (or baselines) of the new Bacton ASEPs. Relevant NTS Entry Capacity Transfers will be apportioned between the two new Bacton ASEPs in the same way.

National Grid NTS will write to inform Users of the results of the capacity reallocation process by 30th September 2015 at the latest.

Following the implementation of CAM and the proposed Bacton split, an aggregate overrun regime would be introduced for Residual Capacity holders to enable them to flexibly flow through both new Bacton ASEPs. For the purposes of calculating System Entry Overrun Charges at a new Bacton ASEP, National Grid NTS will take account of that User's current Available NTS Entry Capacity at that new Bacton ASEP plus that User's Unutilised Residual Capacity at the other new Bacton ASEP, if any.

As a key tenet of CAM, it is envisaged that Interconnector capacity will be sold predominantly on a bundled basis in order to comply with CAM regulation, that is to maximise the offer of bundled capacity. Where a User wishes to use Unutilised Residual Capacity (excluding any Residual Capacity deemed to be used to receive relief from System Entry Overrun Charges) allocated to the new Bacton UKCS ASEP to flow through the new Bacton IP ASEP, that User will receive a rebate of the NTS Entry Capacity Charge embedded within the bundled Bacton IP ASEP product purchased to enable the use of that Unutilised Residual Capacity. This will ensure that the User is not charged twice for the NTS Entry Capacity Charge. At the new Bacton IP ASEP, as between the aggregate overrun regime and the bundled Bacton IP product rebate regime, a User's Unutilised Residual Capacity at the new UKCS ASEP will be deemed to be used:

- (a) firstly, to receive relief from System Entry Overrun Charges pursuant to the aggregate overrun regime; and
- (b) thereafter, to receive rebate relief pursuant to the rebate regime.

There will be no change to the process to be applied by a User in undertaking System Capacity Transfers. Residual Capacity Rights will not transfer to a Transferee User.

As a default rule, where a User undertakes a System Capacity Transfer, that User shall be deemed to transfer NTS Entry Capacity to the Transferee User in the following order:

- (a) firstly, to the extent of that User's non-Residual Capacity; and
- (b) thereafter, to the extent of that User's Residual Capacity.

In relation to the surrender of Firm NTS Entry Capacity, where a User makes an offer to surrender Firm NTS Entry Capacity for a Day in respect of a new Bacton ASEP (pursuant to TPD B2.3 and/or TPD B2.10), that User shall be deemed to offer to surrender its Firm NTS Entry Capacity to National Grid NTS in the priority order set out below.

(at the new Bacton IP ASEP):

As a default rule, where a User specifies through PRISMA that the surrender offer is in respect of unbundled NTS Entry Capacity, that User's NTS Entry Capacity shall be deemed to be surrendered in the following priority order:

- (a) firstly, to the extent of that User's unbundled non-Residual Capacity; and
- (b) thereafter, to the extent of that User's unbundled Residual Capacity.

To the extent that the User has insufficient unbundled NTS Entry Capacity available to fully satisfy the surrender offer, the User's unbundled NTS Entry Capacity shall be deemed to be negative

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As a default rule, where a User specifies through PRISMA that the surrender offer is in respect of bundled NTS Entry Capacity, that User's NTS Capacity Capacity shall be deemed to be surrendered in the following priority order:

- (a) firstly, to the extent of that User's bundled non-Residual Capacity; and
- (b) thereafter, to the extent of that User's bundled Residual Capacity.

To the extent that the User has insufficient bundled NTS Entry Capacity available to fully satisfy the surrender offer, the User's bundled NTS Entry Capacity shall be deemed to be negative

(at the new UKCS ASEP):

- (a) firstly, to the extent of that User's non-Residual Capacity; and
- (b) secondly, to the extent of that User's Residual Capacity.

To the extent that National Grid NTS accepts a surrender offer which includes Residual Capacity, the Residual Capacity Rights will not attach to NTS Entry Capacity which National Grid NTS makes available to other Users during the relevant surrender period by virtue of that User surrendering the Residual Capacity.

Relevant Objectives

Implementation of this Modification would better facilitate the following relevant objectives:

- b) "Coordinated, efficient and economic operation of
 - (i) the combined pipe-line system, and/or
 - (ii) the pipe-line system of one or more other relevant gas transporters."
- c) "Efficient discharge of the licensee's obligations."
- d) "Securing of effective competition:
 - (i) between relevant shippers;
 - (ii) between relevant suppliers; and/or
 - (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers."
- g) "Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators"

Implementation

No implementation timescales are proposed. Please note that the European Commission has specified the Regulation on Capacity Allocation Mechanisms will apply from 01 November 2015.

2 Why Change?

On 14 October 2013 the European Commission adopted rules (EU Regulation 984/2013) establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems (CAM) which seek to harmonize transparent and non-discriminatory access to transmission capacity at applicable interconnection points across the European Union. These rules supplement Regulation (EC) 715/2009 and integrate with Congestion Management Procedures (CMP) and changes to the UNC are required to ensure compliance.

In order to ensure that CAM/CMP procedures are only applied at Interconnection Points (IPs), the existing Bacton ASEP within the GT Licence which National Grid Gas holds in respect of the NTS will need to be split into two new ASEPs (Bacton UKCS ASEP and Bacton IP ASEP)⁹. Existing UNC processes would continue to apply at the new Bacton UKCS ASEP and newly developed CAM processes would apply at the new Bacton IP ASEP.

As long-term bookings have already been placed for NTS Entry Capacity at the Bacton ASEP for the period after the planned implementation of CAM, these will need to be either returned to National Grid NTS and/or reallocated between the two new ASEPs to ensure that CAM/CMP procedures are only applicable at the Bacton IP ASEP. This modification details how to achieve this in a manner that seeks to preserve the total value and flexibility inherent in existing capacity bookings.

A one-off process will be created in the UNC to allow Users to return some of their existing Registered NTS Entry Capacity rights to National Grid NTS of their rights on a monthly basis, up to the Maximum Return Percentage and to reallocate any remaining (Residual Capacity) between the two newly created ASEPs at Bacton (Bacton UKCS and Bacton IP) from 01 November 2015 onwards.

The return and reallocation process will take place once the March 2015 auction for Quarterly NTS Entry Capacity has been allocated and will only apply to Registered NTS Entry Capacity held by Users at the existing Bacton ASEP from 01 November 2015 onwards. The process will be completed by September 2015 and the changes would be effective from 01 November 2015.

Capacity Constraint Management processes within the UNC surrounding NTS Entry Capacity at the existing Bacton ASEP will need to cease following implementation of this Modification in order to ensure that the split of NTS Entry Capacity between the two newly created ASEPs for the period commencing 01 November 2015 can be carried out. More specifically, any new Capacity Constraint Management agreements that National Grid NTS may wish to tender for in accordance with TPD B2.8 for the period 01 November 2015 onwards

For clarity, NTS Entry Capacity Transfers and Capacity Constraint Management agreements at the existing Bacton ASEP are permitted for the period up to and including 31 October 2015.

In addition to the above:

- there will be no RMTTSEC auction held in October 2015 for NTS Entry Capacity for the month of November 2015 at the existing Bacton ASEP; and
- any new Transfers of NTS Entry Capacity in accordance with TPD B5 which have either a start date or end date for the period 01 November 2015 onwards must be effected prior to the date on which National Grid NTS issued the Bacton Capacity Return and Initial Reallocation Invitation.

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⁹ Note that this will be the subject of an Ofgem consultation. The process described in this Modification can only be applied once the relevant changes to the GT Licence have been directed (including the setting of the proposed Obligated levels of NTS Entry Capacity to apply at the Bacton UKCS ASEP and the Bacton IP ASEP).

Once the return and reallocation process has been completed, the relevant UNC processes at the Bacton UKCS ASEP and where relevant, the Bacton IP ASEP will be reinstated. Note that the processes and arrangements concerning NTS Interconnection Point Entry Capacity held at the Bacton IP ASEP will be subject to the wider implementation of the CAM Regulation.

Following the implementation of CAM and the proposed Bacton split, an aggregate overrun regime would be introduced for holders of Residual Capacity to, replicate, to the extent possible, the existing rights of those Users to flexibly flow across the current Bacton ASEP without restriction as to origin of supply. For the purposes of calculating System Entry Overrun Charges at a new Bacton ASEP, National Grid NTS will take account of that User's current NTS Entry Capacity at that new Bacton ASEP plus that User's Unutilised Residual Capacity at the other new Bacton ASEP.

As described above, as a key tenet of CAM, it is envisaged that Interconnector capacity will be sold predominantly on a bundled basis in order to comply with CAM regulation, that is to maximise the offer of bundled capacity. Where a User purchases a bundled Bacton IP ASEP product to use Unutilised Residual Capacity (excluding any Residual Capacity deemed to be used to receive relief from System Entry Overrun Charges), that User will receive a rebate for the NTS Entry Capacity Charge embedded within the price paid for the bundled Bacton IP ASEP product – the purpose of which is to ensure that the User is not required to pay the NTS Entry Capacity Charge twice. The amount to be rebated will be the actual NTS Entry Capacity Charge embedded within the price paid for the bundled Bacton IP ASEP product (i.e. the reserve price plus premium, if any). At the new Bacton IP ASEP, as between the aggregate overrun regime and the bundled Bacton IP product rebate regime, a User's Unutilised Residual Capacity at the new UKCS ASEP will be deemed to be used:

- (a) firstly, to receive relief from System Entry Overrun Charges pursuant to the aggregate overrun regime; and
- (b) thereafter, to receive rebate relief pursuant to the rebate regime.

3 Solution

It is proposed that a number of new processes and terms be introduced into the UNC in relation to the process being undertaken regarding NTS Entry Capacity currently held by Users at the Bacton ASEP:

1 New Terms¹⁰

1. **"Adjacent Transporter"** means the operator of a transmission system connected to (or designated as connected to) the National Transmission System at an Interconnection Point.
2. **"Bacton ASEP"** is the Aggregate System Entry Point currently referenced within National Grid NTS' Transporter's Licence as the Bacton NTS Entry Point.
3. **"Bacton IP ASEP"** is a new Aggregate System Entry Point to which NTS Entry Capacity at the Bacton ASEP may be reallocated as NTS Interconnection Point Entry Capacity to facilitate the implementation of the EU CAM Code.
4. **"Bacton UKCS ASEP"** is a new Aggregate System Entry Point to which NTS Entry Capacity at the Bacton ASEP may be reallocated to facilitate the implementation of the EU CAM Code.
5. **"Bacton User"** means a User who holds Relevant Registered NTS Entry Capacity at the Bacton ASEP on the relevant date for any period following 1 November 2015.

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¹⁰ These terms are included within the modification proposal to assist the reader. The eventual legal drafting may result in different terms and definitions being introduced into the UNC. Note existing definition for an Interconnection Point within TPD A1.8 is being retained.

6. **“Bacton Capacity Final Reallocation Invitation”** means a second (and final) invitation made to surrender Residual Capacity rights at the existing Bacton ASEP to be reallocated as either NTS Entry Capacity at the Bacton UKCS ASEP and/or NTS Interconnection Point Entry Capacity at the Bacton IP ASEP. This invitation is only triggered if the Bacton Capacity Return and Initial Reallocation Invitation does not completely reallocate all of the Residual Capacity rights at the existing Bacton ASEP.
7. **“Bacton Capacity Return and Initial Reallocation Invitation”** means an invitation to return NTS Entry Capacity rights at the existing Bacton ASEP to National Grid NTS (and for the allocation and/or registration of these rights to relevant Users to be cancelled) and to reallocate the Residual Capacity as either NTS Entry Capacity at the Bacton UKCS ASEP and/or NTS Interconnection Point Entry Capacity at the Bacton IP ASEP.
8. **“Bacton Capacity Return and Reallocation Process”** means the process by which (a) Users can return NTS Entry Capacity Rights to National Grid NTS (and which rights, and obligations pertaining to those rights, are therefore cancelled by National Grid NTS), (b) National Grid NTS reallocates the Residual Capacity at the existing Bacton ASEP as either NTS Entry Capacity at the Bacton UKCS ASEP and/or NTS Interconnection Point Entry Capacity at the Bacton IP ASEP and (c) Users have a final opportunity to return capacity to National Grid NTS in circumstances where their allocation of capacity at a new Bacton ASEP exceeds the level they requested.
9. **“Final Capacity Reallocation”** means the result of the second (and final) application of the Bacton Capacity Return and Reallocation Process in respect of Residual Capacity.
10. **“Initial Capacity Reallocation”** means the result of the first application of the Bacton Capacity Return and Reallocation Process.
11. **“Maximum Return Percentage”** means the Obligated level of NTS Entry Capacity ascribed to the new Bacton IP ASEP as bears proportion to the aggregate Obligated level of NTS Entry Capacity across both new Bacton ASEPs (per the proposed GT Licence change), which, subject to the outcome of Ofgem’s consultation, is anticipated to be a 72.77%.
12. **“Minimum Retention Percentage”** means the Obligated level of NTS Entry Capacity ascribed to the new Bacton UKCS ASEP as bears proportion to the aggregate Obligated level of NTS Entry capacity across both new Bacton ASEPs (per the proposed GT Licence change), which, subject to the outcome of Ofgem’s consultation, is anticipated to be a 27.23%.
13. **“NTS Interconnection Point Entry Capacity”** means NTS Entry Capacity at an Interconnection Point.
14. **“Residual Capacity”** means a User’s remaining NTS Entry Capacity rights at a new Bacton ASEP following the User’s return of existing Capacity rights under the Bacton Capacity Return and Initial Reallocation Invitation. In determining the quantum of a User’s Residual Capacity entitlement on a Day in respect of the aggregate overrun and bundled rebate regime, the User’s Residual Capacity entitlement shall be deemed to be the lesser of that User’s:
 - (a) Residual Capacity; and
 - (b) Available NTS Entry Capacity,
 on that Day.
15. **“Residual Capacity Rights”** means:
 - (a) relief from System Entry Overrun Charges; and

(b) rebate relief in circumstances where a User purchases a bundled Bacton IP ASEP product,

attributable to Unutilised Residual Capacity held by a User, as more particularly described in this Modification.

16. **“Unbundled NTS Interconnection Point Entry Capacity”** means NTS Interconnection Point Entry Capacity at an Interconnection Point which has been auctioned separately at that Interconnection Point, from capacity rights provided by any Adjacent Transporter.
17. **“Unutilised Residual Capacity”** means, in respect of a Day, a User and a new Bacton ASEP, Residual Capacity which is not utilised by that User to deliver gas on that Day to the Total System at that new Bacton ASEP.

2 High level view of the reallocation process

1. Users are invited to specify the quantity of their existing Registered NTS Entry Capacity rights that they want to return to National Grid NTS (up to a maximum of the Maximum Return Percentage) and to indicate where they wish to allocate their remaining existing Registered NTS Entry Capacity rights (Residual Capacity), from 01 November 2015 onwards, to be split between the two new Bacton ASEPs. For the avoidance of doubt, a User can indicate that they require all of their Residual Capacity at the existing Bacton ASEP for any relevant period to be allocated to only one of the two new Bacton ASEPs (i.e. that they require zero at the other new Bacton ASEP for that period). In order to retain Residual Capacity Rights, all System Capacity Transfers comprising a System Transfer Period from 01 November 2015 onwards must be effected prior to the date on which National Grid NTS issues the Bacton Capacity Return and Initial Reallocation Invitation.
2. Where NTS Entry Capacity is returned by a User to National Grid NTS, the User will be relieved of any transportation charges that would otherwise pertain to it. The returned capacity will therefore be available to National Grid NTS to offer it for sale in subsequent capacity auctions at the applicable new Bacton ASEPs.
3. Bacton Users that are also Transferor Users will be invited to indicate where they wish their existing NTS Capacity Transfers at the existing Bacton ASEP, from 01 November 2015 onwards, to be split between the two new Bacton ASEPs.
4. Residual Capacity at the Bacton ASEP will be reallocated (by National Grid NTS on behalf of the User) at the new Bacton ASEPs.
5. NTS Capacity Transfers at the existing Bacton ASEP will be reallocated (by National Grid NTS on behalf of the Transferor User and Transferee User) at the new ASEPs at Bacton as requested by the relevant Transferor User.
6. At the new Bacton IP ASEP, Users will be registered as holding NTS Interconnection Point Entry Capacity. Some existing UNC rules and processes as appropriate will apply to this type of NTS Entry Capacity but note that certain processes and arrangements concerning NTS Interconnection Point Entry Capacity held at the Bacton IP ASEP will be subject to the wider implementation of the CAM Regulation.
7. At the Bacton UKCS ASEP, Users will be registered as holding NTS Entry Capacity and all existing UNC rules and processes will continue to apply to this NTS Entry Capacity.
8. National Grid NTS will only reallocate the NTS Entry Capacity/NTS Interconnection Point Entry Capacity in full where it is less than or equal to the Obligated level for that ASEP for the relevant Month/Quarter.

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9. NTS Entry Capacity will be registered to the User for the relevant Month or Quarter at the new Bacton UKCS ASEP at a weighted average price; that is, the volume weighted average price of that User's NTS Entry Capacity, over all the auctions during which they previously purchased NTS Entry Capacity (QSEC and AMSEC) for the relevant Month or Quarter at the Bacton ASEP. The weighted average price will feed directly into the System Entry Overrun Charge calculation for the new Bacton UKCS ASEP.
10. Similarly, NTS Interconnection Point Entry Capacity will be registered to the User for the relevant Month or Quarter at the new Bacton IP ASEP at a weighted average price; that is, the volume weighted average price of that User's NTS Entry Capacity, over all the auctions during which they previously purchased NTS Entry Capacity (QSEC and AMSEC) for the relevant Month or Quarter at the Bacton ASEP. The weighted average price will directly feed into the System Entry Overrun Charge calculation for the new Bacton IP ASEP.
11. In respect of any relevant month or quarter, Bacton Users (and, in respect of relevant NTS Entry Capacity Transfers, Transferor Users) should ensure that the quantities they specify under the above processes are entirely consistent with their existing Registered NTS Entry Capacity (subject to any return of capacity), and are consistent with allocating existing Bacton ASEP NTS Entry Capacity Transfers to the new Bacton ASEPs. In particular, a Bacton User must ensure that the quantities it specifies under paragraph 1 above are sufficient to meet in full its intention for the quantities it specifies under paragraph 3 above.

If, in respect of an invitation, a User specifies a quantity of NTS Entry Capacity to be returned which exceeds the Maximum Return Percentage, as a default rule, the quantity to be returned to National Grid NTS shall be automatically scaled-down to match the Maximum Return Percentage.

The quantity of NTS Entry Capacity specified to be returned by the User shall be added to the quantity of NTS Entry Capacity specified to be re-allocated by the User. If that aggregate quantity:

- (a) exceeds 100% of that User's existing NTS Entry Capacity, then the quantity of Residual Capacity nominated by the User shall be scaled-down; or
- (b) is less than 100% of that User's existing NTS Entry Capacity, then the quantity of Residual Capacity nominated by the User shall be scaled-up,

such that the aggregate quantity of returned NTS Entry Capacity and nominated Residual Capacity equals 100% of that User's existing NTS Entry Capacity.

In each case, the quantity of Residual Capacity subjected to such scale-down or scale-up shall, by default, be automatically allocated to the new Bacton ASEPs in proportion to the indicated split specified by the User in response to the relevant invitation.

With the exception of the above scale-down and scale-up scenarios, in the event that a User specifies quantities that are not consistent with these conditions, National Grid NTS will, for the relevant month or quarter, reject the User's request and invoke a default reallocation on the User's behalf.

12. The default reallocation will, for the relevant month or quarter, reallocate existing Registered NTS Entry Capacity between the new Bacton ASEPs in proportion to the obligated levels (or baselines) of the new Bacton ASEPs. Relevant NTS Entry Capacity Transfers will be apportioned between the two new Bacton ASEPs in the same way.

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2 High level view – Residual Capacity following the reallocation process

1. TPD B2.12.1 provides that where a User delivers gas onto the Total System over a Day at an ASEP that is in excess of its aggregate Available NTS Entry Capacity (determined as Fully Adjusted), that User will incur a System Entry Overrun Charge in respect of NTS Entry Capacity at that ASEP on that Day.
2. For the purposes of calculating the System Entry Overrun Charge, the “overrun quantity” is the amount by which the sum of the User’s UDQIs on that Day in respect of each System Entry Point comprised in the ASEP exceeds the sum of the User’s Fully Adjusted Available NTS Entry Capacity.
3. A User’s System Entry Overrun Charge is calculated as the amount of the “overrun quantity” multiplied by whichever is the greatest of:
 - (a) $(8 * A)$, where ‘A’ is the highest bid price in relation to a capacity bid in respect of which NTS Entry Capacity was allocated following an invitation for Annual NTS Entry Capacity auction, Rolling Monthly NTS Entry Capacity auction or Daily NTS Entry Capacity auction; and
 - (b) $(1.1 * B)$, where ‘B’ is the relevant average accepted offer price; and
 - (c) $(1.1 * C)$, where ‘C’ is the relevant average accepted forward price; and
 - (d) $(1.1 * D)$, where ‘D’ is the relevant average accepted exercise price; and
 - (e) $(1.1 * E)$, where ‘E’ is the highest unit price accepted by National Grid NTS,

calculated by reference to information available to National Grid NTS at 02:00 hours on a relevant Day.

4. System Entry Overrun Charges are invoiced by and payable to National Grid NTS in accordance with TPD Section S.
5. To preserve flexibility for holders of Residual Capacity, the “overrun quantity” calculation should take account of Fully Adjusted Available NTS Entry Capacity held by a User at each new Bacton ASEP in turn and in combination with the Unutilised Residual Capacity at the other new Bacton ASEP, effectively to mirror the pre-Bacton split scenario whereby a User would be entitled to flexibly flow UKCS or European-sourced gas through the Bacton ASEP without incurring System Entry Overrun Charges to the extent of its aggregate Fully Adjusted Available NTS Entry Capacity.

Therefore, in calculating a User’s System Entry Overrun Charges in respect of the new Bacton UKCS ASEP or the new Bacton IP ASEP on a Day (as the case may be), the “overrun quantity” would be reduced to the extent of the Unutilised Residual Capacity held by that User at the other new Bacton ASEP, if any.

For example, if a User allocates all of its Residual Capacity to the new Bacton IP ASEP and wishes to flow through the new Bacton UKCS ASEP on a Day, for the purposes of calculating its System Entry Overrun Charges in respect of the Bacton UKCS ASEP on that Day, that User’s “overrun quantity” would be reduced to the extent of the Unutilised Residual Capacity it holds at the new Bacton IP ASEP, if any.

Where, on a given Day, a User holds both Residual Capacity and non-Residual Capacity at a new Bacton ASEP, that User’s UDQI in respect of that new Bacton ASEP will be satisfied in the following order:

- (a) firstly, to the extent of the non-Residual Capacity the User holds at that new Bacton ASEP; and

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(b) thereafter, to the extent of the Residual Capacity the User holds at that new Bacton ASEP.

As described above, as a key tenet of CAM, it is envisaged that Interconnector capacity will be sold predominantly on a bundled basis in order to comply with CAM regulation, that is to maximise the offer of bundled capacity. Where a User purchases¹¹ a bundled Bacton IP ASEP product to use Unutilised Residual Capacity allocated to the new Bacton ASEPs (excluding any Residual Capacity deemed to be used to receive relief from System Entry Overrun Charges), that User will receive a rebate for the NTS Entry Capacity Charge embedded within the price paid for the bundled Bacton IP ASEP product – the purpose of which is to ensure that the User is not required to pay the NTS Entry Capacity Charge twice in order to use that Unutilised Residual Capacity. The amount to be rebated will be the actual NTS Entry Capacity Charge embedded within the price paid for the bundled Bacton IP ASEP product (i.e. the reserve price plus premium, if any). At the new Bacton IP ASEP, as between the aggregate overrun regime and the bundled Bacton IP product rebate regime, a User's Unutilised Residual Capacity at the new UKCS ASEP will be deemed to be used:

- (a) firstly, to receive relief from System Entry Overrun Charges pursuant to the aggregate overrun regime; and
- (b) thereafter, to receive rebate relief pursuant to the rebate regime.

In determining the quantum of a User's Residual Capacity on a Day in respect of the aggregate overrun and bundled rebate regime, that User's Residual Capacity entitlement shall be deemed to be the lesser of that User's:

- (a) Residual Capacity; and
- (b) Available NTS Entry Capacity,

on the relevant Day.

7. Invoicing and payment to cover the two new Bacton ASEPs will continue to apply as per TPD Section S. Where a User is entitled to receive a rebate in respect of the purchase of a bundled Bacton IP ASEP product, National Grid NTS shall process and issue that rebate to the User as soon as is reasonably practicable.

3 The Bacton Capacity Return and Reallocation process

1. This process will begin after the March 2015 auction in respect of Quarterly NTS Entry Capacity is allocated and is anticipated to be completed by 30th September 2015 to be effective for NTS Entry Capacity held on and from 01 November 2015. An indicative timeline for the reallocation process is shown below (the return process will run concurrently with the reallocation process):

Timeline for Bacton Reallocation process

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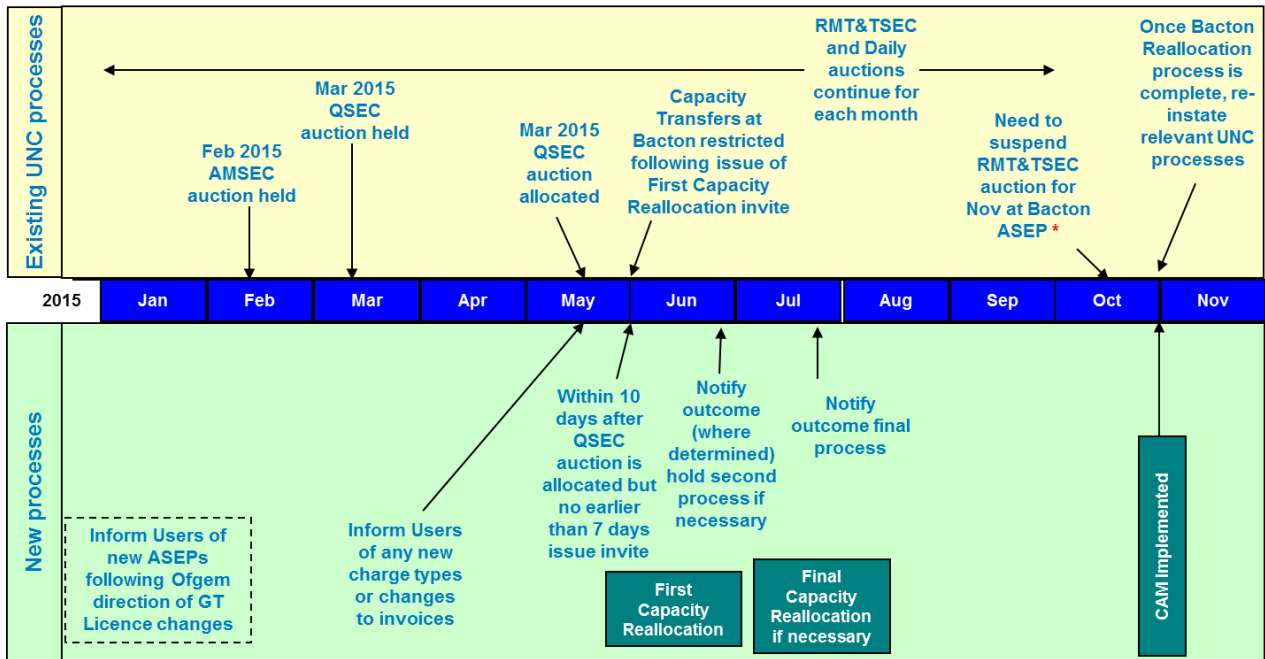
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¹¹ Whilst it is anticipated that User would be inclined to purchase an unbundled Bacton IP ASEP product if available, there may be instances of price divergence and accordingly, the User's commercial decision to purchase a bundled Bacton IP ASEP product should not be fettered.



The day-ahead auctions for Bacton UKCS and Bacton IP will commence on 31st October 2015.

2. National Grid NTS will invite all Bacton Users who currently hold Registered NTS Entry Capacity at the Bacton ASEP from 01 November 2015 onwards to (a) return to National Grid NTS some (which might be zero) of their Registered NTS Entry Capacity at the Bacton ASEP up to a maximum of the Maximum Return Percentage; and (b) reallocate their Residual Capacity (which must not be less than the Minimum Retention Percentage) for all Months from 01 November 2015 until 30 September 2016 and for all Quarters from 01 October 2016 onwards¹² to the new Bacton UKCS ASEP or Bacton IP ASEP. For the avoidance of doubt, the definition of Registered NTS Entry Capacity within UNC TPD B5 will be applied throughout this Modification.
3. National Grid NTS will invite all relevant Transferor Users who have existing NTS Entry Capacity Transfers at the Bacton ASEP from 01 November 2015 onwards to reallocate their NTS Entry Capacity Transfers at the Bacton ASEP for all Months from 01 November 2015 until 30 September 2016 and for all Quarters from 01 October 2016 onwards to the new Bacton UKCS ASEP and/or Bacton IP ASEP.
4. Within 10 business days but no earlier than 7 business days following the allocation of the March 2015 auction in respect of Quarterly NTS Entry Capacity, National Grid NTS will invite (the Bacton Capacity Return and Initial Reallocation Invitation) all Users who at that time hold Registered NTS Entry Capacity at the Bacton ASEP and all Bacton Users that are Transferor Users who hold NTS Entry Capacity Transfers from 01 November 2015 onwards to indicate what quantity of their Registered NTS Entry Capacity they want to be returned to National Grid NTS (up to a maximum of the Maximum Return Percentage) and what quantity of the Residual Capacity and NTS Entry Capacity Transfers they want be held in future at the Bacton UKCS ASEP and/or the Bacton IP ASEP (which must not be less than the Minimum Retention Percentage). Note that in order to retain Residual Capacity Rights, all System Capacity Transfers comprising Residual Capacity and a System Transfer Period from 01 November 2015 onwards must be effected prior to the date on which National Grid NTS issues the Bacton Capacity Return and Initial Reallocation Invitation. Note that Users will be allocated NTS Entry Capacity at the Bacton UKCS ASEP and NTS Interconnection Point Entry Capacity at the Bacton IP ASEP. As NTS

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¹² The invitation will specify months for the initial year of the period as the NTS Entry Capacity could have been bought through either AMSEC or QSEC auctions so different amounts of NTS Entry Capacity could be held for different months. Whereas for the period 1 October 2016 onwards, the capacity could only have been bought in QSEC auctions and so the amounts of NTS Entry Capacity will only vary per quarter.

Interconnection Point Entry Capacity is a type of NTS Entry Capacity, we use the term NTS Entry Capacity in the following paragraphs to mean both.

5. The Bacton Capacity Return and Initial Reallocation Invitation will, specific to each Registered Capacity holder, state:
 - a. The Initial Period (Months from 01 November 2015 to 30 September 2016 and Quarters from 01 October 2016 to 30 September 2031) for which (a) returns and reallocations of NTS Entry Capacity and (b) reallocations of NTS Entry Capacity Transfers at the Bacton ASEP to the Bacton UKCS and Bacton IP ASEPs are being sought
 - b. The existing Registered NTS Entry Capacity held by the User at the Bacton ASEP for each of the relevant Months/Quarters of the Initial Period
 - c. The existing NTS Entry Capacity Transfers held by the Transferor User at the Bacton ASEP
 - d. The existing weighted average price of that User's existing Registered NTS Entry Capacity at the Bacton ASEP for each of the relevant Months/Quarters of the Initial Period
 - e. The date within 10 business days of invite and means (which shall be by facsimile) by which Users can signal their required return and reallocation for each of the relevant Months/Quarters
 - f. The period during which User requests can be sent. For each Business Day Users can submit their requests between 08:00am and 17:00pm
 - g. That a User cannot return a quantity of NTS Entry Capacity greater than the Maximum Return Percentage for the Month/Quarter in question
 - h. That a User cannot request reallocation of a quantity less than or greater than their Residual Capacity for the Month/Quarter in question
 - i. That a Transferor User cannot request reallocation of a quantity of NTS Entry Capacity Transfers greater than the lesser of, either their existing quantity of NTS Entry Capacity Transfers for the Month/Quarter in question or their Residual Capacity at the Bacton ASEP
 - j. The User to provide a quantity by relevant ASEP by period (Month or Quarter) to National Grid NTS
 - k. The Transferor User is to provide the Transferee and quantity by relevant ASEP by period (Month or Quarter) to National Grid NTS
 - l. The date by which National Grid NTS will provide back to Users the result of the Initial Capacity Reallocation.
6. If in respect of the Bacton Capacity Return and Initial Reallocation Invitation, a User specifies a quantity of NTS Entry Capacity to be returned which exceeds the Maximum Return Percentage, as a default rule, the quantity to be returned to National Grid NTS shall be automatically scaled-down to match the Maximum Return Percentage.

The quantity of NTS Entry Capacity specified to be returned by the User shall be added to the quantity of NTS Entry Capacity specified to be re-allocated by the User. If that aggregate quantity:

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- (a) exceeds 100% of that User's existing NTS Entry Capacity, then the quantity of Residual Capacity nominated by the User shall be scaled-down; or
- (b) is less than 100% of that User's existing NTS Entry Capacity, then the quantity of Residual Capacity nominated by the User shall be scaled-up,

such that the aggregate quantity of returned NTS Entry Capacity and nominated Residual Capacity equals 100% of that User's existing NTS Entry Capacity.

In each case, the quantity of Residual Capacity subjected to such scale-down or scale-up shall, by default, be automatically allocated to the new Bacton ASEPs in proportion to the indicated split specified by the User in response to the Bacton Capacity Return and Initial Reallocation Invitation.

7. If a Bacton User does not respond to the Bacton Capacity Return and Initial Reallocation Invitation by the date indicated, National Grid NTS will assume that the Bacton User wants to reallocate its Registered NTS Entry Capacity for each of the relevant Months or Quarters of the Initial Period for which that User holds Registered NTS Entry Capacity between the Bacton UKCS ASEP and Bacton IP ASEP in the same proportion as given by the Obligated levels at the two new ASEPs.
8. If a Transferor User does not respond to the Bacton Capacity Return and Initial Reallocation invitation by the date indicated, National Grid NTS, on behalf of the Users involved (the Transferor and Transferee Users of the relevant Transfer), will recreate the NTS Entry Capacity Transfer using the same proportions as the Transferor's split of their Residual Capacity between the Bacton UKCS ASEP and the Bacton IP ASEP.
9. Within five Business Days after the date by which Bacton Users need to respond to the Bacton Capacity Return and Initial Reallocation Invitation, National Grid NTS will undertake the Initial Capacity Reallocation and notify each relevant User by facsimile of the outcome. This will include a statement of the quantities of NTS Entry Capacity returned to National Grid NTS and confirmation that the allocation and/or registration of the returned capacity quantities will be cancelled.
10. The process that National Grid NTS will utilise for the Initial Capacity Reallocation is as follows:
 - a. National Grid NTS will calculate the aggregate level of NTS Entry Capacity rights requested by Users for each Month/Quarter at the Bacton UKCS ASEP and the Bacton IP ASEP
 - b. Provided that the aggregate level of NTS Entry Capacity rights requested is below the relevant Obligated level of NTS Entry Capacity at each of the Bacton UKCS ASEP and the Bacton IP ASEP for a given Month/Quarter, National Grid NTS will
 - i. allocate that NTS Entry Capacity in accordance with the User's individual requests; and
 - ii. dependent upon 5 above, recreate the NTS Entry Capacity Transfer in accordance with the Transferor User's requests
 - c. If in any Month/Quarter and at either ASEP, the aggregate level of NTS Entry Capacity rights is above the relevant Obligated level of NTS Entry Capacity, National Grid NTS will not allocate any NTS Entry Capacity rights, or recreate NTS Entry Capacity Transfers, to Users for that Month or Quarter (but will allocate for the other Months or Quarters)
 - d. National Grid will write to relevant Users to inform the results of the Initial Capacity Reallocation which will show the aggregate and the

User's individual reallocations of NTS Entry Capacity for each of the two new ASEPs detailing the:

- i. Relevant Months or Quarters
 - ii. ASEP
 - iii. Quantity in kWh/day allocated
 - iv. Transferred quantity for the Transferor User/Transferee User
- e. National Grid will also inform relevant Users of any Months or Quarters which are not reallocated as the aggregate level of NTS Entry Capacity rights requested was above the relevant Obligated level of NTS Entry Capacity at either new Bacton ASEP and therefore that a second invitation (the Bacton Capacity Final Reallocation Invitation) will be issued.
11. If the Initial Capacity Reallocation does not fully reallocate all Residual Capacity for all Months/Quarters to the two new ASEPs, National Grid NTS will within five Business Days issue a Bacton Capacity Final Reallocation Invitation to all Users who at that time hold Registered NTS Entry Capacity at the Bacton ASEP for the particular Months/Quarters affected to re-indicate where they would wish their Residual Capacity and, where applicable, NTS Entry Capacity Transfer(s) to be held in future; either at the Bacton UKCS ASEP or the Bacton IP ASEP.
12. The Bacton Capacity Final Reallocation Invitation will state:
- a. The relevant Months/Quarters within the Initial Period for which reallocations of Residual Capacity and NTS Entry Capacity Transfers at the Bacton ASEP to the Bacton UKCS and Bacton IP ASEPs are being re-sought, together with the aggregate quantity of Residual Capacity which was requested for the relevant Months/Quarters during the Initial Capacity Reallocation. Note that this will only be for periods where no reallocation took place following the Initial Capacity Reallocation as the aggregate level of NTS Entry Capacity rights requested was above the relevant Obligated level of NTS Entry Capacity at either new Bacton ASEP.
 - b. The Residual Capacity held by the User at the Bacton ASEP for each of the relevant Months/Quarters of the Initial Period
 - c. The existing NTS Entry Capacity Transfers held by the Transferor User at the Bacton ASEP for each of the relevant Months/Quarters in the Initial Period
 - d. The existing weighted average price of that User's Residual Capacity at the Bacton ASEP for each of the relevant Months/Quarters of the Initial Period
 - e. The date within 10 business days and means (which shall be by facsimile) by which Users can signal their required reallocation for each of the relevant Months/Quarters
 - f. The period during which User requests can be sent. For each Business Day Users can submit their requests between 08:00am and 17:00pm
 - g. That a User cannot request reallocation of a quantity less than or greater than their Residual Capacity for the Month/Quarter in question at the existing Bacton ASEP
 - h. That a Transferor User cannot request reallocation of a quantity of NTS Entry Capacity Transfers greater than the lesser of, either their existing quantity of NTS Entry Capacity Transfers for the Month/Quarter in question or their Residual Capacity at the Bacton ASEP

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- i. The User to provide a quantity by ASEP by period (Month or Quarter) to National Grid NTS
 - j. The Transferor User is to provide the Transferee and quantity by relevant ASEP by period (Month or Quarter) to National Grid NTS
 - k. That, in the event of a User being allocated capacity in excess of the quantity it requests at either the Bacton UKCS or Bacton IP ASEP, the User can specify beforehand that the allocation be capped at the requested level and the excess capacity be returned to National Grid NTS.
 - l. The date by which National Grid NTS will provide back to Users the result of the Final Capacity Reallocation.
13. If in respect of the Bacton Capacity Final Reallocation Invitation, a User specifies a quantity of NTS Entry Capacity to be returned which exceeds the Maximum Return Percentage (including taking account of any NTS Entry Capacity specified to be returned pursuant to the Bacton Capacity Return and Initial Reallocation Invitation), as a default rule, the quantity to be returned to National Grid NTS shall be automatically scaled-down to match the Maximum Return Percentage.

The quantity of NTS Entry Capacity specified to be returned by the User shall be added to the quantity of NTS Entry Capacity specified to be re-allocated by the User. If that aggregate quantity:

- (a) exceeds 100% of that User's existing NTS Entry Capacity, then the quantity of Residual Capacity nominated by the User shall be scaled-down; and
- (b) is less than 100% of that User's existing NTS Entry Capacity, then quantity of Residual Capacity nominated by the User shall be scaled-up,

such that the quantity of returned NTS Entry Capacity and nominated Residual Capacity equals 100% of that User's existing NTS Entry Capacity.

In each case, the quantity of Residual Capacity subjected to such scale-down or scale-up shall, by default, be automatically allocated to the new Bacton ASEPs in proportion to the indicated split specified by the User in response to the Bacton Capacity Final Reallocation Invitation.

14. If a User does not respond to the Bacton Capacity Final Reallocation Invitation by the date indicated, National Grid NTS will
- a. reallocate the User's Residual Capacity for each of the relevant Months or Quarters for which that User holds Residual Capacity within the Initial Period between the Bacton UKCS ASEP and Bacton IP ASEP in the same proportion as given by the Obligated levels at the two new Bacton ASEPs.
 - b. recreate the NTS Capacity Transfer using the same proportions as the Transferor User's split of their Residual Capacity at the current Bacton ASEP between the Bacton UKCS ASEP and the Bacton IP ASEP.
15. Within five business days after the date by which Users needed to respond to the Bacton Capacity Final Reallocation Invitation, National Grid NTS will undertake the Final Capacity Reallocation and notify Users of the outcome. This will include a statement of the quantities of capacity returned to National Grid NTS as a consequence of the capping option and confirmation that the allocation and/or registration of the returned capacity quantities will be cancelled.

16. The process National Grid NTS will utilise for the Final Capacity Reallocation is as follows:
- a. National Grid will calculate the aggregate level of Residual Capacity requested by Users for each relevant Month/Quarter at the Bacton UKCS ASEP and the Bacton IP ASEP
 - b. Provided that the aggregate level of Residual Capacity requested is below the relevant Obligated level at each of the Bacton UKCS ASEP and the Bacton IP ASEP for the particular Month/Quarter, National Grid NTS will allocate that Residual Capacity in accordance with the User's individual requests
 - c. National Grid NTS will recreate NTS Entry Capacity Transfers at the new Bacton ASEPs for the relevant Transferor Users in accordance with Transferor Users' requests
 - d. If in any Month/Quarter and at either ASEP, the aggregate level of Residual Capacity requested is above the relevant Obligated level of NTS Entry Capacity, National Grid NTS will allocate the relevant Residual Capacity for that Month/ASEP or Quarter/ASEP combination pro rata to the aggregate amount applied for by all Users. Subject to subparagraph e below, the Users' remaining Residual Capacity after the proration has taken place will be allocated to the other new Bacton ASEP (Bacton UKCS or Bacton IP as relevant).

Where a User has made a request under paragraph c above, NTS Entry Capacity Transfers will be recreated to the fullest extent possible at the specified new Bacton ASEPs following any proration of the Residual Capacity at one of the new Bacton ASEPs.

Therefore, in the event that, as a consequence of proration at one of the new Bacton ASEPs, there is insufficient Residual Capacity reallocated to the prorated new Bacton ASEP to fully meet a quantity requested under paragraph c above, then

- (i) the quantity requested by the Transferor for each Transfer will be deemed to be reduced proportionately so that the sum of the reduced quantities is equal to the prorated Residual Capacity and
 - (ii) for the avoidance of doubt, the reduction quantity (or quantities) in (i) will not be allocated to an NTS Entry Capacity Transfer(s) at the non-prorated new Bacton ASEP.
- e. In the event that a User has specified that the allocation of its Residual Capacity at a new Bacton ASEP should be capped at the requested level and the allocation under subparagraph d above would have been in excess of the requested level, the allocation will be the requested level and the quantity of (excess) capacity not allocated as a consequence will be returned to National Grid NTS
 - f. National Grid will write to each relevant User(s) to inform them of the results of the Final Capacity Reallocation which will include both the aggregate and the User's individual returns and reallocations of Residual Capacity for each of the two new ASEPs detailing the:
 - i. Relevant Months or Quarters
 - ii. ASEP
 - iii. Quantity returned and reallocated in kWh/day
 - iv. Transferred quantity for the Transferor User/Transferee User

17. Following the completion of the Initial Capacity Reallocation and where relevant the Final Capacity Reallocation, National Grid will undertake the return and reallocation of the NTS Entry Capacity and where appropriate NTS

Entry Capacity Transfers on the Users' behalf. This will not require the Users to undertake any actions on National Grid NTS' systems.

18. National Grid NTS will:
 - a. set the relevant User's Registered NTS Entry Capacity, Transferor User's and Transferee User's NTS Entry Capacity Transfer(s) at the new Bacton UKCS ASEP to reflect the results of the Initial Capacity Reallocation (and where relevant the Final Capacity Reallocation) and set the price for each Month/Quarter to be the relevant weighted average price at the Bacton ASEP for that User for its Registered NTS Entry Capacity for the relevant Month or Quarter and
 - b. set the relevant User's Registered NTS Interconnection Point Entry Capacity, Transferor User's and Transferee User's NTS Entry Capacity Transfer(s) at the new Bacton IP ASEP to reflect the results of the Initial Capacity Reallocation (and where relevant the Final Capacity Reallocation) and set the price for each Month/Quarter to be the relevant weighted average price at the Bacton ASEP for that User for its Registered NTS Entry Capacity for the relevant Month or Quarter¹³.
19. National Grid NTS will update its computer system(s) with the above details within ten Business Days of writing to Users to inform them of their NTS Entry Capacity returns and reallocations.
20. National Grid NTS will then publish the aggregate results of the Bacton Capacity Return and Reallocation Process to all Users.
21. Following the completion of the Bacton Capacity Return and Reallocation Process, Users will be liable to pay NTS Entry Capacity Charges for the period from 1 November 2015 for the reallocated NTS Entry Capacity rights at the Bacton UKCS ASEP and/or Bacton IP ASEP as appropriate¹⁴. For the avoidance of doubt, Users will not be liable to pay for any capacity returned to National Grid NTS. These NTS Entry Capacity Charges will be invoiced in accordance with the existing provisions of the UNC.

4 Implications of running the Bacton Capacity Reallocation process

1. Completion of the Bacton capacity Reallocation Process will have implications for a number of UNC processes at the Bacton ASEP, Bacton UKCS ASEP and the Bacton IP ASEP.
2. **At the Bacton ASEP:**
 - In order to retain Residual Capacity Rights, any new Transfers of NTS Entry Capacity in accordance with TPD B5 which have either a start date or an end date for the period 01 November 2015 onwards must be effected prior to the date on which National Grid NTS issues the Bacton Capacity Return and Initial Reallocation Invitation. From such date, New Transfers of NTS Entry Capacity (in accordance with TPD B5) which have either a start or end date of the 01 November 2015 or later will be rejected
 - New Transfers of NTS Entry Capacity (in accordance with UNC TPD B5) which have a start date prior to the 31 October and an end date no later than 31 October 2015 may be permitted
 - From the implementation date of the Modification Proposal, National Grid will not tender for new Capacity Constraint Management agreements (in accordance with TPD B2.8) for the period 01 November 2015 onwards

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¹³ The NTS Interconnection Point Entry Capacity will be flagged as Unbundled NTS Interconnection Point Entry Capacity in Gemini and will be deemed to be in monthly strips for the period 1 November 2015 to 30 September 2016 and in quarterly strips for the periods beyond 1 October 2016.

¹⁴ Note that the current assumption is that the existing bids for NTS Entry Capacity at the Bacton ASEP will remain in Gemini and so Users will still receive an invoice for these, but Users will also receive a credit for this NTS Entry Capacity, such that the two transactions will net off to zero.

- For clarification NTS Entry Capacity Constraint Management Agreements are permitted for the period up to and including 31 October 2015
 - The September 2015 RMTTSEC auction (covering NTS Entry Capacity Trade and Transfer for October 2015) will be the final RMTTSEC at the Bacton ASEP
 - Daily NTS Entry Capacity (Firm and Interruptible) auctions will be applicable up to and including Gas Day 31 October 2015 and cease thereafter
3. **At the Bacton UKCS ASEP** from completion of the Final Reallocation Process;
- In order to retain Residual Capacity Rights, any new Transfers of NTS Entry Capacity in accordance with TPD B5 which have either a start date or an end date for the period 01 November 2015 onwards must be effected prior to the date on which National Grid NTS issues the Bacton Capacity Return and Initial Reallocation Invitation. New Transfers of NTS Entry Capacity (in accordance with TPD B5) which have a start date prior to the 01 November 2015 will be rejected
 - New Transfers of NTS Entry Capacity (in accordance with UNC TPD B5) which have a start date on or after 1 November 2015 may be permitted
 - National Grid may not tender for new Capacity Constraint Management agreements (in accordance with TPD B2.8) for the period prior to 1 November 2015 but may tender for a period commencing on or after 1 November 2015
 - The November 2015 RMTTSEC auction (covering NTS Entry Capacity Trade and Transfer for December 2015) will be the first RMTTSEC in which the Bacton UKCS ASEP will be included
 - Gas Day 1 November 2015 will be the first Day for which Daily NTS Entry Capacity (Firm and Interruptible) auctions are effective. Users will be able to submit Bids seven days prior to the 1 November (D-7)
4. The availability and booking of NTS Interconnection Point Entry Capacity at Bacton IP ASEP will be subject to the wider implementation of the CAM Regulation, and until such time as the relevant NTS Interconnection Point Entry Capacity processes have been implemented there will be no facilities for:
- NTS Interconnection Point Entry Capacity Auctions
 - NTS Interconnection Point Entry Capacity Transfers
5. NTS Entry Capacity Charges (covering NTS Entry Capacity or NTS Interconnection Point Entry Capacity as appropriate), NTS Entry Commodity Charges and Capacity Surrender Charges will apply as per TPD B2.11 (and TPD Section Y).
6. Relevant NTS Entry Commodity Charges as per TPD Section Y will continue to apply. For clarification, in the event that NTS Entry Capacity is returned to National Grid NTS, the level of the NTS TO Entry Commodity Charge may be affected.
7. System Entry Overrun charges will be calculated at an aggregate entry capacity booking level. On a given Day, National Grid NTS shall determine, for the purposes of TPD B2.12.1 (to be amended), the quantity of gas delivered by a User to the Total System at each new Bacton ASEP.

In calculating whether the sum of a User's UDQIs on a Day in respect of each System Entry Point comprised in the new Bacton ASEP exceeds the sum of the User's Fully Adjusted Available Entry Capacity, that User's Fully Adjusted Available Entry Capacity at the relevant new Bacton ASEP shall be the sum

of: (a) that User's aggregate Fully Adjusted Available NTS Entry Capacity allocated to that new Bacton ASEP pursuant to the Bacton Capacity Reallocation Process; and (b) that User's Unutilised Residual Capacity at the other new Bacton ASEP.

Provided that the User does not deliver gas to the Total System at the relevant new Bacton ASEP which exceeds the above-described quantity, the System Entry Overrun Charge shall be suppressed by National Grid NTS such that the User is not invoiced for the relevant System Entry Overrun Charge.

8. Where, on a given Day, a User holds both Residual Capacity and non-Residual Capacity at a new Bacton ASEP, that User's UDQI in respect of that new Bacton ASEP will be satisfied in the following order:
 - (a) firstly, to the extent of the non-Residual Capacity the User holds at that new Bacton ASEP; and
 - (b) thereafter, to the extent of the Residual Capacity the User holds at that new Bacton ASEP.

9. Capacity Neutrality arrangements will continue to apply as per TPD B2.13. For clarification National Grid NTS has provided the following update with regards to the rebate of bundled capacity.' It is the view of National Grid NTS that the rebate is based on charges already calculated in accordance with the charging methodology (i.e. capacity charges), the rebate will be defined by the UNC and the Charging Methodology effectively already maps the rebate onto the relevant price control terms e.g. obligated/baseline capacity is TO whereas incremental and non obligated capacity is SO. The mapping of the rebates onto TO and SO actual revenue allows the consequential recalculation of other existing TO and SO charges.

The rebate of bundled capacity would be mapped to the following licence terms;

- Special Condition 2A. Restriction of NTS TO Revenue; Definition of TORCOMt ~ TO revenue other than that collected through capacity charges
- Special Condition 3A. Restriction of NTS SO Revenue; Definition of RCOMt ~ SO revenue other than that collected through capacity and other Licence defined charges'

10. The arrangements regarding the operation of the NTS Optional Commodity Rate will continue to apply as per TPD B3.12, but Users will need to make a Supply Point Commodity Rate Renomination for the new ASEPs in accordance with TPD G2.3.
11. Entry arrangements at the two new ASEPs will apply as per TPD Section I.
12. TBE publication data in accordance with TPD Section O will now cover the two new ASEPs at Bacton.
13. Invoicing and payment to cover the two new Bacton ASEPs will continue to apply as per TPD Section S. Where a User is entitled to receive a rebate in respect of the purchase of a bundled Bacton IP ASEP product, National Grid NTS shall process and issue that rebate to the User as soon as is reasonably practicable. At the new Bacton IP ASEP, as between the aggregate overrun regime and the bundled Bacton IP product rebate regime, a User's Unutilised Residual Capacity at the new UKCS ASEP will be deemed to be used:
 - (a) firstly, to receive relief from System Entry Overrun Charges pursuant to the aggregate overrun regime; and
 - (b) thereafter, to receive rebate relief pursuant to the rebate regime.

14. Credit arrangements/termination will continue to apply as per TPD Section V.

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15. There will be no change to the process to be applied by a User in undertaking System Capacity Transfers. Residual Capacity Rights will not transfer to a Transferee User during the relevant Transfer Period.
16. As a default rule, where a User undertakes a System Capacity Transfer, that User shall be deemed to transfer NTS Entry Capacity to the Transferee User in the following order:
 - (a) firstly, to the extent of that User's non-Residual Capacity; and
 - (b) thereafter, to the extent of that User's Residual Capacity.
17. As a default rule, where a User makes an offer to surrender Firm NTS Entry Capacity for a Day in respect of a new Bacton ASEP (pursuant to TPD B2.3 and/or TPD B2.10), that User will be deemed to offer to surrender its Firm NTS Entry Capacity to National Grid NTS in the priority order set out below:

(at the new Bacton IP ASEP):

As a default rule, where a User specifies through PRISMA that the surrender offer is in respect of unbundled NTS Entry Capacity, that User's NTS Entry Capacity shall be deemed to be surrendered in the following priority order:

- (a) firstly, to the extent of that User's unbundled non-Residual Capacity; and
- (b) thereafter, to the extent of that User's unbundled Residual Capacity.

To the extent that the User has insufficient unbundled NTS Entry Capacity available to fully satisfy the surrender offer, the User's unbundled NTS Entry Capacity shall be deemed to be negative

As a default rule, where a User specifies through PRISMA that the surrender offer is in respect of bundled NTS Entry Capacity, that User's NTS Capacity Capacity shall be deemed to be surrendered in the following priority order:

- (a) firstly, to the extent of that User's bundled non-Residual Capacity; and
- (b) thereafter, to the extent of that User's bundled Residual Capacity.

To the extent that the User has insufficient bundled NTS Entry Capacity available to fully satisfy the surrender offer, the User's bundled NTS Entry Capacity shall be deemed to be negative

(at the new UKCS ASEP):

- (a) firstly, to the extent of that User's non-Residual Capacity; and
- (b) thereafter, to the extent of that User's Residual Capacity.

To the extent that National Grid NTS accepts a surrender offer which includes Residual Capacity, the Residual Capacity Rights will not attach to NTS Entry Capacity which National Grid NTS makes available to other Users during the relevant surrender period by virtue of that User surrendering the Residual Capacity.

User Pays

Classification of the modification as User Pays, or not, and the justification for such classification.

No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification. The Modification preserves the existing service provided to existing long term capacity holders in response to regulatory change.

Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.

Not applicable

Proposed charge(s) for application of User Pays charges to Shippers.

Not applicable

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.

Not applicable

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4 Relevant Objectives

| Impact of the modification on the Relevant Objectives: | |
|--|-------------------|
| Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. | None |
| b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. | Positive |
| c) Efficient discharge of the licensee's obligations. | Positive |
| d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | Positive |
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers. | None |
| f) Promotion of efficiency in the implementation and administration of the Code. | None |
| g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators. | Positive |

b) Coordinated, efficient and economic operation of

(i) the combined pipe-line system, and/or

(ii) the pipe-line system of one or more other relevant gas transporters

This modification proposal will provide for the timely bundling of capacity at the Bacton IP ASEP and will therefore better facilitate the coordinated approach to adjacent pipe-line system access envisaged by CAM. A reduction in the likelihood of capacity being sterilised at either of the new ASEPs, due to Users being allocated quantities in excess of their requirements, will result in the efficient recycling and bundling of capacity. This will promote more efficient use of the NTS pipeline system and adjacent pipe-line systems. It is envisaged that Enduring NTS Exit (Flat) Capacity rights at IPs will be end-dated (possibly by 2018) which will be conducive the intentions of CAM. This modification proposal provides for similar benefits to be conferred on Bacton entry capacity.

The proposer acknowledges that the proposed "split" of the Bacton ASEP is designed to respond to the unique structural changes needed to deliver CAM in the simplest manner. In these exceptional circumstances, where existing capacity holders' rights are proposed to be retrospectively altered very significantly, an equitably implemented split must be a primary consideration, including for the purposes of facilitating compliance with Relevant Objective b).

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The proposer believes that Modification 0501 is a manifestly inadequate response to the exceptional circumstances facing Users at the Bacton ASEP, insofar as:

- (a) the loss of fungibility seriously undermines value of existing long term capacity products and the ability of holders to use those products, the effect of which is that existing long term capacity products are now likely to be incorrectly priced;
- (b) the proposal's disregard to the existing rights of long-term capacity holders means that shippers may be deterred from entering into long-term capacity commitments (in case the regulatory goalposts are moved on them), which may have negative implications for price signals to National Grid NTS should it need to develop new entry capacity in the future; and
- (c) existing capacity holders who have their capacity allocated at unwanted terminals in case of oversubscription and who cannot now use their capacity in a flexible way will have to send an incremental investment signal to regain the long-term capacity lost at their desired ASEP, which is likely to:
 - (i) result in lower utilisation of already booked capacity at the unwanted ASEP; and
 - (ii) lead to artificial constraint, and to unwarranted and inefficient applications for incremental capacity at Bacton ASEP (which may, in turn lead to unnecessary investment by National Grid NTS in response to artificial price signals).

A key premise of the capacity booking regime is encouragement of long-term capacity bookings to underpin efficient investment in the NTS. Any rule change which conflicts with this objective is likely to have an adverse impact on the facilitation of this objective, and the proposer believes that Modification 0501 is likely to have a deleterious impact on the coordinated, efficient and economic operation of the combined pipeline system.

Against this background, the proposer believes that Modification 0501C responds to the unique challenge by restoring the value and flexibility balance in the context of substantive structural changes designed to deliver a CAM as simply as possible. Similarly, the proposer believes that Modification 0501C recognises the unique and fundamental change at the existing Bacton ASEP through the creation of an asset-specific ASEP for Interconnector assets in circumstances where no long term signal or market price for guaranteed long-term availability of entry capacity has been made. Furthermore, the proposer believes that Modification 0501C has the following significant benefits vis-à-vis Modification 0501:

- (a) enables market participants to accurately price forward capacity (thus no discouragement of market participation and/or forward booking of capacity);
- (b) neutral treatment of existing capacity holders such that there is no deterrence from shippers entering into long term capacity commitments (no regulatory goalpost shift);
- (c) no negative implications for price signals to National Grid should it need to develop new entry capacity and for security of supply; and
- (d) provides redress for existing capacity holders in terms of the diminution in market value of their capacity bookings in a fundamentally different landscape.

c) Efficient discharge of the licensee's obligations

Essentially, the argument in the above paragraph can be repeated here. The efficient return and reallocation of capacity will ensure that Users' requirements are more accurately accounted for at an early stage. This will help to reduce the likelihood of artificial congestion at either of the new Bacton ASEPs and provide Users with more ready access to entry capacity. One of the key obligations on the licensee will be to comply with the CAM network code and this modification proposal will allow the licensee to do this, in respect of Bacton entry capacity, in a more efficient manner.

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d) Securing effective competition between shippers

The proposer believes that Modification 0501 is manifestly inadequate in terms of facilitating compliance with Relevant Objective c), particularly insofar as:

- (a) the price paid by long-term capacity holders was based on a radically different value and flexibility proposition, and as such, existing capacity products are likely to be incorrectly priced, the effect of which is to discriminate against existing capacity holders at Bacton and to confer a cross-subsidy to the rest of the shipper community;
- (b) there is no recognition of the radical change to the Bacton capacity market through the creation of an asset-specific ASEP for Interconnector assets in circumstances where no long term signal or market price for guaranteed long-term availability of entry capacity has been made¹⁵;
- (c) a User may be allocated capacity at a new Bacton ASEP at which that User is unable to utilise the capacity, enabling National Grid NTS to release more discretionary and interruptible capacity, which in combination represents a cross subsidy by existing capacity holders to the rest of the shipper community;
- (d) existing capacity holders will be prevented from exercising their existing rights to flexibly support flows via any sub-terminal contained within the Bacton ASEP, the effect of which is that capacity bookings may need to be replicated in order to achieve the same gas flows, resulting in a disproportionately high allocation of capacity costs to such Users; and
- (e) existing capacity holders at Bacton would be subjected to discriminatory treatment vis-à-vis holders of capacity at other ASEPs:
 - (i) whose existing rights are not being retrospectively altered;
 - (ii) who may continue to use their capacity flexibly to support flows via any sub-terminal contained within a single ASEP; and
 - (iii) whose existing rights are not subjected to a diminution in value.

The proposer believes that Modification 0501C establishes a value and flexibility balance for existing capacity holders insofar as it seeks to:

- (a) address the incorrect pricing of capacity products for existing capacity holders;
- (b) rectify the competitive imbalance posed by the creation of an asset-specific ASEP for Interconnector assets in circumstances where no long term signal or market price for guaranteed long-term availability of entry capacity has been made;
- (c) preserve the flexibility inherent in the existing capacity products to prevent artificial constraint and price signals which would be likely to result in a cross-subsidy by existing capacity holders to the rest of the shipper community; and
- (d) eliminate the unfair and inefficient pricing of existing capacity both at the new Bacton ASEPs and more widely as compared to other ASEPs which are not subject to “splitting” (thus no distortion of the capacity market as between shippers).

g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators

This modification facilitates that the compliance with European legislative requirements can be applied only at Interconnection Points on the NTS.

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¹⁵ Based on Ofgem's minded-to position, as at the date of this Modification, to set the new Bacton IP ASEP by reference to the sum of the maximum technical capacity of IUK and BBL interconnectors.

5 Implementation

No implementation timescales are proposed. The European Commission has specified that the relevant regulation should come into effect on 01 November 2015.

6 Legal Text

Legal Text shall be provided at a suitable stage during development.

7 Recommendation

The Proposer invites the Panel to:

- issue to this modification to Workgroup for assessment