

Draft Modification Report
Entry Capacity Transfers in the Constrained Period
Modification Reference Number 0118/0118A

Version 1.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

Modification Proposal 0118

Version 2.0 of this Proposal was as follows:-

- “National Grid NTS is obliged under its Gas Transporter Licence to use all reasonable endeavours to offer for sale a baseline level of capacity at each Aggregate System Entry Point (ASEP) in at least one clearing allocation. This provides certainty to Users of the available capacity amounts, but does not allow the flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that has not been sold) to be reallocated to where Users value it most once the baselines have been set at the start of a price control.
- A simple example of this issue is where there are two ASEPs using the same part of the system with potentially a high degree of substitutability. Users at one ASEP may not wish to purchase the full amount of baseline capacity, whereas Users at the other ASEP may wish to purchase capacity above the baseline set for that ASEP. Where this occurs within the constrained period, Users that desire capacity above the baseline level have to rely upon National Grid NTS releasing non-obligated capacity. This is typically not possible without creating significant buy back risk where National Grid NTS still has an obligation to sell the remaining unsold capacity at the other ASEP.
- Ofgem have therefore proposed as part of the Transmission Price Control Review (TPCR) that an obligation is placed on National Grid NTS to take all reasonable steps to facilitate, where requested, the trading of capacity between ASEPs.
- In anticipation of such a Licence change it is therefore proposed that an amendment is introduced within the UNC that allows the transfer of capacity between ASEPs in the constrained period. An overview of the proposal is set out below: -
- In the event that any ASEP sells out for any month in the following Capacity Year (Apr Y+1 – Mar Y+1) as part of the Annual Monthly System Entry Capacity (AMSEC) auction in Capacity Year Y, National Grid NTS will hold another pay as bid auction, the Annual Monthly Transfer System Entry Capacity (AMTSEC) auction. Such sold out ASEPs are referred to as Recipient ASEPs.
- The AMTSEC auction will allow Users to bid at Recipient ASEPs for such sold out months (the “Transfer Period”) for any unsold capacity at ASEPs (referred to as “Donor ASEPs”) within the same NTS Entry Transfer Zone

(as stated in the AMTSEC invitation tender) at a 1:1 exchange rate, subject to a nodal maximum for each Recipient Node that will be determined in advance of the auction. Such nodal maxima will be determined in accordance with principles set out in the Incremental Entry Capacity Release Methodology Statement to limit the increase in buy back risk as a result of such potential capacity transfers.

- Bids in the AMTSEC auction will be allocated in price order (highest price first) by transferring capacity from Donor ASEPs within the NTS Entry Transfer zone starting with the Donor ASEP with the lowest reserve price. Bids at each Recipient ASEP must meet the reserve price for that Donor ASEP as used in the AMSEC auction.
- An invitation to participate in the AMTSEC auction will be issued at least 14 days prior to the invitation date and will include information identifying the qualifying Recipient and Donor ASEP(s), the relevant months(s), the amount of transferable capacity for each month and any nodal maxima.
- Where capacity is transferred via the allocation of bids in the AMTSEC auction, National Grid NTS considers it would meet its obligation to release such amounts of baseline capacity at the relevant Donor Node(s) from which capacity was transferred.
- Due to the timescales involved in progressing this Proposal, a transitional timetable is proposed for 2007 ahead of operation of the enduring timetable from 2008 onwards:
- The following Transitional arrangements are proposed;
- The AMSEC auction would continue to be held in February (as currently in UNC);
- AMTSEC auction invitation would be issued within 30 days of implementation of this Proposal or completion of the 2007 AMSEC auction, whichever is the later;
- The AMTSEC auction would be held within 14 days of issuance of the AMTSEC invitation;
- The Transfer Period would only include any relevant month within the Capacity Year 2007/08 (i.e. April 07 to March 08) from the month after the month in which the AMTSEC auction is undertaken.
- The enduring timetable which would apply from 2008 onwards would be as follows;
- January Y - AMSEC auction held (with invitation issued 28 days in advance)
- February Y - AMTSEC auction invitation issued
- March Y - AMTSEC auction held and allocations completed
- April Y+1 – March Y+1 - Capacity transfers effective for relevant months

National Grid NTS believes that if this Proposal were not to be implemented then it could lead to sterilization of baseline levels of entry capacity, and

possibly result in gas being stranded offshore due to insufficient capacity being available at the affected ASEPs.”

Alternative Proposal 0118A

The Alternative Proposal was as follows:

“Background

The current arrangements in gas entry oblige National Grid Gas NTS (NGG NTS), under its Gas Transporter Licence, to use all reasonable endeavours to offer for sale a baseline level of capacity at each Aggregate System Entry Point (ASEP) in at least one clearing allocation. This has the benefit of providing certainty to Users of the available capacity amounts, but does not currently allow the flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that has not been sold) to be reallocated to where Users value it most once the baselines have been set at the start of a price control and thus avoiding sterilising capacity.

This inflexibility may be illustrated in the example where Users at one ASEP may not wish to purchase the full amount of baseline capacity, whereas Users at another ASEP may wish to purchase capacity above the baseline set for that ASEP. Where this occurs, within the constrained period, Users that desire capacity above the baseline level have to rely upon NGG NTS releasing non-obligated capacity close to the gas day with no guarantee this capacity will come to market.

Ofgem has proposed, as part of the Transmission Price Control Review (TPCR), that obligations on NGG NTS be introduced for the substitution of capacity between entry points. Under these proposals, unsold baseline capacity could be allocated to where it is most in demand after each long term capacity allocation. The substitution obligation requires NGG NTS to carry out “all reasonable” transfers of capacity between entry points and reduces the reliance on regulators setting baseline levels, reinforcing the role of the market.

For the short term entry regime Ofgem proposed an obligation to offer capacity transfer rates to shippers who request them to facilitate the transfer of unsold capacity (known as transfer facilitation) and sold capacity (known as capacity trade facilitation) between entry points.

For clarity, it should be noted that this proposal relates to the constrained period.

Ofgem’s preferred approach for the transfer facilitation for the short term entry regime includes the following obligations:

- NGG NTS to respond to any requests from any shipper, prior to an auction, for an exchange rate to operate in that auction between a pair of entry points. This would allow a shipper to participate in an auction at one point to purchase capacity for use at another point. NGG NTS would, after the auction, make the transfer of capacity in accordance with the established exchange rate.
- Ofgem's current view is that NGG NTS be allowed to charge shippers its reasonable costs of producing an estimate of an exchange rate - which could then be refundable in the event that capacity is subsequently purchased. If more than one shipper is requesting the same exchange rate calculation NGG

NTS should share the costs between them in a non-discriminatory fashion. One possible arrangement is that the charges made to a shipper for this capacity should be netted off the charges for any capacity sold to the shipper in an auction in accordance with this transfer rate.

- In setting any exchange rates NGG NTS should act in accordance with a methodology which they will have to develop and maintain in a transparent fashion. This methodology will have the objectives of:
 1. reflecting the physical possibilities of transferring capacity about the network;
 2. facilitating competition between gas shippers, suppliers and others associated organisations;
 3. being non-discriminatory, and
 4. being transparent.

In anticipation of such a Licence change, NGG NTS proposed that an amendment is introduced within the UNC that allows the transfer of capacity between ASEPs in the constrained period (Code Modification Proposal 0118). A key feature of this proposal is to restrict the transfer of capacity to between ASEPs contained within the same NTS Entry Transfer Zone i.e. intra zonal transfers and not allow for an exchange rate to operate between a pair of entry points located in different zones i.e. inter zonal transfers, as proposed by Ofgem. Details of NGG NTS' approach and zone configuration can be found in NGG NTS document "Entry Capacity Transfers in Constrained Period – Proposed Model" dated 21st August 2006 and is available on the Joint Office web site.

We believe that NGG NTS's interpretation of how the substitution of capacity obligations should be implemented falls well short of taking all reasonable steps to facilitate, where requested, the trading of capacity between ASEPs. We consider that the original proposals are unduly simplistic, disproportionately reduce the buy back risk for NGG NTS and restrict the potential for economic and efficient operation of the network and restrict the effective competition between shippers.

However, as we believe that certain aspects of Mod 118 should be retained, we have incorporated our proposals in the original proposal to create the alternate proposal 0118A. We believe that these points, where related to the changes which this proposal supports, better facilitate the relevant objectives.

Alternative Mod 118A

CSL believes that to deliver the substitution of entry capacity objectives for the constrained period, it will be necessary to introduce a regime that allows greater flexibility in the transfer arrangements than those currently outlined in the proposal submitted by NGG NTS.

In order to provide this greater flexibility, Mod 118A proposes that, in keeping with the first bullet point above, any unbooked baseline capacity at any ASEP is made available to all other ASEPs where capacity is sold out and where transfers are physically achievable, with appropriate tranches and exchange rates to be established by NGG NTS.

It is important that whatever analysis is carried out that there is a clear starting point for capability. Within the constrained period, with no opportunities to increase capability this should be SO baseline capacity as this is an accepted indication of system capability. However, in order to make full use of available capability throughout the network, it is important that where current capability exceeds the new TPCR baseline figures that this too is made available to ASEPs where capacity is demanded.

Whilst accepting that there will be nodal capacity limits, the process for setting of these limits must be sufficiently flexible to allow the maximum utilisation of the network.

An overview of the proposal, based on the original proposal, is set out below: -

In the event that any ASEP sells out i.e. within 10Gwh of baseline, for any month in the following Capacity Year (Apr Y+1 – Mar Y+2) in addition to the Annual Monthly System Entry Capacity (AMSEC) auction in Capacity Year Y, NGG NTS will hold another pay as bid auction, the Annual Monthly Transfer System Entry Capacity (AMTSEC) auction. Such sold out ASEPs are referred to as Recipient ASEPs.

The AMTSEC auction will allow Users to bid at Recipient ASEPs for such sold out months (the “Transfer Period”) for any unsold capacity at ASEPs (referred to as “Donor ASEPs”) within the same NTS Entry Transfer Zone or between NTS Entry Transfer Zones (as stated in the AMTSEC invitation tender) at the exchange rate as specified in the AMTSEC tender, subject to a nodal maximum for each Recipient Node that will be determined in advance of the auction. Such nodal maxima will be determined in accordance with principles set out in the Incremental Entry Capacity Release Methodology Statement (IECRMS) to limit the increase in buy back risk as a result of such potential capacity transfers. The methodology for establishing the exchange rate should also be included in the IECRMS. These principles will maximise the potential for utilising all surplus capacity. Provision will be made to permit the nodal maximum of specified ASEPs to be exceeded where it can be demonstrated that buy-back risk will not be significantly increased as a result of allowing a rebalancing of nodal maxima as a result of this action.

Bids in the AMTSEC auction will be allocated in price order (highest value/unit first) by transferring capacity from Donor ASEPs starting with the Donor ASEP with the lowest reserve price. Bids at each Recipient ASEP must meet the reserve price for that Donor ASEP as used in the AMSEC auction.

An invitation to participate in the AMTSEC auction will be issued at least 14 days prior to the invitation date and will include information identifying the qualifying Recipient and Donor ASEP(s), the relevant months(s), the amount of transferable capacity for each month and any nodal maxima.

Where capacity is transferred via the allocation of bids in the AMTSEC auction, CSL believes that this would mean that NGG NTS has met its obligation to release such amounts of baseline capacity at the relevant Donor Node(s) from which capacity was transferred.

Due to the timescales involved in progressing this Proposal, a transitional timetable is proposed for 2007 ahead of operation of the enduring timetable from 2008 onwards:

The following Transitional arrangements are proposed;

The AMSEC auction would continue to be held in February (as currently in UNC);

AMTSEC auction invitation would be issued within 30 days of implementation of this Proposal or completion of the 2007 AMSEC auction, whichever is the later;

The AMTSEC auction would be held within 14 days of issuance of the AMTSEC invitation;

The Transfer Period would only include any relevant month within the Capacity Year 2007/08 (i.e. April 07 to March 08) from the month after the month in which the AMTSEC auction is undertaken.

The enduring timetable which would apply from 2008 onwards would be as follows;

January Y - AMSEC auction held (with invitation issued 28 days in advance)

February Y - AMTSEC auction invitation issued

March Y - AMTSEC auction held and allocations completed

April Y+1 – March Y+1 - Capacity transfers effective for relevant months

The Proposer believes that if this Proposal were not to be implemented then it could lead to sterilization of entry capacity, and possibly result in gas being stranded offshore due to insufficient capacity being available at the affected ASEPs.”

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

In this and the following sections, the Proposers’ comments in support of implementation of their own Proposal are set out. Differences have been highlighted in bold type.

1(a) the efficient and economical operation of the pipe-line system

Modification Proposal 0118

The Proposer believed implementation “would provide Users the opportunity at sold out ASEPs to seek to procure unsold capacity at other ASEPs within the same NTS Entry Transfer Zone. This could result in the avoidance of sterilization of capacity and stranding of gas offshore,” and thereby better facilitate the achievement of this objective.

Alternative Proposal 0118A

The Proposer believed implementation “would provide Users the opportunity at sold out ASEPs to seek to procure unsold capacity at other ASEPs **both from within the same NTS Entry Transfer Zone or across NTS Entry Transfer Zones**. This **will** result in the avoidance of sterilisation of capacity and stranding of gas offshore,” and thereby better facilitate the achievement of this objective.

1(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence

Modification Proposal 0118

The Proposer believed implementation “may meet the proposed Licence obligation on National Grid NTS to take all reasonable steps to facilitate, where requested, the trading of capacity between ASEPs, in the event that such a Licence obligation is implemented.”

Alternative Proposal 0118A

The Proposer believed implementation “may meet the proposed Licence obligation on **NGG** NTS to take all reasonable steps to facilitate, where requested, the trading of capacity between **all** ASEPs, in the event that such a Licence obligation is implemented.”

1(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

(i) between relevant Shippers

Modification Proposal 0118

The Proposer believed implementation would better facilitate the achievement of this objective “by use of a pay-as-bid auction for the allocation of any unsold capacity with an NTS Entry Transfer Zone.”

Alternative Proposal 0118A

The Proposer believed implementation would better facilitate the achievement of this objective “by use of a pay-as-bid auction for the allocation of any unsold capacity with an NTS Entry Transfer Zone **or across any NTS Entry Transfer Zones.**”

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

Modification Proposal 0118

The Proposer believed implementation “may enhance security of supply by allowing Users the opportunity to obtain additional capacity at sold out ASEPs than would otherwise be the case.”

Alternative Proposal 0118A

The Proposer believed implementation “**will** enhance security of supply by allowing Users the opportunity to obtain additional capacity at sold out ASEPs than would otherwise be the case **making the entry capacity more resilient and thereby creating a more flexible transportation system.**”

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

Modification Proposal 0118

The Proposer did not believe implementation “would adversely affect the operation of the System. By optimizing the release of entry capacity **within**

NTS Entry Transfer zones, this Proposal would provide a greater opportunity to ensure gas supplies can be delivered where demand is in excess of an ASEPs baseline capacity.”

Alternative Proposal 0118A

The Proposer did not believe implementation “would adversely affect the operation of the System. By optimizing the release of entry capacity, this Proposal would provide a greater opportunity to ensure gas supplies can be delivered where demand is in excess of an ASEPs baseline capacity.”

b) development and capital cost and operating cost implications:

Modification Proposal 0118

The Proposer believed that implementation “would have cost implications related to the delivery of the required system changes, operation of the additional auction, calculation of the local maxima and publication of information.

In addition, the Proposal, if implemented, may avoid the potential sterilization of entry capacity and hence costs being inefficiently incurred.”

Alternative Proposal 0118A

The Proposer believed that implementation “would have **minimal** cost implications related to the delivery of the required system changes, operation of the additional auction, calculation of the local maxima and publication of information.

In addition, the Proposal, if implemented **will** avoid the potential sterilization of entry capacity and hence costs being inefficiently incurred.”

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Modification Proposal 0118

The Proposer believed implementation, “would require it to recover the costs associated with the system development and operating costs through the Transmission Price Control Review.”

Alternative Proposal 0118A

The Proposer made no comment in this respect.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Both Proposals

The Proposers did not believe “this Proposal, if implemented, would have any consequences on price regulation.”

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

Both Proposals

The Proposers believed that implementation would have no impact on the level of contractual risk of each Transporter.

- 6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

Both Proposals

The Proposers envisaged that implementation would “have an impact on the UK Link System...”

- 7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

Both Proposals

Implementation would provide Users with the opportunity at sold out ASEPs of procuring unsold capacity associated with other ASEPs. In the case of 0118A, this would not be limited to transfers within an NTS Entry Transfer Zone.

Modification Proposal 0118

The Proposer believed that implementation “would not increase the level of contractual risk on Users.”

Alternative Proposal 0118A

The Proposer believed that implementation “would **reduce** the level of contractual risk on Users, **by providing use of system capability.**”

- 8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

Both Proposals

Implementation, in the event of capacity transfer, might prevent gas being stranded offshore.

- 9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

Any Incremental Entry Capacity Release Statements (IECRS) published by National Grid NTS would reflect the implemented Proposal. If 0118A were approved, the Proposer intends that such statements would include the methodology for calculating exchange rates between ASEPs.

- 10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages

Modification Proposal 0118

The Proposer considered that implementation:

- “would allow flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that has not been sold) to be reallocated to where Users value it most once the baselines have been set at the start of a price control;
- allow Users the opportunity to secure additional capacity, in excess of an ASEPs baseline, therefore allowing gas flows onto the system that may otherwise be prevented;
- may avoid the potential sterilization of entry capacity and hence costs being inefficiently incurred.”

Modification Proposal 0118A

The Proposer considered that implementation:

- “would allow **maximum** flexibility for unsold capacity (i.e. amounts of obligated baseline capacity that has not been sold) to be reallocated to where Users value it most once the baselines have been set at the start of a price control;
- allow Users the opportunity to secure additional capacity, in excess of an ASEPs baseline, therefore allowing gas flows onto the system that may otherwise be prevented;
- **will** avoid the potential sterilization of entry capacity and hence costs being inefficiently incurred.”

Disadvantages

Both Proposals

The Proposers noted that this Proposal, if implemented:

- “would introduce a further auction into entry capacity arrangements.” However, the Proposers considered that “the benefit in affording Users the opportunity to secure additional capacity on a competitive, non-discriminatory basis, than would otherwise be the case, justifies the creation of an additional auction;”
- “may reduce the unsold level of capacity available at the Donor ASEP(s) in the within year entry capacity auctions.” However, the Proposers believed “the transfer of monthly capacity would be an economic and efficient release of entry capacity based on User demand for capacity;”

Modification Proposal 0118

The Proposer noted that implementation

- “may not meet the desire from some Users for more extensive entry transfer arrangements, such as allowing transfers between NTS Entry Transfer Zones. National Grid NTS considers that such approaches will take significant development time and extensive system changes, and may not result in any additional capacity transfers beyond those that may result from implementation of this Proposal. However, National Grid NTS considers that this Proposal should not prevent such more extensive arrangements being considered by the industry.”

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Written Representations are now sought in respect of this Draft Report

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Both Proposals

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Both Proposals

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14. Programme for works required as a consequence of implementing the Modification Proposal

Both Proposals

Implementation of the Modification Proposal would require revision of the IECRS, preparation of an auction invitation, and Users would need to prepare for auction participation. The extent of the revision of the IECRS would be expected to be greater in the event of implementation of 0118A.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Modification Proposal 0118

The Proposal states that the "AMTSEC auction invitation would be issued within 30 days of implementation of this Proposal or completion of the 2007 AMSEC auction, whichever is the later."

Alternative Proposal 0118A

The Proposal suggests the same implementation timetable as 0118. However, it is not known whether this timescale could be met in the event of implementation of this alternative Proposal 0118A. Representations are invited to address this point.

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

Both Proposals

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18. Transporter's Proposal

19. Text

TPD Section B

Amend paragraph 2.1.5(c) to read as follows:

“(c) “**Unsold NTS Entry Capacity**” is the amount.....;

(i)

(ii)

(iii)

....., set out in National Grid NTS’s Transportation Statement, as such amount may be reduced in accordance with paragraph 2.3.16.”

Amend paragraph 2.2.1(b) to read as follows:

“(b) not earlier than 1 January and not later than 29 January in a Capacity Year, National Grid NTS will invite, and Users may make, applications for Monthly NTS Entry Capacity in respect of each Aggregate System Entry Point for the period specified in paragraph 2.2.2(a);”

Renumber existing paragraph 2.3 as 2.4, renumber all following paragraphs accordingly, and amend all cross-references in the Code accordingly.

Insert the following as new paragraph 2.3:

“2.3 Annual Monthly Transfer System Entry Capacity Auctions

2.3.1 Where:

(a) there is no Unsold NTS Entry Capacity at the Aggregate System Entry Point in question (the “**Recipient ASEP**”) in respect of any month (an “**Available Month**”) in Capacity Year +1 following the allocation of Monthly NTS Entry Capacity pursuant to monthly capacity bids; and

(b) there is Unsold NTS Entry Capacity at another Aggregate System Entry Point within the same NTS Entry Transfer Zone as the Recipient ASEP (the “**Donor ASEP**”) in respect of the same Available Month following the allocation of Monthly NTS Entry Capacity pursuant to monthly capacity bids;

National Grid NTS will invite applications (“**annual AMTSEC invitation**”) for Monthly System NTS Entry Capacity at each Recipient ASEP for each Available Month for such aggregate amounts of NTS Entry Capacity as is specified in the invitation.

2.3.2 By:

- (a) not later than the Day falling fourteen (14) Days before the AMTSEC invitation date in any Capacity Year, National Grid NTS will notify Users of the reserve prices that will apply in respect of each Aggregate System Entry Point for the purposes of the annual AMTSEC invitation;
- (b) On a date falling not earlier than 1 March and not later than 20 March (the “**AMTSEC invitation date**”), National Grid NTS will invite, and Users may make, applications for Monthly NTS Entry Capacity in respect of each Recipient ASEP for the period specified in paragraph 2.3.1(a).

2.3.3 National Grid’s annual AMTSEC invitations pursuant to this paragraph 2.3 shall be issued to Users not later than the Day falling fourteen (14) Days before the AMTSEC invitation date and shall specify:

- (a) the date on which applications pursuant to the annual AMTSEC invitation may be made (the “**invitation date**”);
- (b) the zone (“**NTS Entry Transfer Zone**”) into which each Aggregate System Entry Point falls;
- (c) for each Recipient ASEP:
 - (i) the reserve price applicable to such Recipient ASEP;
 - (ii) the Available Month(s) in respect of which Monthly NTS Entry Capacity may be applied for;
 - (iii) the maximum amount of Monthly NTS Entry Capacity that can be applied for in respect of each month specified pursuant to paragraph (ii), being the lesser of:
 - (A) the maximum amount of Monthly NTS Entry Capacity (as determined by National Grid NTS in accordance with the provisions of the [IECR Methodology Statement]) that can be accommodated at that Recipient ASEP (the “**Nodal Maximum**”); and
 - (B) the total amount of Monthly NTS Entry Capacity for each Available Month that may be applied for in respect of the relevant NTS Entry Transfer Zone (the “**Zonal Maximum**”), being the sum of the quantities of Unsold NTS Entry Capacity at each Donor ASEP in that NTS Entry Transfer Zone for that month;
- (d) for each Donor ASEP, the quantity of Unsold NTS Entry Capacity for each Available Month;

2.3.4 Users may apply for Monthly NTS Entry Capacity at a Recipient ASEP for an Available Month in respect of an Aggregate System Entry Point on the invitation date.

- 2.3.5 An application (a "**monthly capacity bid**") for Monthly NTS Entry Capacity in respect of an Available Month shall specify:
- (a) the identity of the User;
 - (b) the Recipient ASEP;
 - (c) the Available Month for which Monthly NTS Entry Capacity is applied for;
 - (d) the amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity applied for (in kWh/Day);
 - (e) the minimum amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity which the User is willing to be allocated for the purposes of paragraph 2.3.12(e); and
 - (f) the amount (the "**bid price**") which shall not be less than the reserve price which the User is willing to pay by way of Capacity Charge in respect of the Monthly NTS Entry Capacity applied for.
- 2.3.6 A User may have, at any one time, in aggregate up to but not more than twenty (20) monthly capacity bids in respect of each Recipient ASEP for each Available Month capable of acceptance in accordance with this paragraph 2.3.
- 2.3.7 A monthly capacity bid:
- (a) may not be submitted before 08:00 hours or after 17:00 hours on the relevant invitation date; and
 - (b) may be withdrawn or amended after 08:00 hours and until, but not after, 17:00 hours on the relevant invitation date.
- 2.3.8 National Grid NTS shall reject a monthly capacity bid submitted on an invitation date where any requirement of paragraphs 2.3.5, 2.3.6 or 2.3.7 is not complied with, and National Grid NTS may reject a capacity bid in accordance with Section V3.
- 2.3.9 In the event that a User submits monthly capacity bids in response to an annual AMTSEC invitation and the sum of:
- (a) the aggregate NTS Entry Capacity Charges payable by the User were all the Monthly NTS Entry Capacity applied for under the User's capacity bids in respect of Capacity Year +1 to be allocated in full; and
 - (b) the User's Relevant Code Indebtedness at 17:00 hours on any Business Day on which monthly capacity bids may be made exceeds 85% of the User's Code Credit Limit, National Grid NTS shall not later than five (5) Business Days after the last relevant invitation date inform the User.
- 2.3.10 Following a notice under paragraph 2.3.9, in the event the User does not within ten (10) Business Days of such notice provide adequate surety or security (in accordance with the Code Credit Rules), all

monthly capacity bids submitted by the User in response to the annual AMTSEC invitation shall be disregarded for the purposes of this paragraph 2 (and have no effect).

2.3.11 Monthly NTS Entry Capacity applied for pursuant to this paragraph 2.3 shall be allocated in accordance with the further provisions of this paragraph 2.3 and not (for the avoidance of doubt) in accordance with paragraph 2.7.

2.3.12 NTS Entry Capacity in respect of Recipient ASEPs will be allocated pursuant to capacity bids submitted in respect of each Available Month as follows:

(a) all capacity bids submitted in relation to all Recipient ASEPs in a NTS Entry Transfer Zone in respect of the Available Month (excluding any bid rejected pursuant to paragraph 2.3.8) will be ranked in order of bid price (the highest price ranking first);

(b) Monthly NTS Entry Capacity will be allocated to the highest ranked bid first, and then to each subsequent ranked bid in accordance with the remaining provisions of this paragraph 2.3.12;

(c) subject to paragraph (e) and paragraph 2.3.13:

(i) and also subject to sub-paragraph (ii) below, where the amount of NTS Entry Capacity applied for under a bid in respect of a Recipient ASEP exceeds the amount (the "**remaining nodal unallocated amount**") of Monthly NTS Entry Capacity remaining unallocated within the Nodal Maximum after allocation to higher priced bids, the User will (subject to paragraph (d)) be allocated an amount equal to the remaining nodal unallocated amount, and no further allocation shall be made in respect of that Recipient ASEP;

(ii) where each of two or more bids in respect of the same Recipient ASEP specifies the same bid price, and the amount of Monthly NTS Entry Capacity applied for in aggregate under such bids exceeds the remaining nodal unallocated amount, the remaining nodal unallocated amount will (subject to paragraph (d)) be allocated pro rata the amounts applied for in each such bid, and no further allocation shall be made in respect of that Recipient ASEP;

(d) subject to paragraph (e) and paragraph 2.3.13:

(i) and also subject to sub-paragraph (ii) below, where the amount of NTS Entry Capacity applied for under a bid in respect of a Recipient ASEP exceeds the amount (the "**remaining zonal unallocated amount**") of Monthly NTS Entry Capacity remaining unallocated within the Zonal Maximum after allocation to higher priced bids, the User will (subject to paragraph (c)) be allocated an

amount equal to the remaining zonal unallocated amount, and no further allocation shall be made in respect of any Recipient ASEP in that NTS Entry Transfer Zone;

- (ii) where each of two or more bids in respect of any Recipient ASEP within a NTS Entry Transfer Zone specifies the same bid price, and the amount of Monthly NTS Entry Capacity applied for in aggregate under such bids exceeds the remaining zonal unallocated amount, the remaining zonal unallocated amount will (subject to paragraph (c)) be allocated pro rata the amounts applied for in each such bid, and no further allocation shall be made in respect of any Recipient ASEP in that NTS Entry Transfer Zone: provided that, where the amount to be allocated pursuant to this paragraph (ii) in respect of a Recipient ASEP is greater than the remaining nodal unallocated amount for that Recipient ASEP, then the amount to be allocated to such Recipient ASEP pursuant to this paragraph (ii) shall be amount equal to the remaining nodal unallocated amount for that Recipient ASEP, and a revised allocation will be made between remaining equal price bid(s) under this paragraph (ii), or (as the case may be) an allocation made in respect of the next priced bid;
 - (e) where the amount to be allocated in respect of a bid pursuant to paragraph (c) or (d) is less than the minimum amount specified in the capacity bid, the bid will be disregarded (and of no effect), and a revised allocation will be made between remaining equal price bid(s) under paragraph (c) or (d), or (as the case may be) an allocation made in respect of the next priced bid.
- 2.3.13 Where the amount to be allocated in respect of any bid pursuant to paragraph 2.3.12 is less than the minimum eligible amount, National Grid NTS will not accept that or any further capacity bids under this paragraph 2.3.
- 2.3.14 Subject to paragraph 2.3.12, National Grid NTS will accept bids in respect of which NTS Entry Capacity is allocated in accordance with paragraph 2.3.12, and each User whose bid is so accepted will be registered as holding NTS Entry Capacity (in the amount so allocated) for the relevant Available Month in respect of the Aggregate System Entry Point.
- 2.3.15 Each User who applies for NTS Entry Capacity for an Available Month shall tender in respect of each capacity bid a bid price (in accordance with paragraph 2.3.5(f)) and agrees by making such application to pay by way of NTS Entry Capacity Charges the relevant bid price for the relevant Available Month in respect of the NTS Entry

Capacity allocated in accordance with this paragraph 2.3 pursuant to such capacity bid.

2.3.16 The amount of Unsold NTS Entry Capacity at each Donor ASEP for any Available Month shall be reduced by the amount of NTS Entry Capacity allocated to Users at the relevant Recipient ASEP for the relevant Available Month pursuant to this paragraph 2.3. Where, in respect of a Recipient ASEP, there is more than one Donor ASEP then such Donor ASEPs shall be ranked in order of reserve price (as specified in the last invitation issued for that Donor ASEP pursuant to paragraph 2.22.2(a)) (the lowest price ranking first), and the amount of Unsold NTS Entry Capacity for any Available Month will be reduced at the first ranked Donor ASEP first, and then to each subsequent ranked Donor ASEP until all Monthly NTS System Entry Capacity allocated at the relevant Recipient ASEP in the relevant Available Month pursuant to this paragraph 2.3 has been exhausted. Where there is more than one Donor ASEP with the same reserve price, such Donor ASEPs shall be ranked equally and the amount of Unsold NTS Entry Capacity for any Available Month will be reduced proportionally between them.

2.3.17 National Grid NTS will:

- (a) in respect of Monthly NTS Entry Capacity allocated pursuant to this paragraph 2.3, not later than two (2) Business Days following the invitation date inform each User of those of its monthly capacity bids which have been accepted pursuant to this paragraph 2.3 and the amount of Monthly NTS Entry Capacity which it is registered as holding for each Available Month; and
- (b) one (1) Business Day after the time at which National Grid NTS notifies Users in accordance with paragraph (a) notify all Users in respect of each relevant short term period in accordance with paragraph 2.15.3.”

Insert the following as new paragraph 2.15.3:

“2.15.3 Following each allocation of NTS Entry Capacity pursuant to paragraph 2.3, National Grid NTS will, by the time specified in paragraph 2.3.17(b), notify Users of:

- (a) in respect of each Recipient ASEP:
 - (i) the weighted average price of all capacity bids which were accepted pursuant to paragraph 2.3;
 - (ii) the weighted average price of highest 50% of capacity bids which were accepted pursuant to paragraph 2.3;
 - (iii) the aggregate amount of Monthly NTS Entry Capacity allocated pursuant to paragraph 2.3;
 - (iv) the highest and lowest priced capacity bids which were accepted pursuant to paragraph 2.3;

- (v) the quantity of Monthly NTS Entry Capacity allocated pursuant to paragraph 2.3 to the highest and lowest priced capacity bids which were accepted pursuant to paragraph 2.3;
 - (vi) the total number of Users that submitted capacity bids which were accepted pursuant to paragraph 2.3;
 - (vii) the total number of Users that submitted capacity bids which were not accepted pursuant to paragraph 2.3; and
- (b) For each Donor ASEP, National Grid NTS will also publish for each transfer month:
- (i) the amount by which the Unsold NTS Entry Capacity for each Available Month was reduced following the application of paragraph 2.3; and
 - (ii) the remaining amount of Unsold NTS Entry Capacity for each month in Capacity Year +1 following the application of paragraph 2.3.”

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Insert the following as a new paragraph 1.1.6:

“1.1.6 TPD Section B2.3.2

Notwithstanding Section B2.3.2(b) (which requires that National Grid NTS will invite, and Users may make, applications for Monthly NTS Entry Capacity not earlier than 1 March and not later than 20 March in each year where the conditions in Section B2.3.1 are satisfied), for the Capacity Year in which the Modification Proposal giving effect to this paragraph is implemented:

- (a) By:
 - (i) not later than the Day falling fourteen (14) Days before the AMTSEC invitation date in the relevant Capacity Year, National Grid NTS will notify Users of the reserve prices that will apply in respect of each Aggregate System Entry Point for the purposes of the annual AMTSEC invitation;
 - (ii) On a date falling within the period determined as set out below (the “**AMTSEC invitation date**”), National Grid NTS will invite, and Users may make, applications for Monthly NTS Entry Capacity in respect of each Recipient ASEP for the Remaining Period. The period in which the AMTSEC invitation date shall fall shall:
 - (A) commence on the date falling thirty (30) Days after the later of:
 - (1) the date on the Modification Proposal giving effect to this paragraph is implemented; or

- (2) completion of the allocation of Monthly Entry Capacity pursuant to bids received in response to an invitation issued in accordance with TPD Section B2.2.2(a); and
 - (B) end on the date falling thirty (30) Days after the commencement of the period;
- (b) National Grid's annual AMTSEC invitations shall be issued to Users no later than the date falling thirty (30) Days after the later of:
 - (i) the date on the Modification Proposal giving effect to this paragraph is implemented; or
 - (ii) completion of the allocation of Monthly NTS Entry Capacity pursuant to bids received in response to an invitation issued in accordance with TPD Section B2.2.2(a);
- (c) For the purposes of paragraph (a)(ii), "**Remaining Period**" means:
 - (i) where the AMTSEC invitation date falls between 1 March and 31 March in a Capacity Year, the whole of Capacity Year +1; or
 - (ii) where the AMTSEC invitation date falls between 1 April and 28 February in a Capacity Year, the remainder of the Capacity Year in which AMTSEC invitation date falls commencing on the first day of the month which falls after the AMTSEC invitation date."

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis

Chief Executive, Joint Office of Gas Transporters

Signature:

Date :