

**Modification Report**  
**Transfer of Sold Capacity between ASEPs**  
**Modification Reference Numbers 0151/0151A**  
**Version 2.0**

This Modification Report is made pursuant to Rule 10.1 of the Modification Rules and follows the format required under Rule 10.2.

**Circumstances Making this Modification Proposal Urgent:**

In accordance with Rule 10.1.2, Ofgem agreed that this Modification Proposal should be treated as Urgent because the proposal is linked to:

- 1) *A real likelihood of significant commercial impact upon Gas Transporters, Shippers or Customers if a proposed modification is not urgent;*

If this proposal were implemented ahead of this winter it would provide Users with a mechanism to transfer firm NTS entry capacity to ASEPs where demand for capacity is currently greater than obligated firm levels. Therefore this should reduce the likelihood of gas being stranded offshore due to insufficient capacity being available.

- 3) *The proposal is linked to an imminent date related event*

This proposal needs to be implemented in advance of the winter period, 1 October 2007 - 31 March 2008. In addition, for any benefits to be accrued from the transfer process then it is essential that this proposal is implemented in a timeframe that will provide the industry with sufficient scope to utilise this process

Given the potential commercial impact identified above, Ofgem agreed that, in these circumstances, the transfer of sold capacity between ASEPs is an imminent date related event for the purposes of this criterion.

**Procedures Followed:**

The procedures agreed with Ofgem for this Proposal were:

<b>Process</b>	<b>Date</b>
Proposal issued for consultation	11/05/2007
Close out of representations	25/05/2007
FMR issued by Joint Office	29/05/2007
Modification Panel decide on upon recommendation	07/06/2007
Ofgem Decision Expected	12/06/2007
Proposed implementation date	02/07/2007

**1 The Modification Proposal**

**Modification Proposal 0151**

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

added to the Transferee User's holding for the purposes of entry capacity overrun and neutrality charge determination. The Transferor User however remains liable for capacity charges in respect of the amount of capacity transferred.

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

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

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

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

The Transfer Window will be used to facilitate the transfer of Sold Firm NTS Entry capacity to a "Recipient ASEP". For the purpose of this modification proposal a Recipient ASEP is an ASEP at which (for a minimum period of one month) all the capacity that National Grid NTS is obliged to make available, up to the date of the transfer window, has been sold, taking into account all of the Firm NTS Entry capacity sold via the auction processes, including the AMTSEC auction.

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

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

#### Transfer Invitation Process

1. Where National Grid NTS, identifies additional scope to increase the baseline at a Recipient ASEP, National Grid NTS will within 5 business days of publication of the results of the AMTSEC Auction but giving at least 7 business days notice, issue an invitation to Users containing:
  - a. The opening date and time after which applications to Transfer may be

- made (the opening of the transfer window)
- b. The closing date and time after which applications to transfer may not be made (the closing of the transfer window)
  - c. The Recipient ASEP(s) – for the purposes of this proposal an ASEP at which there is no Unsold Firm NTS Entry capacity available (either all capacity made available in the preceding AMSEC has been sold or all Unsold Firm NTS Entry capacity available within the AMTSEC has been sold)
  - d. The communication medium to be utilised by National Grid NTS for the current transfer process i.e. fax
2. The Transfer Window will be for a duration of 1 business day
  3. A User may submit a transfer request during the period 08:00 hours to 17:00 hours on the day of the Transfer Window.

#### Transfer Request Process

4. For clarity - until such time that National Grid NTS implements a full system solution the transfer request process will be an off-line fax based process.
5. A User (“Transferor User”) may request at any time within the transfer window that National Grid NTS provides a Transfer Rate or Rates to facilitate the transfer of all or part of its Monthly NTS Entry Capacity at an ASEP to itself (“Transferee User”) at a Recipient ASEP.
6. The Transfer Request must be:
  - a. at a Recipient ASEP
  - b. for a month or months where all the Firm NTS Entry capacity made available in the preceding AMSEC and/or AMTSEC auctions has been “sold out”
  - c. for 1 Transferor ASEP – Transferee ASEP combination
  - d. for those Available Months notified by National Grid NTS (for the first transfer window these will be those months within the October 2007 - March 2008 range where Sold Firm NTS Entry capacity can be transferred to the Recipient ASEP)
7. A Transfer Request may be for a minimum of 1 month and a maximum of 6 months.
8. To request Transfer Rate(s) for a specific month(s), the Transferor User must notify National Grid NTS of the intended inter-nodal System Capacity Transfer to National Grid NTS specifying:
  - a. The identity of the Transferor User
  - b. The “Transfer System Points” i.e. the ASEP from which the capacity is desired to be transferred (the “Transferor ASEP”) and the ASEP to which the capacity is to be transferred (the “Transferee ASEP”);
  - c. The “Transfer Amount” i.e. the amount of Monthly Firm NTS Entry Capacity desired to be transferred from the Transferor ASEP (in

kWh/d);

- d. The Available Months i.e. the month(s) for which Monthly Firm NTS Entry Capacity is desired to be transferred.
9. Each User is limited to one transfer request per transfer window.
  10. Upon providing such a request, the Transferor User commits to pay an application fee to National Grid NTS (as stated in National Grid NTS' Transportation Charging Statement) to cover costs of determining the Transfer Rate(s), please note the UNC requirement for a 2 month notification period with regards to charging will not be applied.
  11. A Transferor User may withdraw a transfer request or reduce the transfer amount within the transfer request up to the business day upon which National Grid NTS commences determination of the requested Transfer Rate.
  12. Where the transfer request is withdrawn prior to National Grid NTS commencing determination of the Transfer Rate, the application fee will not be applied.

#### Transfer Request Rejection

13. National Grid NTS may reject a request for an inter-nodal System Entry Transfer where:
  - a. for any requested month the requested Transfer Amount exceeds the Transferor User's Monthly Firm NTS Entry Capacity holding at the Transferor ASEP, at the time the transfer request is submitted;
  - b. the Transferor User does not notify the transfer request in accordance with paragraph 9;
  - c. in accordance with Section V3.

#### Provision of Transfer Rate

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

accommodate the full transfer amount at the Transferee ASEP, National Grid NTS will inform the Transferor User of the maximum transfer amount that can be transferred.

#### Transfer Rate Acceptance

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

#### Unsuccessful Transfer Requests

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

#### Transfer Request restrictions

22. In the event that a Transfer Request has not been confirmed and enacted on the Gemini system prior to the commencement of that Transfer Month, then that month will no longer form part of the Transfer Request.

#### Process to reflect Transfer on the Gemini System

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

National Grid NTS and the Transferor User on confirmation of the transfer rate by the Transferor User.

#### Effect of Transfers

25. Upon completion of the Transfer Request, the Transfer Amount for the relevant Transfer Month will be:
  - a. deducted from the Transferor User's Monthly NTS Entry Capacity holdings at the Transferor ASEP. This will reduce the Transferor Users level of Firm NTS Entry capacity accordingly and hence the overall level of Firm NTS Entry capacity at the Transferor ASEP;
  - b. adjusted through multiplication by the Transfer Rate, and then the resulting amount (the "Adjusted Transfer Amount") added to the Transferor User's Monthly Firm NTS Entry Capacity holdings at the Transferee ASEP, increasing the Transferor Users level of Firm NTS Entry capacity accordingly and hence the overall level of Firm NTS Entry capacity at the Transferee ASEP.
26. The Transferor Users revised Monthly NTS Entry Capacity holdings will be used in the calculation of NTS Entry Capacity Overrun Charges, NTS Entry Capacity Neutrality Charges and any other liabilities associated with NTS Entry arrangements (i.e. based on the User's Fully Adjusted Available NTS Entry Capacity).
27. The Transferor User, at the Transferor ASEP, will continue to be liable for Monthly NTS Entry Capacity charges for the Transfer Amount. For clarity, the Transferor User will not become liable for Monthly NTS Entry Capacity charges for the Adjusted Transfer Amount at the Transferee ASEP.
28. The National Grid NTS Trading Account will at no time be liable for Monthly NTS Entry Capacity charges.
29. The National Grid NTS Trading Account holdings will at no time be liable for NTS Entry Capacity Overrun Charges, NTS Entry Capacity Neutrality Charges or any other liabilities associated with NTS Entry arrangements.
30. For clarity, inter-nodal System Capacity Transfers will not affect the level of Unsold Firm NTS Entry Capacity at the Transferor ASEP (i.e the level of Unsold Firm NTS Entry Capacity will be as it was before the transfer)

#### Invoicing

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

#### Publication

32. National Grid NTS will publish on a monthly basis to applicants for Transfer Rates, their position in the queue.
33. National Grid NTS will publish on a monthly basis to the industry for each Transfer Month:
  - a. Number of "live" transfer requests and the relevant Recipient ASEPs



- b. Number of “completed” transfer requests and the quantity transferred at each Recipient ASEP
- 34. National Grid NTS will publish to Users when no further transfer requests can be actioned at a particular ASEP.
- 35. Steps 32 to 34 will be communicated to Users in accordance with the method outlined by National Grid NTS in the invitation process.

#### Subsequent Transfer Windows

- 36. Where National Grid NTS, upon completion of all outstanding Transfer Requests, identifies additional scope to increase the level of Firm NTS Entry capacity at a Recipient ASEP, National Grid NTS will open a new transfer window.

#### Effect of Termination

- 37. In the event that a transfer request has been undertaken and the Transferor User is terminated before or during the Transfer Month, the same rules as for treatment of System Capacity Transfers at an ASEP will apply.
- 38. The Terminated Users Transfers will be cancelled, the Transferor User will retain liability and National Grid NTS would resell the capacity at the original Transferor ASEP.

#### Contingency arrangements for reflecting Transfers on the Gemini System

- 39. National Grid NTS has proposed to hold the transfer window within 12 business days of publication of the AMTSEC auction results. Allowing for the transfer window to close, the transfer rate to be calculated and then agreed with the User, National Grid NTS will be required to have confirmed the results of the first transfer request within 19 business days of publication of the AMTSEC auction results.
- 40. Due to uncertainty over the timeframes required (both by National Grid NTS and xoserve) to institute the system changes required to facilitate the transfer of sold Firm NTS Entry capacity between ASEPs, there is a risk that the facility to reflect confirmed transfers in Gemini may not be available for those initial successful transfer requests. If this scenario were to occur National Grid NTS propose that affected transfers be confirmed but not reflected in Gemini until the facility to do so is available.

#### **Proposal 0151A**

Ofgem has proposed as part of their Final Proposals for the Transmission Price Control Review (TPCR) that an obligation is placed on National Grid NTS to meet reasonable requests from Users to facilitate the trade of inter-nodal Sold Firm NTS Entry capacity between Users, however drafting of the GT Licence was still in progress at time of raising this Proposal.

It should, therefore, be noted by all market participants that this alternative Modification Proposal has been drafted based on the latest (and limited) information that was made available to Users on the current interpretation of the Transporter’s Licence obligations. In this context, we consider that the relative merits of the Proposal should be judged on whether it improves on the current arrangements.

For clarity, this Modification Proposal is based on the following **key principles**:

- Introduces User-to-User inter-nodal entry capacity trading arrangements that apply both pre-winter 2007 and on an on-going basis thereafter.
- Introduction of Zone-based Entry Capacity trading. See “Definition of Zones”, below.
- Proposal not limited to trades to sold-out ASEPs.
- NG NTS shall publish the nodal maximum for all ASEPs on an annual basis. In 2007, this information shall be published immediately on implementation of this Proposal and shall remain valid until it is next published, on an annual basis thereafter.
- To achieve efficient and economic use of all available NTS system capability, Sold Capacity Trade Requests within a Zone will be met with a fixed 1:1 Transfer Rate, subject to pre-published nodal maxima at each individual ASEP. 1:1 Transfer Rates shall under no circumstances be fettered by expected physical flows. This new process will be available to Users immediately upon implementation of this Proposal. Post-AMSEC 2007, there shall be a window of application for such Trade Requests, due to the urgent need for a pre-winter process.
- From 1st October 2007, there shall be no window of application. Trade Requests within Zone may be raised by Users at any time.
- User to User Trade Requests between ASEPs located in different Zones is a new process that will also be available to Users from 1st October 2007. Transfer Rates may not be guaranteed on a 1:1 basis. NG shall facilitate such trades ‘on-request’ from a User and will provide a Transfer Rate as part of the Trade Request process.
- It should be noted by market participants that Modification Proposal 0118, raised by National Grid NTS, was based on the concept of capacity transfers ‘within zone’ being met on a 1:1 exchange rate basis subject to nodal maximum and this Proposal could, therefore, be considered a credible, realistic approach for NG NTS to adopt to satisfy their Licence obligations.

Definition of “Zones”:

For clarity, the Zones identified in National Grid’s 10YS should apply for the purposes of this Proposal. These are currently defined as:

- South East - includes Bacton and Grain.
- South West – includes Avonmouth, Humbly Grove and Wytch Farm.
- Easington area – includes Easington, Rough, Aldbrough, Hatfield Moor, Hornsea and Theddlethorpe. Although Theddlethorpe is not within an existing NG 10YS “zone”, data presented by NG NTS at recent Transmission Workstream discussions has suggested potential for a “good” level of capacity transferability between Theddlethorpe and Easington. Reflecting the fact that Users does not have access to all information available on the feasibility of this Proposal we make the recommendation



for the inclusion of Theddlethorpe in the Easington zone, based on the information presently made available.

- Northern Triangle – includes St Fergus, Teesside, Barrow and Glenmavis.
- West UK – includes Milford Haven and Dynevor Arms.
- North West Corridor – includes storage at Fleetwood and Cheshire, Partington, Hole House Farm & Burton Point.

For clarity, E.ON UK's Proposal has three strands:

1. Introduction of a new process for Users for "Intra-Zone Sold Capacity Trade Requests" following completion of the 2007 AMSEC. In 2007, a window of application for Trade Requests shall apply.
2. Extension of the above process for "Intra-Zone Sold Capacity Trade Requests" so that Trade Requests can be raised at any time from 1st October 2007 onwards.
3. Introduction of a new process for Users for "Inter-Zone Sold Capacity Trade Requests", to take effect from 1st October 2007.

#### **1.0 Within-Zone ("Intra-Zone") Sold Capacity Trade Requests:**

- 1.1 E.ON UK proposes that NG NTS shall hold a transfer of sold firm NTS Entry Capacity process via a transfer window in 2007 (only) and then from 1st October 2007 on an "on-request" basis. In 2007, the Transfer Window will be opened shortly after the AMSEC auction process has ended, but before any unsold capacity transfer process (Mod 0150A) begins.
- 1.2 Post-AMSEC 2007, the Transfer Window shall be open for 1 business day only.
- 1.3 The Transfer Window will be used to facilitate the transfer of Sold Firm NTS Entry capacity to any Transferee ASEP from any Transferor ASEP within the same Zone, on a fixed 1:1 Transfer Rate.
- 1.4 Nodal Maximum of all ASEPs shall be published on the NG website before the initiation of the Transfer Window in 2007. The Nodal Maxima values shall apply until the Nodal Maxima are next published on an annual basis by NG NTS, thereafter.
- 1.5 Using existing NG NTS reports on the NG website detailing sold capacity levels by ASEP combined with the Nodal Maximum report, it will be possible for Users to calculate the "headroom" available for transfers of sold capacity on a monthly basis. This will enable Users to identify, on an on-going basis the opportunity for trades of sold capacity to any ASEP.

Transfer Invitation Process:

- 1.6 In 2007, National Grid NTS shall within 2 business days of publication of the results of the AMSEC Auction (or implementation of the Proposal – whichever comes first) but giving at least 7 business days notice, issue an invitation to Users to participate in the 2007 "Intra-Zone Sold Capacity Trade Request" process.

- 1.7 In 2007, a User shall submit, amend or withdraw a Trade Request at any time during the period 0800 hours to 1700 hours during the Transfer Window.
- 1.8 In 2007, the communication medium to be utilised by National Grid NTS is likely to be fax. From 1st October 2007 (or as soon as possible thereafter), it is envisaged that Trade Requests would be made within Gemini.
- 1.9 From 1st October 2007 onwards, Intra-Zone Capacity Trade Requests by Users can be lodged with NG NTS at any time. There will be no application window. A User may submit, amend or withdraw a Trade Request during the period 0800 hours to 1700 hours on any UNC Business Day.

The Trade Request:

- 1.10 The Transferor User must notify National Grid NTS of the intended inter-nodal System Capacity Transfer to National Grid NTS specifying:
  - The identity of the Transferor User;
  - The “Transfer System Points” i.e. the ASEP from which the capacity is desired to be transferred (the “Transferor ASEP”) and the ASEP to which the capacity is to be transferred (the “Transferee ASEP”);
  - The “Transfer Amount” i.e. the amount of Monthly Firm NTS Entry Capacity desired to be transferred from the Transferor ASEP to the Transferee ASEP (in kWh/d) (assuming the fixed 1:1 Transfer Rate within Zone).
  - The “Transfer Period(s)” i.e. the Capacity Month(s) in which the User wants the Transfer Amount to be applied, where the available capacity at the Transferee ASEP is below nodal maximum at the time of Trade Request.
  - There shall be no limit on the number of Trade Requests within Zone per User, either in 2007 or thereafter. To place a limit on Users where a fixed 1:1 exchange rate exists would be an artificial barrier to trade.
- 1.11 The Transfer Period shall at all times be:
  - A minimum period of one capacity month; and
  - Not for any month that will form part of a period covered by a future QSEC auction at the point in time of raising a Trade Request.

Trade Request Rejection:

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

Prioritisation of Trade Requests:

- 1.13 In 2007, due to the introduction of a “one-off” Transfer Window post-AMSEC, if within a Zone there are 2 (or more) Users that have requested to transfer capacity to the same Transferee ASEP, then these Trade Requests shall be treated in aggregate – i.e. as one single, large request. If the amount in aggregate exceeds the nodal maximum of the ASEP, then the amounts requested by each User shall be scaled back pro-rata, based on amount initially applied for in the Transfer Request.
- 1.14 From 1st October 2007 onwards, Trade Requests shall be dealt with on a ‘first-come-first-served’ basis and time stamped on receipt by NG NTS. Given a fixed 1:1 Transfer Rate, such Requests should be completed almost instantaneously and therefore there is no need to develop a queue system other than “first-come-first-served”.

Process to reflect Trades on the Gemini System:

- 1.15 The Proposer makes no particular recommendation on the best way for NG to manage what is essentially an internal process and systems problem in 2007, or on an on-going basis. For this reason, we have included an amended version of NG’s suggested way forward in the short-term from their Modification Proposal 0151, but believe that the best party to make such decision remains NG NTS.
- 1.16 National Grid NTS will set up a National Grid Trading Account at each ASEP, this will then be used to reflect confirmed Transfers in the Gemini System via the following process:
- The Transferor User must place a trade for the full Transfer Amount with the National Grid NTS Trading Account at the Transferor ASEP.
  - National Grid NTS on confirmation of this trade will then place a trade for the Transfer Amount at the Transferee ASEP.
  - All successful Trade Requests must be reflected on the Gemini system within office hours (08:00 to 17:00) on a date or dates agreed between National Grid NTS and the Transferor User.

Effect of Transfers:

- 1.17 Upon completion of the Trade Request, the Transfer Amount for the relevant Transfer Month will be:
- Deducted from the Transferor User’s Monthly NTS Entry Capacity holdings at the Transferor ASEP. This will reduce the Transferor Users level of Firm NTS Entry capacity accordingly and hence the overall level of Firm NTS Entry capacity at the Transferor ASEP;
  - The resulting amount (the “Transfer Amount”) added to the Transferor User’s Monthly Firm NTS Entry Capacity holdings at the Transferee ASEP, increasing the Transferor Users level of Firm NTS Entry capacity accordingly and hence the overall level of Firm NTS Entry capacity at the Transferee ASEP.
  - The Transferor Users revised Monthly NTS Entry Capacity holdings will be used in the calculation of NTS Entry Capacity

Overrun Charges, NTS Entry Capacity Neutrality Charges and any other liabilities associated with NTS Entry arrangements.

- The Transferor User, at the Transferor ASEP, will continue to be liable for Monthly NTS Entry Capacity charges for the Transfer Amount. For clarity, the Transferor User will not become liable for Monthly NTS Entry Capacity charges for the Transfer Amount at the Transferee ASEP.
- The National Grid NTS Trading Account will at no time be liable for Monthly NTS Entry Capacity charges.
- The National Grid NTS Trading Account holdings will at no time be liable for NTS Entry Capacity Overrun Charges, NTS Entry Capacity Neutrality Charges or any other liabilities associated with NTS Entry arrangements.

## **2.0 Between Zone (“Inter-Zone”) Sold Capacity Trade Requests:**

- 2.1 With effect from 1st October 2007, E.ON UK proposes that NG NTS shall facilitate trades of sold inter-nodal system entry capacity between Zones through creation of a new process (“Inter-Zone Capacity Trade Requests”).
- 2.2 Based on the assumed increase in buy-back risk attached to inter-nodal trades of sold entry capacity between Zones, the Proposer does not consider it appropriate that a fixed Transfer Rate of 1:1 should be guaranteed. In this circumstance, NG shall be entitled to perform analysis (if required) to support the provision of a bespoke Transfer Rate, based on the specific detail of the User’s Trade Request.
- 2.3 Users shall be entitled to raise any such Trade Request on any UNC Business Day from 1st October 2007, onwards.

The Trade Request:

- 2.4 The Transferor User must notify National Grid NTS of the intended inter-nodal System Capacity Transfer to National Grid NTS specifying:
  - The Identity of the Transferor User;
  - The “Transfer System Points” i.e. the ASEP from which the capacity is desired to be transferred (the “Transferor ASEP”) and the ASEP to which the capacity is to be transferred (the “Transferee ASEP”);
  - The “Transfer Amount” i.e. the amount of Monthly Firm NTS Entry Capacity desired to be transferred from the Transferor ASEP to the Transferee ASEP (in kWh/d).
  - The “Transfer Period(s)” i.e. the Capacity Month(s) in which the User wants the Transfer Amount to be applied, where the available capacity at the Transferee ASEP is below nodal maximum at the time of Trade Request.
- 2.5 The Transfer Period shall at all times be:
  - A minimum period of one capacity month; and

- Not for any month that will form part of a period covered by a future QSEC auction at the point in time of raising a Trade Request.

A Transferor User may withdraw a Trade Request or reduce the Transfer Amount within the Trade Request up to the Business Day on which National Grid NTS commences determination of the requested Transfer Rate.

#### Transfer Rates:

- 2.6 Where a Trade Request requires capacity to be transferred between Zones, National Grid NTS shall determine Transfer Rates on a 'first come first served' basis for each Trade Request; i.e. each request for a Transfer Rate will be time stamped by National Grid NTS and assessed in sequence.
- 2.7 Where there is more than one "live" request for a Transfer at any one time, a queue will be developed. Where a Transfer Rate is required, National Grid NTS will provide to the Transferor User the Transfer Rate within 5 business days of the request becoming the first in the queue.

#### Calculation of Transfer Rates:

- 2.8 NG NTS shall at all times determine Inter-Zone Transfer Rates based on the peak flow winter model and assuming the Transferor/Transferor ASEP is running at baseline. This would be consistent with the way the current TPCR baselines were calculated and is also consistent with the obligation on NGG to sell up to the baseline.
- 2.9 The Transferor User must confirm acceptance of the Transfer Rate and if applicable, the Transfer Amount provided by National Grid NTS within 1 business day of its issue by National Grid NTS in order to undertake the requested transfer. If such confirmation is not received then the relevant request will be deemed failed and closed.

#### Limitation of Inter-Zone Trade Requests:

- 2.10 National Grid NTS may reject a request for an inter-nodal System Entry Transfer where for any requested month the requested Transfer Amount exceeds the Transferor User's Monthly Firm NTS Entry Capacity holding at the Transferor ASEP, at the time the Trade Request is submitted.
- 2.11 National Grid NTS will inform the User(s) when the Trade Request cannot be processed at a particular ASEP due to time constraints (i.e. there is insufficient time remaining to process the Trade Request prior to the commencement of the capacity delivery period) or the nodal maximum being reached. In the event that a Trade Request has not been confirmed and enacted on the Gemini system prior to the commencement of that Transfer Month, then that month will no longer form part of the Trade Request.
- 2.12 Where National Grid NTS is able to provide a Transfer Rate but is unable to accommodate the full Transfer Amount at the Transferee ASEP, National Grid NTS will inform the Transferor User of the

maximum Transfer Amount that can be transferred. Para. 2.9 shall then apply.

- 2.13 All successful Trade Requests must be reflected on the Gemini system within office hours (0800 to 1700) on a date or dates agreed between National Grid NTS and the Transferor User on confirmation of the Transfer Rate by the Transferor User.

Publication of Information:

- 2.14 National Grid NTS will publish on a weekly basis to applicants for Transfer Rates, their position in the queue.

- 2.15 National Grid NTS will publish on a monthly basis to the industry for each Transfer Month:

- Number of “live” Inter-Zone Capacity Trade Requests and the relevant Transferee ASEPs.
- Number of “completed” Trade Requests and the quantity transferred at each Transferee ASEP

Effect of Termination:

- 2.16 In the event that a Trade Request has been undertaken and the Transferor User is terminated before or during the Transfer Month, the same rules as for treatment of System Capacity Transfers at an ASEP will apply.

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

Effect of Transfers:

- 2.18 Upon completion of the Trade Request, the Transfer Amount for the relevant Transfer Month will be:

- Deducted from the Transferor User’s Monthly NTS Entry Capacity holdings at the Transferor ASEP. This will reduce the Transferor Users level of Firm NTS Entry capacity accordingly and hence the overall level of Firm NTS Entry capacity at the Transferor ASEP;
- Adjusted through multiplication by the Transfer Rate (if applicable), and then the resulting amount (the “Adjusted Transfer Amount”) added to the Transferor User’s Monthly Firm NTS Entry Capacity holdings at the Transferee ASEP, increasing the Transferor Users level of Firm NTS Entry capacity accordingly and hence the overall level of Firm NTS Entry capacity at the Transferee ASEP;
- The Transferor Users revised Monthly NTS Entry Capacity holdings will be used in the calculation of NTS Entry Capacity Overrun Charges, NTS Entry Capacity Neutrality Charges and any other liabilities associated with NTS Entry arrangements (i.e. based on the User’s Fully Adjusted Available NTS Entry Capacity);
- The Transferor User, at the Transferor ASEP, will continue to be liable for Monthly NTS Entry Capacity charges for the Transfer



**Amount.** For clarity, the Transferor User will not become liable for Monthly NTS Entry Capacity charges for the Adjusted Transfer Amount at the Transferee ASEP.

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

*Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;*

### **Both Proposals**

Implementation would provide Users the opportunity to transfer sold capacity between ASEPs. This could result in the avoidance of the stranding of gas offshore, and thereby better facilitate the efficient and economic operation of the NTS pipeline system.

### **Proposal 0151**

Some respondents believed that transferring unsold capacity prior to trading sold capacity was preferable as it would create better exchange rates. They also believed that the opposite sequence would unduly favour users with an existing entry capacity at the donor ASEPs. Others took the opposite view.

Some respondents doubted that Users would wish to transfer sold capacity but, even in such cases, sold capacity transfers would be likely to increase the risk on NG NTS. These transfers would, therefore, be precluded in NG NTS's risk methodology which is based upon expected flow rather than baselines. NG NTS, however, maintained that it was valid to base its risk assessment on expected flow patterns rather a peak flow model.

### **Proposal 0151A**

Some respondents believed that as this Proposal is simpler and more straightforward than 0151, it would be less costly and time-consuming to administer and thereby better facilitate the achievement of this objective. This view of simplicity was not, however, shared by all respondents.

*Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

### **Both Proposals**

Implementation is anticipated to support meeting a new licence obligation on National Grid NTS to facilitate the transfer of sold capacity between ASEPs. However, EDFE argued that this objective did not apply because the licence changes have not yet been enacted. Others argued that neither Proposal would entirely meet the new licence obligations.

### **Proposal 0151**

Reviewing Ofgem's decision letter on Proposal 0138, CSL pointed out that, as this Proposal would only apply to October 2007 – March 2008, it could be thought of as a restricted window. This would run counter to Ofgem's interpretation of this objective. Some respondents took the view that anything

less than a 1:1 exchange rate was inherently inefficient and that this would limit total gas deliveries to the System.

### **Proposal 0151A**

Some respondents believed that implementation would lead to the majority of trades occurring at efficient exchange rates, which would facilitate the achievement of this objective. Others, however, did not share this view and believed that locational signals would be undermined and the efficiency of inter-zonal trades distorted. NGD expressed the view that exchange rates were for the Transporter to stipulate and should not be imposed by a UNC Modification Proposal.

Some respondents pointed out that implementation might have adverse implications on buy-back quantities, although not all respondents accepted this to be the case, citing lack of evidence on buy-back exposures presented in the Ofgem TPCR process and during discussions on these Proposals. NG NTS pointed out that the zones proposed were different from those included in the Ten Year Statement and would increase the risk of buy-back even further.

*Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the securing of effective competition between relevant shippers.....;*

### **Both Proposals**

Allowing Users to secure additional capacity at specific ASEPs would be expected to facilitate the achievement of this objective. However, some respondents believed that implementation would undermine and distort the current locational signals given by reserve prices if Users purchased capacity with the sole intention of transferring it.

### **Proposal 0151**

Some respondents believed that uncertainty of exchange rates might inhibit Users from participating in the process. Some respondents also believed that the prospect of a long queue of applicants would inhibit participation and would, in consequence, be less likely to achieve this objective than 0151A, where only inter-zonal trades would be subject to a first come first served basis of allocation.

### **Proposal 0151A**

Some respondents believed that conducting trades on an Entry Zone basis should enable more efficient delivery of lower cost gas supplies and better discovery of entry capacity prices. Participants also believed that it would be a more simple and straightforward process than that suggested within Proposal 0151. However, NG NTS believed that giving priority to trades within an Entry Zone was discriminatory.

Some respondents believed that implementation would lead to fundamental changes in the capacity regime, which in turn would lead to changes in Users' bidding behaviour. Some respondents expressed concern at the prospect of trades of sold capacity preceding transfers of unsold capacity in the belief that it would favour those Users who had already purchased capacity. Others,

however, believed this sequence would be more efficient in terms of use of capacity.

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

**Both Proposals**

Implementation may enhance security of supply by allowing Users to move capacity to where they value it most. These moves might reflect intended changes in gas supplies.

STUK expressed concern that trades of capacity from Theddlethorpe might lead to stranding of capacity and therefore adversely affect security of supply.

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

**a) Implications for operation of the System:**

**Both Proposals**

By optimising the utilisation of sold entry capacity, implementation would provide a greater opportunity to ensure gas supplies can be delivered where demand is in excess of an ASEP's baseline capacity.

**b) Development and capital cost and operating cost implications:**

**Both Proposals**

Implementation would have cost implications related to the delivery of the required system changes, operation of the additional transfer functionality and calculation of the Transfer Rates.

There would also be ongoing xoserve process costs attributable to the proposed method for reflecting transfers on the Gemini system i.e. in ensuring that the National Grid Trading Account at no time generates NTS Entry Capacity charges, overrun charges or any other liabilities associated with NTS entry arrangements.

**Proposal 0151A**

Similar costs would be associated with trades between Zones.

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

**Both Proposals**

NG NTS believes it would be appropriate to recover the costs associated with the system development. Operating costs in respect of the determination of Transfer Rates and the xoserve process costs for suppression of liabilities associated with the National Grid Trading Account could be reflected in an application fee described in NG NTS's Transportation Charging Methodology. This is not supported by E.ON who do not propose charging an application fee

as part of Proposal 0151A.

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

**Proposal 0151**

The Proposer has raised the related Consultation Document: “NTS GCM 08: Introduction of an NTS Entry Capacity Trade Application Fee”. Non-veto by Ofgem of the Transporter’s final proposals would be required in order for an application fee of this nature to be charged to Users.

**Proposal 0151A**

A similar fee might be proposed to apply to trades between zones.

- 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**

No such consequences have been identified.

- 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**

Implications for UK Link Systems are envisaged in the event of implementation.

Some respondents expressed concern at the uncertainty of the scope and timing of implementation of these changes.

**Proposal 0151A**

NGNTS did not believe that systems could be modified within the proposed implementation timescale.

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

*Administrative and operational implications (including impact upon manual processes and procedures)*

**Both Proposals**

It is anticipated that Users seeking to transfer sold capacity would wish to develop automatic or manual processes and procedures in order to do so.

*Development and capital cost and operating cost implications*

### **Both Proposals**

Users that acquire firm capacity at an ASEP by purchasing capacity at another ASEP and transferring to the required ASEP would expect to face different costs to those that apply to direct purchases of capacity in the existing auctions.

### *Consequence for the level of contractual risk of Users*

#### **Proposal 0150**

Implementation would increase the levels of competition, and consequently contractual risk faced by Users when bidding for NTS Entry Capacity within the AMSEC auction, from those Users seeking to purchase capacity at an ASEP with the explicit intention of preventing it being transferred elsewhere.

Whilst this Proposal sought to eliminate any increase in buy-back risk, some respondents questioned the Proposer's interpretation, which was based upon expected flows rather than baselines.

#### **Proposal 0150A**

In addition to any additional costs associated with increased levels of competition for capacity in the AMSEC auctions, Users would also face an increased risk associated with entry capacity buy-backs.

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

### **Both Proposals**

Any costs or benefits in terms of entry capacity for Users would be expected to affect both upstream and downstream parties within the gas chain.

## **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**

### **Both Proposals**

No such consequences have been identified,

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

### **Advantages**

#### **Both Proposals**

- Would allow flexibility for sold capacity (i.e. amounts of obligated baseline capacity that have been sold) to be reallocated to where Users require it most;
- Would allow Users the opportunity to secure additional capacity at specific ASEPs, than would otherwise be the case;

- Would avoid placing restrictions upon when Users are able to request Transfer Rates (In 0151A this applies only to Inter Zonal Capacity Requests).

### Proposal 0151

- Could be implemented ahead of the next Winter.

### Proposal 0151A

- The 1:1 Transfer Rate within Zones; is transparent, prevents queues forming and eliminates the need for NG NTS to perform costly and time-consuming Transfer Rate calculations, resulting in NG NTS being able to meet pre-winter and on-going market demand rapidly.
- The 1:1 Transfer Rate within Zones and bespoke Transfer Rates between Zones, builds on the same concept originally put forward to the market by NG NTS.
- May better reflects Ofgem’s risk-reward proposals for NG NTS as outlined in the final TPCR proposals.

### Disadvantages

### Both Proposals

- May encourage Users to purchase unsold capacity at ASEPs with “cheap” reserve prices solely to transfer to other ASEPs.
- May reduce availability of short-term capacity.

### Proposal 0151

- Utilises a first come first approach to capacity trading which may result in queues forming.

### Proposal 0151A

- Queues might form in respect of Inter Zonal Capacity Requests.
- May not be available for next Winter.

## 11

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

		0151	0151A	Preference
BG Gas Services Limited	(BG)	Not in Support	Not in Support	None
British Gas Trading Limited	(BGT)	Not in Support	Not in Support	None
BP Gas Marketing Ltd	(BP)	Comments	Comments	None
Centrica Storage Limited	(CSL)	Not in Support	Support	0151A
ConocoPhillips (U.K.) Ltd	(CoP)	Not in Support	Not in Support	None
EDF Energy plc	(EDFE)	Support	Not in	0151



E.ON UK plc	(E.ON)	Not in Support	Support Support	0151A
Excelerate Energy L.L.C	(ExE)	Not in Support	Support	0151A
ExxonMobil Gas Marketing Europe Limited	(EMGME)	Support	Not in Support	0151
Gaz de France ESS	(GDF)	Not in Support	Not in Support	None
National Grid Distribution	(NGD)	Not in Support	Not in Support	None
National Grid NTS	(NGNTS)	Support	Not in Support	0151
RWE Npower	(RWE)	Not in Support	Not in Support	None
Scottish and Southern Energy	(SSE)	Qualified Support	Not in Support	0151
ScottishPower	(SP)	Not in Support	Not in Support	None
Shell Gas Direct	(SGD)	Not in Support	Support	0151A
Statoil (UK) Ltd	(STUK)	Not in Support	Not in Support	None
Total E&P UK Limited	(TEP)	Not in Support	Not in Support	None

Thus, of eighteen responses, nine did not support either Proposal and did not explicitly identify any preference between the two. Four supported 0151, including one that gave qualified support but did not support 0151A. Four supported 0151A but did not support 0151. One response was of comments only.

In terms of preferences, four preferred 0151 to 0151A and four preferred 0151A to 0151.

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

**Both Proposals**

No such requirement has been identified.

**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**

No such requirement has been identified.

**14 Programme for works required as a consequence of implementing the**

## **Modification Proposal**

### **Both Proposals**

Changes to UK Link have been identified. The relevant time-lines are set out below.

### **15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)**

#### **Proposal 0151**

NG NTS has indicated that it will be ready to open the trading window nineteen business days after publication of the AMTSEC auction results but acknowledges that it might not have full UK Link (Gemini) functionality at that point.

#### **Proposal 0151A**

NG NTS has estimated system development of at least 10 to 14 weeks for analysis and testing plus time for system authorisation and clarification of business requirements.

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

#### **Both Proposals**

No such implications have been identified.

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

At the Modification Panel meeting held on 07 June 2007, of the 7 Voting Members present, capable of casting 9 votes, 1 vote was cast in favour of implementing Modification Proposal 0151. Therefore the Panel did not recommend implementation of Modification Proposal 0151. At the same meeting, 1 vote was cast in favour of implementing Alternative Proposal 0151A. Therefore the Panel did not recommend implementation of Alternative Proposal 0151A.

The Panel then proceeded to vote on which of the two Proposals would be expected to better facilitate achievement of the Relevant Objectives. Of the 7 Voting Members present, capable of casting 9 votes, 1 vote was cast in favour of implementing Proposal 0151 in preference to Alternative Proposal 0151A, and 1 vote was cast in favour of implementing the Alternative Proposal 0151A in preference to Proposal 0151. Therefore, there was no determination as to which of the two Proposals would better facilitate the achievement of the Relevant Objectives.

### **18 Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity

Markets Authority in accordance with this report.

**19 Text**

No text has been provided.

For and on behalf of the Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive, Joint Office of Gas Transporters**