

CODE MODIFICATION PROPOSAL No 0156A
“Transfer and Trading of Capacity between ASEPs”
Version 1.0

Date: 13/07/2007

Proposed Implementation Date: 13/08/2007

Urgency: Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

E.ON UK has raised this alternative Modification Proposal to address concerns, which are shared by some other market participants, that a single round auction as proposed in Mod 0156 could fail to meet the needs of individual Users and ultimately fail to meet the collective pressing needs of the market this winter.

NG NTS has proposed in Mod 0156 that there should only be a single auction round pre-winter. As an alternative, we propose a two round auction, making the most of all available time, which should ensure better price discovery and improve transparency in the market. For clarity, we have not proposed any other significant changes to Mod 0156 and do not propose any additional opportunities for capacity surrender between auction rounds. We have made a few further, minor changes to Mod 0156, but these are aimed at clarifying the intent of the original proposal.

Our rationale for raising this alternative Proposal relates to the specific situation that the market finds itself in, heading into winter 07/08. The 2007 AMSEC auction demonstrated the scarcity of capacity, for instance at the Easington terminal, and the unprecedented extent to which Users were willing to pay for entry capacity vastly in excess of the reserve price. It is impossible to determine whether demand will continue to outstrip supply at the sold-out ASEPs and therefore, given this uncertainty, the known high demand for capacity at several sold-out ASEPs, the fact that this is a brand new auction and that the only real reference for determining a suitable bid price is the 2007 AMSEC, it makes sense to make more than one auction round available to Users. This significant additional flexibility should help prevent potentially unexpected and costly outcomes for shippers and consumers.

Summary of this Alternative Proposal:

All Auction initiation, registration and invitation as per NG’s Mod 156 (but with some slightly amended timings), then auction to proceed as follows;

- (i) **Auction 1** - A single round auction making available October capacity only. Conducted in August / September before QSEC auction.
- (ii) **Auction 2** - A two round auction with allocations after each round making available Nov, Dec, Jan, Feb & March capacity. Both rounds conducted post-QSEC, in October. 50% of available capacity held back in each round. Auction 2 Round 2 to take place no more than 10 days after Auction 2 Round 1.

For clarity, there would be no re-surrender of capacity between rounds. We are

aware that the allocation of capacity following the September QSEC auction could overlap with the allocations for Auction 2. With this in mind, we would anticipate that QSEC allocations and publication of results could be delayed until after the transfer and trade process is completed, but it should remain NG's discretion as to how best manage any overlap and notify Users accordingly of any change.

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

The Authority* (Ofgem) has issued a Section 23 notice that if directed would place obligations on National Grid NTS to facilitate the transfer and trade of Firm* NTS Entry Capacity between ASEPs. The applicable Exchange Rates (as defined within the Entry Capacity Transfer and Trade Methodology Statement as required under Licence Condition C8D of National Grid NTS's Gas Transporter Licence) between ASEPs for such trade and transfers are proposed to be calculated in accordance with the Entry Capacity Transfer and Trade Methodology Statement. For clarity, implementation of this Modification Proposal is dependent upon Authority approval of this Statement.

In light of these new Licence Obligations, this Proposal seeks to amend the UNC to allow Users to request such Exchange Rates (to be referred to as "Transfer Rates" within this Proposal) and undertake Transfers (for the purposes of this proposal a transfer is where Firm Unsold NTS Entry Capacity* at one ASEP has been allocated to another ASEP as part of the Trade and Transfer Auction) and Trades (for the purposes of this Proposal a trade is where a User has offered to surrender Firm NTS Entry Capacity at an ASEP as part of the Trade and Transfer Auction process and this Capacity has subsequently been allocated) of Firm NTS Entry Capacity.

The auction process will be driven by ASEPs that are classified as "Recipient" ASEPs. For the purpose of this Modification Proposal a Recipient ASEP is an ASEP at which (for a given period of one calendar month), of the Firm NTS Entry Capacity that National Grid NTS is obliged to make available up to the date of the auction, no more than the minimum permitted sale quantity remains unsold, taking into account all Firm NTS Entry Capacity sold via the current auction processes.

National Grid NTS will identify the relevant months (Available Months) for the auction; i.e. months where there are one or more Recipient ASEPs and publish these as part of the invitation process. For the purposes of this Proposal National Grid NTS will only consider Available Months that fall within the period October 2007 to March 2008 inclusive. For clarification Users shall be able to place bids at all ASEPs within a zone where there is both a Recipient ASEP and

an Available Month.

The proposed process to allow Users to seek to Transfer and Trade Firm NTS Entry Capacity is outlined below:

Transfer Initiation Process

1. In the event that any ASEP, for relevant months with existing physical capability (as deemed by National Grid NTS) above its Obligated Firm NTS Entry Capacity level (for the purposes of this Proposal “Obligated Firm NTS Entry Capacity” is Firm Capacity that National Grid NTS is required, pursuant to its Gas Transporter Licence to accept an application for or otherwise allocate), that has sold-out for any Available Month (i.e. October '07 to March '08) as part of the 2007 Annual Monthly System Entry Capacity* (AMSEC) Auction, National Grid NTS will hold pay as bid auctions (the Trade and Transfer Auctions). This will facilitate the Trade and Transfer of Firm NTS Entry Capacity between ASEPs to meet the User's requirement from the Trade and Transfer Auctions.
2. National Grid NTS will identify which ASEPs are in which zone for the purposes of the Trade and Transfer Auctions, reflecting the physical capability of the System. For winter 07/08 it is assumed that the NG 10YS 'zones' will be used.
3. Within ten (10) business days of the implementation date of this Modification Proposal National Grid NTS will identify and publish a list of Recipient ASEPs and the relevant months per Recipient; i.e. where the Recipient ASEP is sold out (Available Month). For clarity in Auction 1, National Grid NTS will only consider the Available Month of October. Auction 2 will only consider the Available Months that fall within the period November 2007 to March 2008 (inclusive).
4. To reduce the potential number of Exchange Rates, Users will have two (2) business days to request one or more of the potential Recipient ASEPs and the Available Months to be included in any of the Trade and Transfer Auction Rounds on a good faith basis (for clarification National Grid NTS will include neither Recipient ASEPs nor Available Months that have not been requested at this stage).

Trade Initiation Process

5. National Grid NTS will publish, two (2) business days after receiving the User requests:
 - a. A definitive list of Recipient ASEPs to be included in all of the Trade and Transfer Auction Rounds as Recipients.
 - b. Available Months for each Recipient ASEP (in the case of Auction 1 this shall only be October 07. In the case of Auction 2 this shall be November 07 to March 08 inclusive).
 - c. Information on the Nodal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) of each Recipient ASEP for each Available Month.

- d. Information on the Zonal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) for each zone per Available Month calculated in accordance with the Entry Capacity Transfer & Trade Methodology Statement.
 - e. The applicable Exchange Rate within zone as calculated according to the Entry Capacity Transfer & Trade Methodology Statement.
 - f. Exchange Rates between each zone for each Available Month as calculated according to the Entry Capacity Transfer & Trade Methodology Statement
 - g. A merit order of ASEPs per zone applicable both to within-zone transfers and out-of-zone transfers, as determined according to the Entry Capacity Transfer & Trade Methodology Statement.
 - h. A list of non Recipient ASEPs and the amount of Unsold NTS Entry Capacity available at each, per Available Month
6. As part of the trade initiation process, for each Available Month, Users will be invited to make available Capacity (for the purposes of this Proposal such Capacity will be described as surrendered Capacity) from their Firm NTS Entry Capacity holdings, at any ASEP (if this surrendered Capacity is subsequently allocated, this will effect a trade of NTS Entry Capacity). Users wishing to take part in the process must, within two (2) business days of the invitation being issued, provide the following information to National Grid NTS:
- a. The maximum amount of Capacity per ASEP per Available Month that they are committing to surrender in the Trade and Transfer Auction process (applicable to all auction rounds).
 - b. Confirmation that the User holds the Capacity and will continue to hold the Capacity until the Trade and Transfer Auction allocation process is complete.
 - c. Where such confirmation as required in 6b is not received National Grid NTS will not utilise such Capacity within the Trade and Transfer Auction process.

Auction Invitation

7. National Grid NTS will issue an invitation to participate in each of the Trade and Transfer Auctions within five (5) business days of the close of the trade initiation process. For clarity, it is anticipated that Auction 2, Round 1 will take place on (or before, if possible) October 1, 2007. Auction 2, Round 2 will take place within 10 business days after Round 1 to ensure all allocations are complete before November and the October RMSEC auction.
8. National Grid NTS will publish the following information:
 - a. A definitive list of ASEPs to be included in the Trade and

Transfer Auction as Recipients.

- b. Available Months for each Recipient (e.g. for Auction 1 this shall only be October).
- c. Nodal Allocation Maximum (as defined within the Entry Capacity Transfer & Trade Methodology Statement) of each Recipient ASEP for each Available Month.
- d. Available Capacity for Allocation in each auction round in the Trade and Transfer Auction for each zone per Available Month. The Available Capacity for Allocation will be determined by the difference between the Zonal Allocation Maximum and the sum of Firm NTS Entry Capacity and increased by any Capacity offered for surrender by Users in the Trade Initiation Process (for that zone). For Auction 2, 50% of available capacity shall be made available in each round.
- e. The applicable Exchange Rate within zone as calculated according to the Entry Capacity Transfer & Trade Methodology Statement.
- f. Exchange Rates between each zone for each Applicable Month as calculated according to the Entry Capacity Transfer & Trade Methodology Statement.
- g. A merit order of ASEPs that will be applied in the allocation process of the Trade and Transfer Auction, for each zone for each Available Month.
- h. All non Recipient ASEPs and the amount of Available Capacity per Available Month per ASEP.
- i. The dates of the Auctions and Auction Rounds.

Trade and Transfer Auction bids

9. Users may bid for Monthly NTS Entry Capacity at a Recipient ASEP for those Available Months published in the Auction Invitation and communicated within the Trade Initiation Process.
10. For clarification Users may also bid at any non Recipient ASEP that has Available Capacity for any month that is an Available Month for one or more Recipient ASEPs.
11. A bid in respect of an Available Month must state:
 - a. the identity of the User;
 - b. the ASEP;
 - c. the month;
 - d. the amount of Monthly NTS Entry Capacity applied for (in kWh/Day for each Day of the Relevant Month);

- e. the minimum amount (not less than the Minimum Eligible Amount*) of Monthly NTS Entry Capacity which the User is willing to be allocated; and
 - f. The Bid Price*, which must not be less than the Reserve Price* applying at the ASEP (in the AMSEC auction) in pence/kWh.
12. A User may have, at any one time, in aggregate up to, but not more than, three (3) Capacity bids in respect of each Month at each ASEP.
13. A User may submit bids, and thereafter withdraw or amend as required between the period 08:00 hours and 17:00 hours on the day of the Auction.
14. National Grid NTS will reject a bid (and it will therefore not be part of the allocation process described below):
- a. where any of the above requirements are not met; or
 - b. where the transportation credit arrangements require us to do so (as set out in UNC Sections B2 and V3) against a User; or
 - c. if a User submits more than three (3) bids per ASEP, per Available Month, National Grid NTS may reject all of that User's bids for the same ASEP and the same Available Month.

Bid Allocation Process

15. Users' bids for an Available Month will be allocated as follows:

within zone

- a. Where there is a Recipient with an Available Month, a within zone allocation process will be initiated for that Month.
- b. All Capacity bids submitted in relation to all ASEPs within the zone will be ranked in order of Bid Price multiplied by Transfer Rate (the highest price ranking first); i.e. one bid stack is created. Where equal priced bids are submitted (equal in price to four decimal places), National Grid NTS will rank them according to time stamp and according to the earliest time-stamped bid.
- c. Available Capacity for Allocation will be allocated to the highest ranked bid first, and then to each subsequent ranked bid in accordance with the following process;
 - i. For a bid at an ASEP where the bid if allocated is up to or greater than remaining Available Capacity for Allocation - where the Bid Amount* requested exceeds the available Capacity for Allocation (taking into account any previous allocations), the User will (subject to following paragraphs) be allocated the remaining unallocated amount;
 - ii. For a bid at a Recipient ASEP where the Bid Amount, if

allocated, will result in greater than the Nodal Allocation Maximum at a Recipient ASEP - where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocation Maximum level at that Recipient ASEP (taking into consideration any previous allocations to or from that Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount at that Recipient ASEP, and no further allocation shall be made in respect of that Recipient ASEP;

iii. For a bid at a non Recipient ASEP, where the Bid Amount, if allocated, results in greater than the Obligated level of Firm NTS Entry Capacity at that ASEP - where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Obligated level of NTS Entry Capacity at that non Recipient ASEP (taking into consideration any previous allocations to or from that non Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount within the Obligated level at that non-Recipient ASEP, and no further allocation shall be made in respect of that non Recipient ASEP;

iv. Where the allocated amount would be less than User specified minimum amount - the bid will be rejected.

d. In the above allocation process, Capacity will be transferred from an ASEP in accordance with the following:

i. For each allocated bid at an ASEP, National Grid NTS will initially reduce the amount of Unsold Capacity followed by Surrendered Capacity at an ASEP or ASEPs by the total amount allocated multiplied by the Exchange Rate. Any such amounts are therefore deemed to have been sold for the purposes of National Grid NTS' obligations under its Gas Transporters Licence to make available Obligated Firm NTS Entry Capacity amounts; and

ii. Under (i) above, National Grid NTS will satisfy a bid at an ASEP from the available Capacity at ASEPs according to the merit order published in the Auction invitation, subject to any previous allocated volumes.

out of zone

16. Following completion of the process above where there is a Recipient ASEP with an Available Month that has an amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocated Maximum (taking into consideration any previous allocations to that Recipient ASEP), an out of zone allocation process will be initiated for

that Month.

- a. For each ASEP that has either Unsold or Surrendered NTS Entry Capacity available (taking into consideration any previous allocation to or from the ASEP) and is within a zone that has Available Capacity for Allocation (taking into consideration any previous allocations) a bid stack will be created.
- b. All remaining unallocated bids will be translated into a bid (Translated Bids) at each relevant ASEP, using the inter zone Exchange Rates (as defined within the Entry Capacity Transfer & Trade Methodology Statement) published in the Auction invitation. By translating a bid National Grid NTS will create a Bid Value (Bid Price * Exchange Rate).
- c. Bids will be ranked in order of Bid Value, the highest valued ranking first (i.e. one bid stack is created for each relevant ASEP). Where equal valued bids are submitted (equal in price to four decimal places), National Grid NTS will rank them according to time stamp and according to the earliest time stamped bid.
- d. ASEPs out of zone will be ranked according to the merit order published in the Auction invitation.
- e. Available Capacity for Allocation will be allocated to the highest ranked bid across all relevant ASEPs first, taking into account the merit order of ASEPs, and then to each subsequent ranked bid in accordance with the following process;
 - i. For a bid at an ASEP where the bid, if allocated is up to or greater than the remaining Available Capacity for Allocation - where the Bid Amount requested exceeds the available Capacity for Allocation (taking into account any previous allocations), the User will (subject to following paragraphs) be allocated the remaining unallocated amount
 - ii. For a bid at a Recipient ASEP where the bid, if allocated, will result in greater than the Nodal Allocation Maximum at a Recipient ASEP - where the Bid Amount exceeds the amount of Monthly NTS Entry Capacity remaining unallocated within the Nodal Allocation Maximum at that Recipient ASEP (taking into consideration any previous allocations to or from that Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount at that Recipient ASEP, and no further allocation shall be made in respect of that Recipient ASEP;
 - iii. For a bid at a non Recipient ASEP, where the bid, if allocated, results in greater than the Obligated level of Firm NTS Entry Capacity at that ASEP - where the Bid Amount exceeds the amount of Monthly NTS Entry

Capacity remaining unallocated within the Obligated level at that non Recipient ASEP (taking into consideration any previous allocations to or from that non Recipient ASEP), the User may only (subject to the following paragraphs) be allocated an amount equal to the remaining unallocated amount within the Obligated level at that non Recipient ASEP, and no further allocation shall be made in respect of that non Recipient ASEP;

- iv. Where the allocated amount would be less than User specified minimum amount - the bid will be disregarded.
- f. Where a bid is fully satisfied all other translated bids derived from this bid will be subsequently rejected.
- g. In the above allocation process, Capacity will be transferred from an ASEP in accordance with the following:
 - i. For each allocated bid, National Grid NTS will initially reduce the amount of Unsold Capacity, followed by the Surrendered Capacity, at an ASEP or ASEP according to the bid amount and taking into account the applicable Exchange Rate. Any such amounts are therefore deemed to have been sold for the purposes of National Grid NTS' obligations under its Gas Transporters Licence to make available Obligated Firm NTS Entry Capacity amounts.

17. For the avoidance of doubt, Users will pay Capacity charges as for the AMSEC auction; i.e. allocated bid amount multiplied by the relevant bid price for each Available Month.

Treatment of Capacity Made Available by Users

- 18. Where Capacity made available by Users in the Trade Initiation Process has resulted in a given trade (capacity has been allocated), the Users will receive a bid price based on the amount(s) allocated multiplied by the relevant Exchange Rate(s). The User's holdings at the ASEP where the Capacity was made available will be reduced accordingly for the period of the transfer. For clarity, no reserve price shall be applicable to the Surrendering User's Capacity.
- 19. Where Capacity that was made available by Users in the Trade Initiation Process has not been allocated, the Users holdings at the ASEP where the Capacity was made available will remain unchanged.

Results Publication

- 20. After Auction 1, National Grid NTS will provide to Users their allocations for the Available Month of October within five (5) Business Days after completion of the single auction round and thereafter within a further two (2) Business Days the following information to all Users:

- a. in respect of each ASEP for each Available Month:
 - i. the highest, lowest and weighted average price of all accepted bids;
 - ii. the aggregate amount of Monthly NTS Entry Capacity allocated;
 - iii. the total Capacity sold
 - iv. the total number of Users that submitted successful bids;
 - v. the total number of Users that submitted unsuccessful bids;

21. After Auction 2, Round 1 and again after Auction 2, Round 2, National Grid NTS will provide to Users their allocations within seven (7) Business Days after completion of each Auction round and thereafter within a further two (2) Business Days the following information to all Users:

- a. in respect of each ASEP for each Available Month:
 - i. the highest, lowest and weighted average price of all accepted bids;
 - ii. the aggregate amount of Monthly NTS Entry Capacity allocated;
 - iii. the total Capacity sold
 - iv. the total number of Users that submitted successful bids;
 - v. the total number of Users that submitted unsuccessful bids;

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

E.ON UK requests that this Alternative Proposal follows the same timescales as NG's Modification Proposal 0156.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

E.ON UK requests that this Modification Proposal proceeds direct to consultation, adopting the same timescale as applicable to Mod 156.

2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

E.ON UK considers this Proposal would, if implemented, better facilitate the following Relevant Objectives:

- In respect of Standard Special Condition A11 paragraph 1(a), the Proposal would

provide Users at sold out ASEPs the opportunity to seek to procure available Capacity from other ASEPs. This may result in the avoidance of sterilisation of Capacity and the stranding of gas offshore, and thereby better facilitate the efficient and economic operation of the NTS pipeline system.

- In respect of Standard Special Condition A11 paragraph 1(c) (the efficient discharge of the licensee's obligations under this Licence), the Proposal is anticipated to meet new Licence Obligations on National Grid NTS to facilitate the transfer and trade of Capacity between ASEPs in the constrained period.
- In respect of Standard Special Condition A11 paragraph 1(d), the Proposal would promote the securing of effective competition between relevant Shippers by use of two rounds of a pay-as-bid auction for the allocation of any available Capacity and the use of *ex-ante* Exchange Rates. Two auction rounds for the key winter months would clearly better facilitate competition between Shippers than a single round, which could severely limit the value of the process to Users.
- Affords Users the opportunity to secure additional capacity, in excess of an ASEP's baseline, therefore allowing gas flows onto the system that may otherwise be prevented and may avoid the sterilisation of entry capacity. As a result, this Proposal better facilitates the relevant objectives under Standard Special Condition A11 paragraph 1(e), the securing of the domestic customer supply security standards.

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

E.ON UK believes that this Proposal, if implemented would enhance UK security of supply by affording Users the opportunity to obtain additional Capacity at sold out ASEPs and thereby make greater use of the physical capability of the NTS, than would otherwise be the case. Conversely, if a single round auction process is implemented (Mod 0156), many Users (particularly smaller players or new entrants) face being either priced-out or may simply not bother with the process, with the result that capacity could be hoarded or not used as economically and effectively as it could be.

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

a) The implications for operation of the System:

E.ON UK believes that this Proposal, if implemented, should improve the physical operation of the System, by optimising the release of Entry Capacity to where it is valued most. This Proposal would provide a greater opportunity than Mod 0156 to ensure gas supplies can be delivered where demand is in excess of an ASEP's Obligated Firm Entry Capacity.

b) The development and capital cost and operating cost implications:

E.ON UK believes this Proposal, if implemented, would have reasonable cost implications related to the delivery of the required system changes, operation of the additional auction rounds, calculation of the Nodal Maxima/Exchange Rates/Zonal Capabilities and publication of information.

c) Whether it is appropriate to recover all or any of the costs and, if so, a Proposal for the most appropriate way for these costs to be recovered:

E.ON UK believes currently that it would not be possible to develop a charging regime that would be appropriately cost reflective and hence a zero application fee

should apply, as recommended by NG NTS in GCM 07 & 08 consultation.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

E.ON UK believes that the Proposal will have no material impact on the level of contractual risk of each Transporter.

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Not applicable.

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

E.ON UK envisages that this Proposal will have an impact on the UK Link system if it was implemented, but would anticipate that any development work would be prioritised and fast-tracked as far as possible to meet the critical implementation deadline.

7 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

In implemented, this Modification Proposal would introduce a new, unprecedented auction process into the existing Capacity allocation regime and as such will require additional analysis, risk management and formulation of bid strategies by Users. For Users wishing to participate, however, this is an expected and reasonable burden to accept in return for capacity being made available for re-allocation to where it is valued most.

b) The development and capital cost and operating cost implications

E.ON UK is not aware of any significant cost implications.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

E.ON UK does not believe that this Proposal would increase the contractual risk faced by Users. Most buy-back risks can be managed competently by NG, using the variety of network constraint management tools available to them, thereby minimizing the extent to which Users could be affected.

8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

By providing enhanced opportunity for Users to bid for all available capacity at Recipient ASEPs, this Proposal better safeguards the interests of consumers than Mod 0156, which if

implemented, could increase the risk of Shippers being forced to pass on costs associated with having gas stranded offshore or paying non cost-reflective prices for capacity.

9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

Not applicable.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

E.ON UK considers that this Proposal:

- By providing for more than one auction round pre-winter, is a fair approach for all Users, which limits potential for abuse, unjust speculation and capacity hoarding, which could result from a single round, “one-off” auction.
- Through the use of two rounds, would facilitate more flexibility (than both Mod 0156 and the *status quo*) for Capacity to be reallocated to where Users value it most this winter, leading to greater certainty in the market.
- Provides for *ex-ante* Exchange Rates and fixed 1:1 Exchange Rates within zones, adding certainty, reducing risks and improving the attractiveness of the process for Users.
- Affords Users the opportunity to secure additional capacity, in excess of an ASEP’s obligated level, therefore allowing gas flows onto the System that may otherwise be prevented.
- Would help avoid the potential sterilization of Entry Capacity and hence costs being inefficiently incurred.
- Can realistically be implemented ahead of the critical winter months (November onwards), by maximizing all available time to extract the most value from the process.
- Is a positive building block for an enduring, long-term solution to the facilitation of trade and transfer of entry capacity after winter 07/08, in-line with NG’s Licence obligation.

Disadvantages

E.ON UK considers that this Proposal:

- Would introduce a further Auction and some additional complexity into Entry Capacity allocation arrangements.
- Would reduce the unsold level of Firm Capacity available at certain ASEP(s) in the within year Entry Capacity Auctions.
- Due to the unfortunate lack of progress in implementing a trade and transfer process to date, the two rounds in October will be making capacity available for November, which may be considered short notice.

11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

The concept of a two round auction has been openly discussed both at the last Transmission Workstream and with meetings with NG NTS. No significant objections have been raised to date and NG has indicated that more than one round could be possible, despite the pressing timescales associated with implementation. The Proposer has also discussed this alternative Proposal with NG NTS while developing it, taking on board feedback given.

12 Detail of all other representations received and considered by the Proposer

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13 Any other matter the Proposer considers needs to be addressed

The supporting Methodology Statement must not automatically preclude more than one round of auctions pre-winter or thereafter.

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

15 Comments on Suggested Text

To be advised

16 Suggested Text

To be advised

Code Concerned, sections and paragraphs

Uniform Network Code

Transition Document

Section(s) IIC and UNC TPD Section B

Proposer's Representative

Richard Fairholme (E.ON UK)

Proposer

Richard Fairholme (E.ON UK)