

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

Date: 06/07/07
Proposed Implementation Date: 07/08/2007
Urgency: Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

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

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

National Grid NTS propose to facilitate the transfer and trade of Firm NTS Entry

Capacity between ASEPs via a single auction process.

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 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) continuously above its Obligated (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) Firm NTS Entry Capacity level, sells out for any relevant month (i.e. October '07 to March '08) as part of the Annual Monthly System Entry Capacity* (AMSEC) Auction National Grid NTS will hold another pay as bid auction (the Trade and Transfer Auction). This will facilitate the Trade and Transfer of Firm NTS Entry Capacity between ASEPs to meet the User's requirements from the Trade and transfer Auction.
2. National Grid NTS will identify which ASEPs are in which zone for the purposes of the Trade and Transfer Auction, reflecting the physical capability of the System.
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 the first Trade and Transfer auction National Grid NTS will only consider Available Months that fall within the period October 2007 to March 2008 inclusive.
4. To reduce the potential number of Exchange Rates, Users will have 2 business days to request one or more of the potential Recipient ASEPs and the Available Months to be included in the Trade and Transfer Auction on a good faith (for clarification National Grid NTS will include neither Recipient ASEPs nor Available Months that have not been requested at this stage) basis.

Trade Initiation Process

5. National Grid NTS will publish, 2 business days after receiving the User requests:
 - a. A definitive list of Recipient ASEPs to be included in the Trade and Transfer Auction as Recipients
 - b. Available Months for each Recipient ASEP
 - 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, 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. 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.
 - 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 the Trade and Transfer Auction within five (5) business days of the close of the trade

initiation process.

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
 - 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 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).
 - 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 date of the Auction

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 during the period 08:00 hours to 16:00 hours.
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, National Grid NTS may reject all of that User's bids.

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 (the highest price ranking first) i.e. one bid stack is created. Where equal priced bids are submitted, 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 National Grid NTS will rank them according to time stamp and according to the earliest time stamped bid.
- d. ASEPs within a 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 associated bids are 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; and
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 (been allocated), the Users will receive a bid price based on the amount(s) allocated multiplied by any relevant Exchange Rate(s). The User's holdings at the ASEP where the Capacity was made available will be reduced accordingly
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. National Grid NTS will provide to Users their allocations within fifteen (15) Business Days after completion of the Auction 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;

Contingency Arrangements

21. It is proposed that the following contingency arrangements are implemented:

- a. In the event that the Proposal is not implemented prior to the QSEC Auction invitation being issued or during the 2007 QSEC auction period, National Grid NTS proposes that the Trade and Transfer Auction be held on the first reasonably practical business day after the final QSEC round has closed.
- b. In the event that this Proposal is implemented on such a date that prevents National Grid NTS from completing the Trade and Transfer Auction and Allocation process prior to the commencement of the Capacity Month for which the NTS Entry Capacity has been bought, that Capacity Month will be excluded from the Trade and Transfer Auction.

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

National Grid NTS requests that the Authority grants Urgent status for this Modification Proposal on the basis that:

1. There is a real likelihood of significant commercial impact upon GT's, Shippers or Customers if a proposed modification is not urgent;

We believe that, if this Proposal is implemented ahead of this winter, it will provide Users with a mechanism to transfer and trade 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.

2. The proposal is linked to an imminent date related event.

We believe that Urgent status is required in order to implement this Proposal in advance of the forthcoming winter period (1 October 2007 to 31 March 2008). We are further constrained in the timeframes that are available to us in that we are of the view that the Trade and Transfer Auction should not be run concurrently with the September 2007 QSEC Auction and were it to be held afterwards (i.e. October) it would limit Users' opportunities to get additional Capacity.

We believe that the following timetable should be adopted:

Sent to Ofgem requesting Urgency	06/07/07
Ofgem grant Urgent status	09/07/07
Proposal issued for consultation	10/07/07
Closeout for representations (9 working days)	20/07/07

FMR issued by Joint Office	23/07/07
Modification Panel decide upon recommendation	02/08/07
Ofgem decision expected	06/08/07
Proposed implementation date	07/08/07

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.

National Grid NTS seeks this Modification Proposal to proceed direct to consultation in accordance with Section 7.9 of the modification procedures in the UNC. This is to seek to implement the Proposal as soon as possible and provide the opportunity for Users to seek to obtain additional Capacity through the proposed process well ahead of next Winter.

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

National Grid NTS considers this Proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

- 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 a pay-as-bid auction for the allocation of any available Capacity, taking effect across ASEPs.

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

National Grid NTS believes that this Proposal, if implemented, may enhance security of supply by allowing Users the opportunity to obtain additional Capacity at sold out ASEPs than would otherwise be the case.

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

a) The implications for operation of the System:

National Grid NTS does not believe this Proposal, if implemented, would adversely affect the physical operation of the System, but may increase physical constraints, requiring further commercial actions. 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 ASEP's Obligated Firm Entry Capacity, but would reduce ability for gas to flow at ASEPs where Capacity had not been bought up to expected flow.

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

National Grid NTS believes this Proposal, if implemented, would have cost implications related to the delivery of the required system changes, operation of the additional auction, calculation of the Nodal Maxima/Exchange Rates/Zonal Capabilities and publication of information. The increasing complexity of the regime will have an ongoing overhead associated with it.

In addition, the Proposal, if implemented, may avoid the potential sterilization of Entry Capacity and hence costs being inefficiently incurred through this, but operational buy back costs may increase.

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:

National Grid NTS believes that for this Proposal, if implemented, it would not be possible to develop a Charging Regime that would be cost reflective. However the intention would be to review Charging arrangements as part of developing an enduring solution.

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

National Grid NTS 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)

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

National Grid NTS envisages that this Proposal will have an impact on the UK Link system if it was implemented. We would request that any such impact be assessed by xoserve.

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

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

National Grid NTS is not aware of any such implications but would welcome responses from Users in this area.

b) The development and capital cost and operating cost implications

National Grid NTS is not aware of any such implications but would welcome responses from Users in this area.

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

National Grid NTS believes that this Proposal would increase the levels of competition, and consequently contractual risk faced by Users when bidding for NTS Entry Capacity.

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)

National Grid NTS is not aware of any implications, beyond increasing complexity, but would welcome responses from Users in this area.

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

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

Advantages

National Grid NTS considers that this Proposal:

- would facilitate flexibility for available Capacity to be reallocated to where Users value it most once the baselines have been set at the start of a price control without the User having to indicate where it desires the Capacity to be transferred from;
- allow 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;
- may avoid the potential sterilization of Entry Capacity and hence costs being inefficiently incurred;
- could be implemented ahead of next Winter.

Disadvantages

National Grid NTS considers that this Proposal:

- would introduce a further Auction and further complexity into Entry Capacity arrangements;
- would reduce the unsold level of Firm Capacity available at certain ASEP(s) in the within year Entry Capacity Auctions and may result in other gas not being able to flow on a Firm basis;

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)

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

13 Any other matter the Proposer considers needs to be addressed

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

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