

Modification Report
Alterations to the RMSEC Auction to Accommodate Transfer and Trade of Capacity
between ASEPs
Modification Reference Number 0187/187A
Version 3.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Wording of Proposal 187A is indicated in red type throughout this document.

Both Proposals

Background

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, “UNC”, (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.*

0187A does not include the following four paragraphs

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 System Entry Overrun Charges* and Capacity Neutrality Charges*. The Transferor User however remains liable for Capacity Charges in respect of the amount of capacity transferred.

On 5th September 2007 the Authority (Ofgem) issued a Section 23 direction placing obligations on National Grid NTS through its Gas Transporter Licence in respect of the NTS (the “Licence”) to facilitate the Transfer and Trade of Firm NTS Entry Capacity* between ASEPs. In July 2007 National Grid NTS raised UNC Modification Proposal 0156, proposing that a single round auction be used to facilitate the Transfer and Trade of Capacity between ASEPs for winter 07/08. Industry subsequently raised Modification Proposals 0156A, 0169 and 0169A. Ofgem approved the implementation of Modification Proposal 0169 on 6th September 2007.

The amendments introduced by UNC Modification 0169 facilitated the Transfer and Trade of unsold and Surrendered Capacity through a two round auction, held in September/October 2007, to apply to the months November 2007 to March 2008 inclusive.

The purpose of this proposal is to provide an enduring Transfer and Trade process. It is proposed that the Transfer and Trade process be carried out monthly, as part of the rolling monthly NTS Entry Capacity (“RMSEC”) process, commencing with the RMSEC auction to be held in June 2008 for allocations relating to capacity month July 2008.

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British Gas Trading has raised this proposal as an alternative to National Grid’s proposal 0187.

The purpose of 0187 is to provide an enduring Transfer and Trade process. It is proposed that the Transfer and Trade process be carried out monthly, as part of the rolling monthly NTS Entry Capacity (“RMSEC”) process, commencing in June 2008 for allocations relating to capacity month July 2008.

British Gas supports the main tenets of 0187, however this alternative proposal 0187A differs from the National Grid original in two key ways:

- It allows Users to set a reserve price of their choosing on any capacity that they surrender, rather than facing the surrender price cap – that being the prevailing reserve price at the ASEP in question - as proposed by National Grid;
- It proposes to allocate the cheapest available capacity – whether this is surrendered or unsold - first and the most expensive capacity – again whether surrendered or unsold - last i.e. working up a single price stack. This varies from National Grid’s proposal in two respects: (i) National Grid’s proposal is to allocate expensive first and (ii) to allocate surrendered capacity before unsold.

British Gas has discussed this alternative proposal with National Grid and now believes that that this alternative way of running the Trade and Transfer process is workable. British Gas believes that it will lead to a more economic and efficient allocation of volumes of entry capacity, taking capacity from where it is least valued and moving it top where it is most valued leading to an overall allocation to those ASEPs where it is most valued. This is achieved through stimulating a more market based approach to the pricing of secondary capacity, rather than a pseudo-regulated pricing approach.

Both Proposals, except where indicated

Summary of this Proposal:

National Grid NTS proposes (~~187A: National Grid NTS proposes~~Both 0187 and 0187A propose) utilising the existing RMSEC auctions to facilitate the Transfer and Trade of Firm NTS Entry Capacity between ASEPs.

Prior to the RMSEC auction, users (~~187A: users-Users~~) will be able to surrender capacity they hold at any ASEP. All unsold and Surrendered Capacity (as defined below under Trade Initiation Process) will be offered in the Initial Stage of the RMSEC auction and will be termed the ‘Available Capacity’. Any unsatisfied bids from the Initial Stage will then progress to the Transfer and Trade Stage. See below for definitions of Initial Stage and Transfer and Trade Stage.

For the purposes of this Modification Proposal (~~187A: this-Modification~~

Proposals both 0187 and 0187A):

- a Transfer is where unsold NTS Entry Capacity at one ASEP is allocated to another ASEP as part of the Transfer and Trade Stage; and
- a Trade is where a User has surrendered Firm NTS Entry Capacity at an ASEP and this capacity has subsequently been re-allocated.

For the avoidance of doubt, NTS Entry Capacity that is not Firm NTS Entry Capacity will not be eligible for surrender.

For the purposes of this Modification Proposal:

- a “Recipient” ASEP is an ASEP at which there are unsatisfied bids remaining following completion of the Initial Stage.
- a “Donor” ASEP is an ASEP at which there are no unsatisfied bids remaining following completion of the Initial Stage and there remains Available Capacity.

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For clarity, implementation of this Modification Proposal is dependent upon Authority approval of the Entry Capacity Transfer and Trade Methodology Statement (“the Methodology Statement”) which National Grid NTS has revised to align to the process detailed.

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British Gas does not believe that the Methodology Statement which accompanies National Grid’s original proposal 0187 adequately deals with the processes proposed under 0187A, and therefore National Grid will be required to revise that Methodology Statement should Ofgem direct implementation of this alternative proposal.

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In order to facilitate Transfer and Trades within a monthly cycle a number of amendments are proposed to the RMSEC process.

- Prior to the RMSEC auction, Users will be allowed to surrender capacity at an ASEP where they no longer have any requirement for that capacity. This capacity, made available through the Trade Initiation Process will be made available for allocation to other Users in the RMSEC allocations.
 - All unsold and Surrendered Capacity will be available for allocation in the RMSEC auction and will be termed the “Available Capacity”.

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- Bids placed in the RMSEC auction can be satisfied from existing unsold capacity and/or Surrendered Capacity.
 - Surrendered Capacity will be allocated before unsold capacity.
This will ensure that, if there remains any un-allocated Available Capacity at the end of the RMSEC allocations, more of this capacity will be available for Daily auctions because unsold capacity will be offered in later auction processes.
 - Surrendered Capacity with the highest Surrender Price (as defined in

the Trade Initiation Process) will be allocated first.

As progressively lower bids are considered through the allocation process the Unit Offer Price (as defined in Treatment of Capacity Made Available by Users) will decrease. Hence by considering decreasing Surrender Prices ensures that more bids are satisfied before Surrender Prices are reached thus ensuring that the quantity of capacity allocated is maximised.

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- Unsold capacity will be entered into the available capacity stack at the prevailing reserve price for that ASEP.
- Surrendered capacity will be entered into the available capacity stack at the reserve price that any User chooses to place on their surrendered amount.
- Therefore, bids placed in the RMSEC auction can be satisfied from existing unsold capacity and/or Surrendered Capacity. Whether unsold capacity or surrendered capacity is used depends entirely upon price.
- Any un-allocated Unsold Capacity available at the end of the RMSEC allocations will be available for Daily auctions.
- As progressively higher priced bids are considered through the allocation process the Unit Offer Price (as defined in Treatment of Capacity Made Available by Users) will increase. Hence considering increasing Surrender Prices ensures the economic and efficient allocation of capacity.

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- Two separate stages will be created for assessing User capacity bids and subsequent allocation of capacity.
 - The Initial Stage will allow qualifying bids at an ASEP to be satisfied by allocation of Available Capacity at that ASEP. At each ASEP, bids will be satisfied on the basis of highest bid price first. This will be followed by:
 - The Transfer and Trade Stage which will allow allocation of any remaining Available Capacity at an ASEP to any other ASEP, subject to the application of an Exchange Rate (as defined in the Methodology Statement). Bids will be satisfied on the basis of highest bid first (but subject to grouping of bids as detailed below) irrespective of which ASEP the bid applies to.

The two stages will be carried out as a continuous process by National Grid NTS to provide a single RMSEC allocation.

- It is National Grid NTS' (~~187A It is National Grid NTS'~~ **Inline with National Grid's original proposal, it is British Gas'**) intention that the RMSEC auction will be undertaken as close as possible to the end of the month prior to the month for which capacity is to be allocated. However, initially, i.e. from June 2008, the RMSEC auction will be held toward the start of the month to allow time for the Transfer and Trade Stage, but as experience is gained from

undertaking Transfer and Trades the auction date will be moved to nearer the end of the month.

For the avoidance of doubt, the RMSEC process shall comprise all the stages detailed in this Proposal, including, but not limited to:

- Trade Initiation Process;
- Rolling Monthly Invitation;
- Initial Stage; and
- Transfer and Trade Stage.

For clarity, subject to timely implementation of the Modification Proposal (see Contingency section) the first RMSEC auction to which it is proposed that the changes should apply is the RMSEC auction to be held in June 2008 in respect of capacity made available for use in July 2008.

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National Grid NTS believes that off-line procedures can be developed to enable this Proposal to be run in June 2008, i.e. prior to full systems implementation. Any alternative processes may require a different implementation timetable.

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Having spoken with National Grid, British Gas now believes that off-line procedures can be developed to enable this Proposal to be run in line with the proposed implementation timetable.

Trade Initiation Process

No more than five (5) Business Days prior to the issuing of the rolling monthly invitation National Grid NTS will initiate the trade process by inviting Users to make capacity available at any ASEP from their Firm NTS Entry Capacity holdings (the "Trade Invitation"), for allocation to Users requesting capacity in the RMSEC auction (for the purposes of this Proposal such capacity will be described as Surrendered Capacity).

For the avoidance of doubt, the surrendering User shall remain liable for Capacity Charges in respect of the Surrendered Capacity even if such capacity is subsequently re-allocated. In the event that the Surrendered Capacity is not re-allocated then the surrendering User shall remain the Registered holder for all purposes.

The Trade Initiation Process invitation will state:

- When the Trade Initiation Process will take place and how Users should place their offers to surrender capacity at an ASEP. This will be a single day no more than two Business Days after the Trade Invitation being issued.
- The minimum eligible quantity of surrender offers (100,000 kWh).
- The month for which the User will be offering to surrender capacity.
- The prevailing reserve price*.
- (0187A ~~The prevailing reserve price*~~)
- The requirement that Users will not offer to surrender a greater quantity than

their Firm NTS Entry Capacity holdings at that ASEP for that month.

Users wishing to take part in the Trade Initiation Process must, between 0800 and 1700 on the date specified, provide the following information to National Grid NTS via the surrender process run on the Gemini system:

- The ASEP;
- The maximum quantity of Firm NTS Entry Capacity per ASEP that they are offering to surrender. This must be equal to or greater than the minimum eligible amount*;
- A minimum price, the "Surrender Price", which shall not be greater than the prevailing reserve price for capacity at that ASEP (~~0187A which shall not be greater than the prevailing reserve price for capacity at that ASEP,~~) below which the Surrendered Capacity will not be made available;
- The calendar month to which the surrender offer applies; and
- Confirmation that the User holds the capacity and will continue to hold the capacity until the RMSEC allocation process is complete.

Where such confirmation as is required in the above paragraph is not received National Grid NTS will not accept the capacity as Surrendered Capacity.

Users may have, at any one time, in aggregate in respect of each invitation date, up to, but no more than, two (2) surrender offers per ASEP. For clarity, where a User makes more than one surrender offer in respect of an ASEP the User must hold, and continue to hold, capacity in a quantity no less than the aggregate quantity of all bids.

The Trade Initiation Process will take place over one day from 08:00 hours until 17:00 hours. Users can amend or withdraw their offers at any time until 17:00 hours.

Where a User surrenders capacity in accordance with the Trade Initiation Process, and the Surrendered Capacity is subsequently re-allocated at a different ASEP in the Transfer and Trade Stage, it will be deemed that the surrendering User has requested National Grid NTS to enact the entry capacity trade in accordance with Special Condition C8D paragraph 12 of the Licence.

Rolling Monthly Invitation

In respect of any ASEP (irrespective of whether there is any Available Capacity at that ASEP) National Grid NTS will invite applications (a "rolling monthly invitation") for Monthly NTS Entry Capacity (without limit on the maximum quantity that a User can request) in respect of the ASEP for the relevant calendar month to which the auction applies in accordance with this Modification Proposal.

No later than five (5) Business Days before the RMSEC auction takes place, National Grid NTS will issue the rolling monthly invitation. The invitation will specify the allocation period, the process for publication of results and a reminder that bids not satisfied in the Initial Stage will be carried forward to the Transfer and Trade Stage. In addition, the following information will be provided:

- the date (a "rolling monthly" invitation date*) being one of the twenty (20) Business Days preceding the last Business Day in the calendar month

preceding the relevant calendar month for which applications may be made on which applications pursuant to the rolling monthly invitation may be made; and

- for each ASEP,
 - the total amount of Available Capacity (including Surrendered Capacity);

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- the reserve price to be applied; and

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- the volumes of Available Capacity to be offered at, above, and below the Unsold reserve price; and

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- the amount of Surrendered Capacity.

The RMSEC auction will be held in accordance with the following rules:

1. Users will bid for capacity at an ASEP(s) and National Grid NTS will allocate any Available Capacity at that ASEP(s) through the Initial Stage and/or the Transfer and Trade Stage to meet the requirements of successful bids.
2. Users may apply for Monthly NTS Entry Capacity in respect of any Aggregate System Entry Point in the relevant calendar month on a rolling monthly invitation date.
3. Users may have, at any one time, in aggregate in respect of each rolling monthly invitation date up to but not more than twenty (20) monthly capacity bids per ASEP.
4. An application (a "rolling monthly" capacity bid) for Monthly NTS Entry Capacity shall specify:
 - the identity of the User;
 - the Aggregate System Entry Point;
 - the calendar month for which Monthly NTS Entry Capacity is applied for;
 - the amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity applied for (in kWh/Day);
 - the minimum amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity which the User is willing to be allocated; and
 - the amount (the "bid price"), which shall not be less than the reserve price which the User is willing to pay by way of Capacity Charge in respect of the Monthly NTS Entry Capacity applied for.
5. A rolling monthly capacity bid:
 - may not be submitted before 08:00 hours or after 17:00 hours on a rolling monthly invitation date; and
 - may be withdrawn or amended until, but not after, 17:00 hours on a rolling monthly invitation date.

6. National Grid NTS shall reject a rolling monthly capacity bid where:
- the bid price is less than the reserve price;
 - any other requirement of sub-paragraph 4, above, is not complied with
- and National Grid NTS may reject a rolling monthly capacity bid in accordance with UNC Section V3.

Initial Stage

Following the submission of rolling monthly entry capacity bids, Monthly NTS Entry Capacity will be allocated for a relevant month in accordance with this section.

For the month for which the auction applies, Monthly NTS Entry Capacity in respect of an Aggregate System Entry Point will be allocated pursuant to capacity bids submitted in respect of such month as follows:

- i. all capacity bids submitted in respect of the month and ASEP (excluding any bid rejected) will be ranked in order of bid price (the highest price ranking first);
- ii. National Grid NTS will allocate Available Capacity at that ASEP to the highest bidder.
- iii. Capacity will be allocated subject to the following sequences:

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- a. Surrendered Capacity at the ASEP will be allocated before unsold capacity.
- b. Surrendered Capacity will be allocated on the basis of highest minimum Surrender Price first.

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- a. Available Capacity will be allocated on the basis of lowest Reserve Price first.
- b. Where surrendered capacity and unsold capacity have the same reserve price, surrendered capacity will be allocated first.

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- c. Where Surrendered Capacity is surrendered by more than one User with the same Surrender Price then the capacity Traded shall be allocated pro rata to a User's surrendered quantity less any capacity already re-allocated.
- iv. subject to paragraphs (v) and (vi) and the minimum amount criteria, where the amount of NTS Entry Capacity applied for under a bid exceeds the amount (the "remaining unallocated amount") of Available Capacity remaining unallocated after allocation to higher priced bids, the User will be allocated an amount equal to the remaining unallocated amount;
 - The minimum amount criteria means the higher of:
 - the minimum eligible amount; and
 - the User's specified minimum acceptable allocation quantity

- v. subject to paragraph (vi) and the minimum amount criteria, where each of two or more bids ("equal priced bids") specifies the same bid price, and the amount of capacity applied for in aggregate under such bids exceeds the remaining unallocated amount, the remaining unallocated amount will be allocated pro rata to the amounts applied for in each such bid;
- vi. where the amount to be allocated in respect of a bid pursuant to paragraph (iv) or (v) is less than the minimum amount criteria, the bid will be disregarded (and, for the purpose of the Initial Stage, of no effect), and a revised allocation will be made between remaining equal price bid(s) under paragraph (iv), or (as the case may be) an allocation made in respect of the next priced bid.

Where the amount to be allocated in respect of any bid pursuant to the Initial Stage is less than the minimum amount criteria, National Grid NTS will not accept any further capacity bids at that ASEP as part of the Initial Stage.

Bids that cannot be wholly satisfied within the Initial Stage may be partially allocated (subject to the above criteria). Any unsatisfied bids, plus the remainder of any partially satisfied bids will pass through to the Transfer and Trade Stage.

All Available Capacity unallocated in the Initial Stage (including the un-allocated portion of any partially allocated Surrendered Capacity) will be made available for the Transfer and Trade Stage to meet the requirements of bids remaining unsatisfied after the Initial Stage.

Transfer and Trade Stage

As capacity can be moved between ASEPs most efficiently when considering larger quantities all remaining unsatisfied bids from the Initial Stage at each Recipient ASEP shall be put into groups, "Recipient ASEP Groups". These groups shall also be used to determine a ranking which shall define the sequence with which qualifying bids are considered under the Transfer and Trade Stage.

- i. All unsatisfied bids in respect of each Recipient ASEP will be grouped such that each Recipient ASEP Group ("Group") contains 25% of the total unsatisfied bid quantity for that ASEP. Bids will be assigned to a Group on the basis of bid price: highest priced bids assigned to the highest ranked Group. Where equally priced bids span a Group threshold all such bids shall be included in the highest Group.
- ii. Where a bid crosses a Group boundary it shall be placed in the highest Group and the size of the next lower Group shall be reduced accordingly, e.g. if there are 10 equally sized bids with progressively lower prices, the Groups will be sized at 30, 20, 30, 20 units respectively. Where there are insufficient bids of appropriate size distribution there may be less than four Groups.
- iii. The weighted average bid price ("WAP") shall be determined for each Group.
- iv. All Groups shall be ranked according to WAP; highest WAP first. Hence each Recipient ASEP will normally appear four times in the ranking. The Groups for each ASEP may or may not appear successively in the list.
- v. If two Groups have the same WAP they shall be ranked by:

- a. Highest individual bid within the Group; then by
 - b. Quantity of the Group; then by
 - c. Timestamp of the first bid included within the Group.
- vi. Where a Recipient ASEP appears successively in the ranking of Groups the successive Groups shall be grouped together.

All Transfer and Trades shall be subject to an Exchange Rate calculated in accordance with the Methodology Statement.

Transfer and Trades will not be permitted where:

- the Exchange Rate exceeds 10:1; or
- the Unit Offer Price (as defined in section headed “Treatment of Capacity Made Available by Users) is less than the Surrender Price; or
- the Transfer or Trade would lead to existing (or committed) commitments not being maintained. These commitments will include, but not be limited to, statutory and regulatory requirements and commercial agreements; or
- any allocation of capacity determined by the Transfer and Trade Stage would be less than the minimum amount criteria, i.e.:
 - the minimum eligible amount; or
 - the User’s specified minimum acceptable allocation quantity.

Allocation of capacity shall be in accordance with the following process:

- i. The highest ranked Recipient ASEP Group shall be identified;
- ii. National Grid NTS shall determine the ASEP, the “Donor ASEP”, with the most favourable Exchange Rate available to satisfy, in part or in whole, bids in the highest ranked Recipient ASEP Group. The determination of the Donor ASEP shall be made based on the total quantity of bids in that Group, regardless of whether all of those bids would be satisfied by the Donor ASEP.
- iii. In accordance with the Methodology Statement and subject to subparagraph xii and the minimum amount criteria, National Grid NTS shall:
 - allocate the maximum possible capacity to Users at the Recipient ASEP: and
 - shall reduce the Available Capacity at the Donor ASEP by an amount consistent with the Exchange Rate.
- iv. Allocations will be allowed that only partially satisfy a capacity bid except where a partial allocation would be for a quantity below the minimum amount criteria.
- v. Bids within a Group will be unsatisfied if there is insufficient remaining Available Capacity with an acceptable Exchange Rate. In this case, such unsatisfied bids shall be considered in respect of the next best Donor ASEP in accordance with step vii.
- vi. Bids within a Group will be unsatisfied if
 - the quantity to be allocated is below the minimum amount criteria; or

- the Unit Offer Price is below the Surrender Price.

In these cases the unsatisfied bids (to the extent that they cannot be partially satisfied) shall be considered in respect of the next most favourable Donor ASEP in accordance with step vii.

The Exchange Rate between the Recipient ASEP and the first Donor ASEP shall, where necessary, be re-calculated based upon the revised amount to be allocated. This may result in:

- an inferior Exchange Rate and reduced allocations, in which case steps iii to v and this step vi may need to be reworked; or
- the first Donor ASEP being less favourable, in which case steps ii to iv shall be reworked for the revised most favourable Donor ASEP.

- vii. Where there is one or more remaining unsatisfied bids in the Recipient ASEP Group the next most favourable Donor ASEP shall be determined and steps ii to vi shall be repeated, but based on the remaining quantity of unsatisfied bids.
- viii. Step vii shall be repeated until all bids in the Recipient ASEP Group have either been satisfied or no further allocations at that ASEP are possible.
- ix. Any unsatisfied bids within a Recipient ASEP Group, including any partially unsatisfied bids, remaining after consideration of all Donor ASEPs shall be cascaded to the next lower relevant Recipient ASEP Group. If there are no lower relevant Recipient ASEP Groups then the unsatisfied bids shall remain unsatisfied. The WAP of any Group shall not be revised following any cascading of unsatisfied bids.
- x. Where, in respect of any Donor ASEP, all bids within a Recipient ASEP Group cannot be fully satisfied National Grid NTS shall allocate capacity to those Users making the highest bids, i.e. allocations shall always be made on the basis of the highest individual bid price first.
- xi. If there are two or more bids at the same price that cannot be fully satisfied then they shall be ranked according to:
 - Time of receipt of the bid.
- xii. National Grid NTS shall identify the next highest ranked Recipient ASEP Group and steps ii to xi shall be repeated until either:
 - all bids are satisfied; or
 - there is no remaining Available Capacity; or
 - remaining bids can be satisfied only:
 - with an Exchange Rate > 10:1; or
 - with Surrendered Capacity with a Surrender Price higher than the Unit Offer Price.

Capacity will be allocated from Donor ASEPs subject to the following sequences:

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- Surrendered Capacity at the Donor ASEP will be allocated before unsold

capacity.

- Surrendered Capacity will be allocated on the basis of highest minimum Surrender Price first.

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- Available Capacity will be allocated on the basis of lowest Reserve Price first.
- Where surrendered capacity and unsold capacity have the same reserve price, surrendered capacity will be allocated first.

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- Where Surrendered Capacity is surrendered by more than one User with the same Surrender Price then the capacity Traded shall be allocated pro rata to a User's surrendered quantity less any capacity already re-allocated.

Where any allocation of capacity determined by the Transfer and Trade Stage is less than the minimum amount criteria then that allocation will not be made.

Partial allocations will be made providing it satisfies the above criteria.

Where an allocation is made in accordance with the Transfer and Trade Stage the User shall be deemed to have requested National Grid NTS to enact the entry capacity transfer or trade in accordance with Special Condition C8D paragraph 11 or 12 of the Licence, as appropriate.

All bids not satisfied at the end of the Transfer and Trade Stage shall be rejected.

Treatment of Capacity Made Available by Users

Where Surrendered Capacity made available by Users in the Trade Initiation Process has been re-allocated (at the same ASEP or at a different ASEP) the Users will receive a payment, the "Unit Offer Price". The Unit Offer Price (p/kWh/Day) is determined via the following calculation incorporating the Exchange Rate and the bid price at the Recipient ASEP. Where the Trade is to the same ASEP the Exchange Rate shall be 1:1.

Unit Offer Price = Recipient bid price / Exchange Rate.

Where the Unit Offer Price is less than the Surrender Price then the allocation will not be made.

In the event that more than one Transfer or Trade is made with capacity surrendered by more than one User and/or by a combination of Surrendered Capacity and unsold capacity then each surrendering Users' Unit Offer Price shall be determined by:

- An Exchange Rate determined for the whole Group;

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- The highest bid in the Recipient ASEP Group shall be mapped to the Surrendered Capacity with the highest Surrender Price to calculate the User's Unit Offer Price;
- The next highest bid / Surrender Price shall then be considered.

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- The highest bid in the Recipient ASEP Group shall be mapped to the Available Capacity with the lowest Surrender Price to calculate the User's Unit Offer Price;
- The next highest bid / lowest Reserve Price shall then be considered.

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Notwithstanding the User's ongoing liability with respect to Capacity Charges the User's Available* System Capacity at the ASEP where capacity was surrendered will be reduced accordingly.

Reduction in surrendering User's allocation = Recipient allocation quantity * Exchange Rate

For the avoidance of doubt, any revenue received by National Grid NTS in respect of re-allocated Surrendered Capacity will be passed through to the surrendering User. National Grid NTS will be revenue neutral in Trades. The surrendering User shall remain liable for Capacity Charges in respect of any re-allocated Surrendered Capacity.

Any rounding errors shall be corrected by adjustment to the sum received by the surrendering User, such that the sum received is equal to that to be paid by the User(s) that is allocated capacity.

Where Surrendered Capacity that was made available by Users has not been (fully) allocated the Users' holdings at the ASEP will only be reduced by the allocated amount (if any).

Information Provision

National Grid NTS will, no later than three (3) Business Days prior to the last Business Day in the calendar month preceding the calendar month for which applications may have been made inform Users of their capacity allocations in relation to allocations made pursuant to the RMSEC auction. Information provided will include, for each ASEP for each User that is registered as holding capacity for the relevant month:

- The ASEP
- Bids placed in the RMSEC auction which have been allocated (either in full or in part);
- The amount of Monthly NTS Entry Capacity which it is registered as holding for the calendar month for the relevant ASEP. This shall include capacity allocated through previous mechanisms and capacity allocated in the current RMSEC allocations minus any Surrendered Capacity that the User made available that has been re-allocated.
- The amount (included in the above quantity) of Monthly NTS Entry Capacity which it has been allocated as a result of the RMSEC auction.

National Grid NTS will, no later than three (3) Business Days prior to the last Business Day in the calendar month preceding the calendar month for which applications may have been made, inform surrendering Users (in addition to the allocation information) of the resulting allocations in respect of Surrendered Capacity that they made available. Information provided will include for each ASEP where capacity was surrendered:

- The ASEP;
- The quantity offered for surrender;
- The quantity re-allocated (at the same ASEP or at a different ASEP);
- The Unit Offer Price(s).

Thereafter, within a further one (1) Business Day information will be provided to all Users in accordance with UNC Section B paragraph 2.14.2. In addition the following information will be provided:

- In respect of each ASEP for the relevant month:
 - the aggregate amount of Monthly NTS Entry Capacity allocated under
 - the Initial Stage; and
 - the Transfer and Trade Stage;
- the aggregate amount of Surrendered Capacity re-allocated;
- the revised quantity of NTS Entry Capacity, if any, that National Grid NTS is obliged to make available for sale at future, i.e. Daily, auctions.
- In respect of each Donor ASEP
 - the aggregate amount of unsold Monthly NTS Entry Capacity allocated to each Recipient ASEP under the Transfer and Trade Stage;
- In respect of each Recipient ASEP:
 - the highest, lowest and WAP of all accepted bids in the Transfer and Trade Stage;
 - The order in which Recipient ASEP Groups were satisfied.
 - The aggregate Exchange Rate in respect of each relevant Donor ASEP.

Charges and Overruns

Subject to the criteria within the Initial and the Transfer and Trade stages, National Grid NTS will accept bids in respect of which NTS Entry Capacity is allocated in accordance with those stages.

In respect of a Transfer each User:

- whose bid is so accepted will be registered as holding NTS Monthly Entry Capacity (in the amount so allocated) for the relevant month in respect of the Aggregate System Entry Point; and
- when tendering in respect of each capacity bid will bid a price. The User agrees by making such application to pay, by way of NTS Entry Capacity Charges, the relevant bid price for the relevant month in respect of the NTS Monthly Entry Capacity allocated in accordance with the Initial and Transfer and Trade stages pursuant to such capacity bid.

In respect of a Trade the surrendering User:

- whose Surrendered Capacity is (partly) re-allocated shall remain, only for the purpose of liability for Capacity Charges, the registered holder of NTS Monthly Entry Capacity (in the amount so surrendered whether or not it is re-

allocated) for the relevant month in respect of the Aggregate System Entry Point.

In respect of a Trade, the User who receives an allocation of capacity:

- shall, except in respect of Capacity Charges, be treated as holding NTS Monthly Entry Capacity (in the amount so re-allocated) for the relevant month in respect of the Aggregate System Entry Point; and
- when tendering in respect of each capacity bid will bid a price. The User agrees by making such application to pay the relevant bid price for the relevant month in respect of the NTS Monthly Entry Capacity allocated in accordance with these processes pursuant to such capacity bid.

For the avoidance of doubt, in respect of a Trade, any payment made by the User that is allocated capacity will be processed through Capacity Neutrality Arrangements such that the surrendering User receives the payment made by that User.

For the avoidance of doubt, Users will pay Capacity Charges for the capacity allocated in the RMSEC auction i.e. quantity of NTS Entry Capacity allocated multiplied by the bid price tendered.

For the avoidance of doubt, any capacity allocated through the Initial Stage or the Transfer and Trade Stage shall be considered in respect of overruns.

- Allocated capacity shall be included in the User’s aggregate Available NTS Entry Capacity (determined as Fully Adjusted*) to determine the overrun quantity*;
- Re-allocated Surrendered Capacity shall not be included in the surrendering User’s aggregate Available NTS Entry Capacity (determined as Fully Adjusted) to determine the overrun quantity;
- RMSEC bid prices (in respect of satisfied bids) shall be considered in the determination of System Entry Overrun Charge* rates at the ASEP where the allocation is made;
- Unit Offer Prices in respect of allocated capacity shall be considered in the determination of System Entry Overrun Charge rates at the ASEP where capacity is surrendered.

Contingency

In the event that this Modification Proposal is accepted but the notice of implementation from the Authority is received too late for implementation on 1st (0187A on 1st-in) May 2008 then it shall apply from the earliest practicable date. For the avoidance of doubt implementation shall be according to the dates below.

Notice of implementation received before	Implementation in	Relevant period for release of capacity
1 st April 2008	June 2008 RMSEC auction (Trade I (0187A I i)nitiation P(0187A P p)rocess	July 2008

	commencing May 2008)	
1 st May 2008	July 2008 RMSEC auction (Trade I(0187A I i)nitiation P(0187A P p)rocess commencing May 2008)	August 2008
1 st Month M (where M is after May 2008)	M+2 RMSEC auction (Trade I(0187A I i)nitiation P(0187A P p)rocess commencing May 2008)	M+3

Implementation of this Modification Proposal is dependent upon Authority approval of the revised (187A ~~the revised~~ an appropriate) Entry Capacity Transfer and Trade Methodology Statement. National Grid NTS has revised the (0187 ~~has revised the will be required to produce a revised~~) Methodology Statement to align to this Modification Proposal.

0187

The following Suggested Text (draft) has been provided by the Proposer:

**UNIFORM NETWORK CODE
TRANSPORTATION PRINCIPLE DOCUMENT
SECTION B: SYSTEM USE AND CAPACITY**

Delete text at paragraph 2.3 and insert new text to read as follows:

2.3.1 In respect of each Aggregate System Entry Point National Grid NTS will each month invite applications (a "**rolling monthly invitation**") for Monthly NTS Entry Capacity for the following calendar month in accordance with this paragraph 2.3.

2.3.2 For the purposes of this paragraph 2.3:

- (a) "**Available Entry Capacity**" in respect of an Aggregate System Entry Point and a calendar month, is an amount of Monthly NTS Entry Capacity equal to:

$$A + B + C$$

where:

A is the Unsold NTS Entry Capacity (if any) for the calendar month;

B is the Incremental NTS Entry Capacity (if any) for the calendar month;

C is the Surrendered Entry Capacity (if any) for the calendar month;

- (b) "**Donor ASEP**" is an Aggregate System Entry Point in respect of which;

- (i) no rolling monthly capacity bid remains unsatisfied

following an allocation pursuant to paragraph 2.3.17; and

- (ii) there remains Available Entry Capacity for the relevant month;
- (c) "**inter-ASEP exchange rate**" is the rate, in respect of different pairs of Aggregate System Entry Points used by National Grid NTS for the purposes of paragraph 2.3.20 as established in accordance with the Entry Capacity Transfer and Trade Methodology Statement;
- (d) the "**Entry Capacity Transfer and Trade Methodology Statement**" is the Entry Capacity Transfer and Trade methodology statement prepared and published by National Grid NTS in accordance with Special Condition C8D of National Grid NTS's Transporter's Licence;
- (e) "**Recipient ASEP**" is an Aggregate System Entry Point in respect of which rolling monthly capacity bids remain unsatisfied following an allocation pursuant to paragraph 2.3.17;
- (f) "**relevant month**" is the calendar month in respect of which National Grid NTS shall invite Users to make rolling monthly surrender offers and rolling monthly capacity bid in accordance with this paragraph 2.3;
- (g) "**Surrendered Entry Capacity**" in respect of an Aggregate System Entry Point and a calendar month, is the aggregate amount of Monthly NTS Entry Capacity in respect of which Users have submitted rolling monthly surrender offers (excluding any rolling monthly surrender offer rejected in accordance with paragraph 2.3.9) in accordance with this paragraph 2.3;
- (h) "**unit price**" in respect of a rolling monthly capacity bid is calculated as follows:

$$X / Y$$

where:

X is the bid price (in pence/kWh Day) of the rolling monthly capacity bid;

Y is:

- (i) for the purposes of paragraph 2.3.17, one (1);
- (ii) the relevant inter-ASEP exchange rate applying between the Aggregate System Entry Point and the relevant Donor ASEP for the purposes of paragraph 2.3.20.

2.3.3 By not later than five (5) Business Days before the date on which National Grid NTS invites Users to make rolling monthly capacity bids National Grid NTS will invite Users to surrender Monthly NTS Entry Capacity at each Aggregate System Entry Point for the relevant month for the purposes of this paragraph 2.3.

2.3.4 Users may offer to surrender Monthly NTS Entry Capacity for each Day

in the relevant month in respect of an Aggregate System Entry Point.

- 2.3.5 National Grid NTS's invitation under paragraph 2.3.3 will specify:
- (a) the calendar month in respect of which the invitation is made;
 - (b) the date (the "**rolling monthly surrender date**") being one of the next two Business Days following the date on which National Grid NTS invites Users to surrender Monthly NTS Entry Capacity under paragraph 2.3.3 on which Users may notify National Grid NTS of amounts of NTS Monthly NTS Entry Capacity which they are willing to surrender for the relevant month;
 - (c) the prevailing reserve price for NTS Monthly NTS Entry Capacity at each Aggregate System Entry Point for the relevant month.
- 2.3.6 An offer ("**rolling monthly surrender offer**") to surrender Monthly NTS Entry Capacity pursuant to paragraph 2.3.6 shall specify:
- (a) the identity of the User ("**Surrender User**");
 - (b) the relevant month;
 - (c) the Aggregate System Entry Point;
 - (d) the amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity offered for surrender (in kWh/Day) ("**surrender amount**");
 - (e) the minimum price (the "**rolling monthly surrender price**") which shall not be greater than the reserve price (applying in respect of invitation for Monthly NTS Entry Capacity held in the relevant month) which the User wishes to be paid in respect of the surrender of Monthly NTS Entry Capacity.
- 2.3.7 A User may have at any one time up to but no more than two (2) rolling monthly surrender offers in respect of a particular Aggregate System Entry Point.
- 2.3.8 A rolling monthly surrender offer:
- (a) may not be submitted before 08:00 hours or after 17:00 hours on a rolling monthly surrender date;
 - (b) may be withdrawn or amended after 08:00 hours and until 17:00 hours on a rolling monthly surrender date.
- 2.3.9 National Grid NTS will reject a rolling monthly surrender offer submitted on the invitation date where:
- (a) the requirements of paragraphs 2.3.6, 2.3.7 or 2.3.8 are not complied with;
 - (b) the amount of Monthly NTS Entry Capacity offered for surrender exceeds the amount of the User's Available Firm Monthly NTS Entry Capacity at the Aggregate System Entry Point (determined by reference to System Capacity Transfers which at the relevant time have become effective in accordance with paragraph 5.2.4 and the provisions of this paragraph 2.3).

2.3.10 National Grid NTS's invitation under paragraph 2.3.1 will specify:

- (a) the date ("**rolling monthly**" invitation date) being one of the twenty (20) Business Days preceding the last Business Day of the calendar month preceding the relevant month on which applications pursuant to a rolling monthly invitation may be made;
- (b) for each Aggregate System Entry Point the:
 - (i) the Surrendered Entry Capacity;
 - (ii) the Available Entry Capacity;
- (c) the reserve price to be applied.

2.3.11 Users may apply for Monthly NTS Entry Capacity in respect of an Aggregate System Entry Point for the relevant month on the rolling monthly invitation date.

2.3.12 An application (a "**rolling monthly**" capacity bid) for Monthly NTS Entry Capacity shall specify:

- (a) the identity of the User;
- (b) the relevant month;
- (c) the Aggregate System Entry Point;
- (d) the amount of Monthly NTS Entry Capacity (not less than the minimum eligible amount) applied for (in kWh/Day);
- (e) the minimum amount (not less than the minimum eligible amount) of Monthly NTS Entry Capacity which the User is willing to be allocated for the purposes of paragraphs 2.3.17 and 2.3.20); and
- (f) the amount (the "**bid price**") which shall not be less than the reserve price (applying in respect of invitation for Monthly NTS Entry Capacity held in the relevant month) which the User is willing to pay by way of Capacity Charge in respect of the Monthly NTS Entry Capacity applied for.

2.3.13 A User may have at any one time up to but no more than twenty (20) rolling monthly capacity bids in respect of a particular Aggregate System Entry Point.

2.3.14 A rolling monthly capacity bid:

- (a) may not be submitted before 08:00 hours or after 17:00 hours on a rolling monthly invitation date;
- (b) may be withdrawn or amended after 08:00 hours and until 17:00 hours on rolling monthly invitation date.

2.3.15 National Grid NTS will reject a rolling monthly capacity bid submitted on a rolling monthly invitation date where:

- (a) the bid price is less than the reserve price;
- (b) the requirements of paragraphs 2.3.12, 2.3.13 or 2.3.14 are not complied with

and National Grid NTS may reject a rolling monthly capacity bid in

accordance with Section V3.

2.3.16 Following the submission of rolling monthly surrender offers and rolling monthly capacity bids Monthly NTS Entry Capacity will be allocated for the relevant month at an Aggregate System Entry Point:

- (a) first in accordance with paragraph 2.3.17;
- (b) where paragraph 2.3.18 applies, thereafter in accordance with paragraph 2.3.20

for which purposes National Grid NTS may ignore (such that the rolling monthly surrender offer has no effect for the purposes of this paragraph 2.3) any rolling monthly surrender offer where at the time of ranking rolling monthly capacity bids in accordance with paragraphs 2.3.17(a) and 2.3.20(a) the amount of Monthly NTS Entry Capacity offered for surrender exceeds the amount of the User's Available Firm Monthly NTS Entry Capacity at the Aggregate System Entry Point.

2.3.17 Monthly NTS Entry Capacity in respect of an Aggregate System Entry Points will be allocated pursuant to rolling monthly capacity bids submitted in respect of the relevant month as follows:

- (a) all rolling monthly capacity bids (excluding any rejected pursuant to paragraph 2.3.15) will be ranked in order of price (highest ranking first);
- (b) Monthly NTS Entry Capacity will be allocated to rolling monthly capacity bids with the highest bid price first until such time as all the rolling monthly capacity bids are satisfied or the amount of Monthly NTS Entry Capacity allocated is equal to the Available Entry Capacity at the Aggregate System Entry Point;
- (c) for the purposes of paragraph (b) where an allocation of Monthly NTS Entry Capacity is made following acceptance of a rolling monthly capacity bid:
 - (i) National Grid NTS will first reduce the amount of Surrendered Entry Capacity,
 - (ii) in reducing the Surrendered Entry Capacity National Grid NTS will be deemed to have accepted one or more rolling monthly surrender offers at the Aggregate System Entry Point, for which purpose National Grid NTS shall be deemed to have accepted rolling monthly surrender offers in price order (highest ranking first) and where two or more rolling monthly surrender offers have the same rolling monthly surrender price the offers shall be accepted on a pro rata basis;
 - (iii) where following the application of paragraph (ii) there remains no Surrendered Entry Capacity National Grid NTS will, subject to paragraph (d), next reduce the amount of Unsold NTS Entry Capacity at the Aggregate System Entry Point;
- (d) subject to paragraphs (e), (f) and (g) where the amount of Monthly

NTS Entry Capacity applied for under a rolling monthly capacity bid exceeds the amount ("**remaining unallocated amount**") of the Available Entry Capacity remaining unallocated after allocation to higher priced bids the User will be allocated an amount equal to the remaining unallocated amount;

- (e) subject to paragraphs (f) and (g), where two or more rolling monthly capacity bids ("**equal priced bids**") specify the same bid price, and the amount of Monthly NTS Entry Capacity applied for in aggregate under the equal priced bids exceeds the remaining unallocated amount, the remaining unallocated amount shall be allocated pro rata the amounts applied for in each such rolling monthly capacity bid;
- (f) where the amount to be allocated in respect of a rolling monthly capacity bid pursuant to paragraphs (d) and (e) would be less than the minimum amount specified in the bid, the rolling monthly capacity bid will (without prejudice to paragraph 2.3.20) be disregarded for the purposes of this paragraph 2.3.17) and an allocation made in respect of the next ranked rolling monthly capacity bid; and
- (g) where the amount to be allocated in respect of any rolling monthly capacity bid would be less than the minimum eligible amount, no allocation shall be made to that bid (and no further allocation shall be made).

2.3.18 Where following an allocation in accordance with paragraph 2.3.17 there remains rolling monthly capacity bids which are unsatisfied in respect on Aggregate System Entry Point ("**unsatisfied bids**") and Available Entry Capacity at any other Aggregate System Entry Point:

- (a) the unsatisfied bids for each Recipient ASEP will be grouped in accordance with paragraph 2.3.19 (for which purposes a rolling monthly capacity bid which remains unsatisfied will be included only in respect of the unsatisfied bid quantity); and
- (b) a further allocation of Monthly NTS Entry Capacity will take place at Recipients ASEPs in accordance with paragraph 2.3.20.

2.3.19 For the purposes of paragraph 2.3.20 and in respect of each Recipient ASEP:

- (a) the "**unsatisfied bid quantity**" is the aggregate quantity of Monthly NTS Entry Capacity for which unsatisfied bids were made;
- (b) the unsatisfied bids will be grouped on the following basis:
 - (i) the unsatisfied bids will be ranked in price order (highest ranking first);
 - (ii) subject to there being sufficient unsatisfied bids, the unsatisfied bids will be grouped in descending price order into a maximum of four (4) bid groups (each an "**unsatisfied bid group**") where each such bid group shall

comprise one or more unsatisfied bids in respect of which the aggregate amount of Monthly NTS Entry Capacity applied for is as near as possible equal to 25% of the unsatisfied bid quantity;

- (iii) where an unsatisfied bid could be included, for the purposes of paragraph (ii), in two (2) unsatisfied bid groups it shall be included in the group with the higher unsatisfied bid group price;
 - (iv) where the number or characteristics of the unsatisfied bids at a Recipient ASEP are such to prevent the identification of four (4) groups in the manner anticipated by paragraph (ii) a lesser number of unsatisfied bid groups may be identified comprising as equal a distribution of the unsatisfied bid quantity as is possible;
- (c) for each unsatisfied bid group the "**unsatisfied bid group price**" shall be calculated as follows:

$$UBGP = UBGV / UBGQ$$

where:

UBGV is the sum of the value of each rolling monthly capacity bids comprised in the unsatisfied bid group, being in the case of each rolling monthly capacity bid the bid price multiplied by the unsatisfied bid quantity;

UBGQ is the sum of all unsatisfied bid quantities for rolling monthly capacity bids comprised within the unsatisfied bid group.

2.3.20 Where paragraph 2.3.18 applies Monthly NTS Entry Capacity in respect of a Recipient ASEP will be allocated pursuant to rolling monthly capacity bids comprised in unsatisfied bid groups and submitted in respect of the relevant month as follows:

- (a) all unsatisfied bid groups will be ranked in order of unsatisfied bid group price (highest ranking first), and where two or more unsatisfied bid groups have the same unsatisfied bid group price, the unsatisfied bid groups will be ranked by reference to:
 - (i) first, the bid price of rolling monthly capacity bids comprised in each unsatisfied bid group, with the unsatisfied bid group with the highest individual bid price ranking highest;
 - (ii) second, by aggregate quantity applied for in each unsatisfied bid group, with the unsatisfied bid group with the largest aggregate bid quantity ranking highest;
 - (iii) third, by the time the rolling monthly capacity bids were first submitted by Users, with the unsatisfied bid group with the earliest submitted rolling monthly capacity bid ranking highest;

- (b) where following the initial ranking of unsatisfied bid groups in accordance with paragraph (a) there are unsatisfied bid groups at the same Recipient ASEP ranked consecutively, the unsatisfied bid groups will be amalgamated for the purposes of determining the inter-ASEP exchange rate when allocating Monthly NTS Entry Capacity to rolling monthly capacity bids comprised in the amalgamated unsatisfied bid group;
- (c) subject to paragraphs (d) and (k), Monthly NTS Entry Capacity will be allocated to rolling monthly capacity bids comprised in the unsatisfied bid group with the highest unsatisfied bid group price until such time as:
 - (i) all the rolling monthly capacity bids comprised in the unsatisfied bid group are satisfied;
 - (ii) Monthly NTS Entry Capacity is only available on the basis of the application at a Donor ASEP of an inter-ASEP exchange rate which exceeds 10:1; or
 - (iii) there is no Available Entry Capacity at any Donor ASEPs;
- (d) for the purposes of paragraph (c):
 - (i) when considering an unsatisfied bid group National Grid NTS will rank each Donor ASEP by reference to the inter-ASEP exchange rate applying between the Recipient ASEP and the Donor ASEP, with the Donor ASEP with the lowest inter-ASEP exchange rate ranking highest and in accordance with the Entry Capacity Transfer and Trade Methodology Statement;
 - (ii) National Grid NTS will allocate Monthly NTS Entry Capacity to rolling monthly capacity bids comprised in a unsatisfied bid group by reference to the highest ranked Donor ASEP first and where there is no longer Available Entry Capacity at a Donor ASEP National Grid NTS shall consider the next ranked Donor ASEP;
 - (iii) where there is no longer Available Entry Capacity at a Donor ASEP National Grid NTS may reconsider the order in which the remaining Donor ASEPs are ranked for the purpose of this paragraph 2.3.20;
 - (iv) National Grid NTS will allocate Monthly NTS Entry Capacity to a rolling monthly capacity bid comprised in an unsatisfied bid group in an amount less than was applied for (not less than the minimum eligible amount or the minimum amount applied for);
 - (v) where all the rolling monthly capacity bid comprised in an unsatisfied bid group cannot be satisfied by reference to the Available Entry Capacity at a Donor ASEP(s) National Grid NTS will allocate Monthly NTS Entry Capacity to the rolling monthly capacity bid comprised in the unsatisfied bid group in bid price order, allocating Monthly NTS Entry

Capacity to the rolling monthly capacity bid with the highest bid price first (and where there are two or more rolling monthly capacity bids with the same bid price Monthly NTS Entry Capacity shall be allocated by reference to the time the rolling monthly capacity bids were first submitted by Users, with the earliest submitted rolling monthly capacity bid ranking highest);

- (vi) where rolling monthly capacity bids comprised in an unsatisfied bid group remain unsatisfied following consideration of all relevant Donor ASEPs (whether in whole or part) the rolling monthly capacity bid will be treated for the purposes of this paragraph 2.3.20 as being comprised in the next ranked unsatisfied bid group (and the unsatisfied bid group price for the next ranked unsatisfied bid group shall not be recalculated);
- (e) where Monthly NTS Entry Capacity is allocated to a rolling monthly capacity bid comprised in an unsatisfied bid group the Available Entry Capacity at the relevant Donor ASEP shall be reduced by an amount calculated as follows:

$$P * Q$$
 where:
 P is the bid quantity in respect of which the rolling monthly capacity bid was made;
 Q is the inter-ASEP exchange rate applying between the Recipient ASEP and the relevant Donor ASEP;
- (f) for the purposes of paragraph (e), where an allocation of Monthly NTS Entry Capacity is made:
 - (i) National Grid NTS will first reduce the amount of Surrendered Entry Capacity at the relevant Donor ASEP;
 - (ii) in reducing the Surrendered Entry Capacity National Grid NTS will be deemed to have accepted one or more rolling monthly surrender offers, for which purpose National Grid NTS shall be deemed to have accepted rolling monthly surrender offers in price order (highest ranking first);
 - (iii) where a rolling monthly surrender offer is treated as accepted for the purposes of paragraph (iii) the User's Available Firm NTS Entry Capacity at the Donor ASEP shall be reduced by an amount equal to the surrender amount for such of the rolling monthly surrender offer which is treated as being accepted;
 - (iv) where following the application of paragraph (iii) there remains no Surrendered Entry Capacity National Grid NTS will, subject to paragraph (g), next reduce the amount of Unsold NTS Entry Capacity;
- (g) subject to paragraphs (h), (i) and (j) where the amount of Monthly

NTS Entry Capacity applied for under a rolling monthly capacity bid exceeds the amount ("**remaining unallocated amount**") of the Available Entry Capacity remaining unallocated after allocation to higher priced bids the User will be allocated an amount equal to the remaining unallocated amount;

- (h) subject to paragraphs (i) and (j), where two or more rolling monthly capacity bids ("**equal priced bids**") specify the same bid price, and the amount of Monthly NTS Entry Capacity applied for in aggregate under the equal priced bids exceeds the remaining unallocated amount, the remaining unallocated amount shall be allocated pro rata the amounts applied for in each such rolling monthly capacity bid;
- (i) where the amount to be allocated in respect of a rolling monthly capacity bid pursuant to paragraphs (g) and (h) would be less than the minimum amount specified in the bid, the rolling monthly capacity bid will be disregarded for the purposes of this paragraph 2.3.20) and an allocation made in respect of the next ranked rolling monthly capacity bid; and
- (j) where the amount to be allocated in respect of any rolling monthly capacity bid would be less than the minimum eligible amount, no allocation shall be made to that bid (and no further allocation shall be made);
- (k) for the purposes of paragraph (f)(ii):
 - (i) National Grid NTS will not allocate Monthly NTS Entry Capacity to a rolling monthly capacity bid comprised in a unsatisfied bid group where the allocation is satisfied by the reduction of Surrendered Entry Capacity at a Donor ASEP in respect of which the rolling monthly surrender price of a rolling monthly surrender offer is greater than the unit price for the rolling monthly capacity bid;
 - (ii) where an allocation is made by reference to Surrendered Entry Capacity comprised in two or more rolling monthly surrender offers at a Donor ASEP the allocation shall be made on a pro rate basis.

2.3.21 Where a rolling monthly surrender offer or rolling monthly capacity bid is accepted:

- (a) the Surrender User shall remain liable for the Capacity Charges payable in respect of the Monthly NTS Entry Capacity for the relevant month;
- (b) the User who submitted the rolling monthly capacity bid agrees to pay by way of NTS Entry Capacity Charges the relevant bid price for the relevant month in respect of the Monthly NTS Entry Capacity allocated in accordance with this paragraph 2.3;
- (c) where Monthly NTS Entry Capacity is allocated to a rolling

monthly capacity bid by reason of the acceptance of a rolling monthly surrender offer National Grid NTS shall pay to the Surrender User an amount equal to the unit price multiplied by the amount of Monthly NTS Entry Capacity surrendered (and allocated as Monthly NTS Entry Capacity in accordance with paragraphs 2.3.17 and 2.3.20).

2.3.22 Where a:

- (a) rolling monthly surrender offer is accepted, the amount of Monthly NTS Entry Capacity held by the User whose rolling monthly surrender was accepted at the relevant Aggregate System Entry Point for the relevant month will be reduced by the amount for which the offer was accepted;
- (b) rolling monthly capacity bid is accepted the User whose rolling monthly capacity bid was accepted shall be registered as holding Monthly NTS Entry Capacity (in the amount so allocated) for the relevant month at the relevant Aggregate System Entry Point.

2.3.23 Amounts due under paragraph 2.3.21 shall be invoiced and payable in accordance with Section S.

2.3.24 Where a User surrenders Monthly NTS Entry Capacity in accordance with paragraph 2.3.17 or 2.3.20 National Grid NTS will be treated as having complied with the requirements of Special Condition CD8(12) of National Grid NTS's Transporter' Licence; and where a User is allocated Monthly NTS Entry Capacity in accordance with paragraph 2.3.20 National Grid NTS will be treated as having complied with the requirements of Special Condition CD8(11) and (12) of National Grid NTS's Transporter' Licence.

Amend text at paragraph 2.7.1 to read as follows:

"Following the submission of monthly capacity bids, ~~rolling monthly~~, daily capacity bids and interruptible daily capacity bids,".

Amend text at paragraph 2.7.5 to read as follows:

"...(in accordance with paragraph 2.2.7(f), ~~2.3.4(f)~~, 2.4.2(f) or 2.5.2(f))....".

Amend text at paragraph 2.7.6(a)(i) to read as follows:

"in the case of an annual invitation ~~or rolling monthly invitation~~ under paragraphs 2.2 ~~and 2.3~~,".

Delete paragraph 2.7.7(c) and renumber paragraphs 2.7.7(d) and (e) as paragraphs 2.7.7(c) and (d).

Amend paragraph 2.12.3(e) to read as follows:

"....

(c); ~~and~~

(d); and

(e) (1.1 * E), where 'E' is the highest unit price accepted by National

Grid NTS

where (a), (b), (c), ~~and~~ (d) and (e) are....".

Amend paragraph 2.13.2(a)(i) to read as follows:

- (i)
 - (1)
 - (2); ~~and~~
 - (3); and
 - (4) Monthly NTS Entry Capacity is allocated pursuant to paragraph 2.3 by reason of the acceptance of a rolling monthly surrender offer
at the Aggregate System Entry Point."

Amend paragraph 2.13.2(b) to read as follows:

- (b)
....
 - (iii); ~~and~~
 - (iv); and
 - (v) amounts payable by National Grid NTS in accordance with paragraph 2.3.21(c)
in relation to....".

Amend text at paragraph 2.14.2 to read as follows:

"Following each allocation of NTS Entry Capacity pursuant to paragraphs 2.2, ~~2.3~~, 2.4 and 2.5 National Grid NTS will,

Add new text at paragraph 2.14.3 to read as follows:

2.14.3 Following an allocation of NTS Entry Capacity pursuant to paragraph 2.3, National Grid NTS will:

- (a) by not later than three (3) Business Days before the last Business Day of the calendar month preceding the relevant month, notify each User who submitted a rolling monthly capacity bid for the relevant month and in respect of each Aggregate System Entry Point, of:
 - (i) the rolling monthly capacity bids in respect of which an allocation of Monthly NTS Entry Capacity was made in accordance with paragraph 2.3 and the amount of the allocation in respect of each such rolling monthly capacity bid;
 - (ii) the amount of Monthly NTS Entry Capacity held in aggregate by the User for the relevant month;

- (iii) the amount of Monthly NTS Entry Capacity held in aggregate by the User for the relevant month pursuant to an allocation in accordance with paragraph 2.3;
- (b) by not later than three (3) Business Days before the last Business Day of the calendar month preceding the relevant month, notify each User who submitted a rolling monthly surrender offer for the relevant month and in respect of each Aggregate System Entry Point, of:
 - (i) the rolling monthly surrender offers in respect of which Monthly NTS Entry Capacity was surrendered and the amount of Monthly NTS Entry Capacity surrendered in respect of each such rolling monthly surrender offer;
 - (ii) the aggregate quantity of Monthly NTS Entry Capacity which was surrendered for the purposes of this paragraph 2.3;
 - (iii) the unit price in respect of each rolling monthly surrender offer in respect of which Monthly NTS Entry Capacity was surrendered;
- (c) by not later than the Business Day following the notification under paragraphs (a) and (b), notify all Users in respect of each Aggregate System Entry Point, of:
 - (i) the information referred to in paragraph 2.14.2 (other than the relevant step price group);
 - (ii) the amount of Monthly NTS Entry Capacity allocated for the relevant month pursuant to paragraph 2.3.17;
 - (iii) the amount of Monthly NTS Entry Capacity allocated for the relevant month pursuant to paragraph 2.3.20;
 - (iv) the aggregate amount of Monthly NTS Entry Capacity surrendered for the relevant month;
 - (v) that quantity (if any) of Daily NTS Entry Capacity which National Grid NTS is required to make available to Users in accordance with paragraph 2.4 for the relevant month;
 - (vi) for each Donor ASEP the aggregate amount by which the Unsold NTS Entry Capacity at the Donor ASEP was reduced in accordance with paragraph 2.3.20;
 - (vii) for each Recipient ASEP:
 - (1) the order in which the unsatisfied bid group were ranked for the purposes of paragraph 2.3.20;
 - (2) the highest and lowest bid price and the weighted average price (calculated in a manner consistent with the calculation in paragraph 2.14.2(f)) in respect a rolling monthly capacity bids for which Monthly NTS Entry Capacity was allocated under paragraph 2.3.20;

- (3) the weighted average inter-ASEP exchange rate for each combination of Recipient ASEP and Donor ASEP utilised for the purposes of paragraph 2.3.20.

UNIFORM NETWORK CODE TRANSITION DOCUMENT PART IIC

Add new paragraph 1.1.8 to read as follows:

1.1.8 TPD Section B2.3

National Grid NTS will invite applications for Monthly NTS Entry Capacity in May 2008 and allocate Monthly NTS Entry Capacity in respect of June 2008 in accordance with the provisions of TPD Section B2.3 which applied immediately prior to the implementation of the Modification which first gives effect to this paragraph 1.1.8.

0187A

No suggested text has been produced by the Proposer

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 facilitate the achievement of this relevant objective by providing Users at sold out ASEPs with the opportunity of seeking to procure available capacity from other ASEPs. This would reduce the occurrence of sterilisation of capacity at locations where it was not needed and reduce stranding of gas offshore due to the lack of capacity where it was most valued.

In order to maximise the efficient use of the NTS, the Proposals detail the process by which capacity would be moved between ASEPs.

The use of specific Exchange Rates, determined after the Initial Stage of the RMSEC process, would ensure that the availability of capacity was maximised at Recipient ASEPs. This is because each Transfer and Trade would be dependent upon the network potentially modified by previous Transfer and Trades. The benefits of using specific exchange rates have been discussed and supporting data provided in Transmission Workstream meetings. This has demonstrated that, through the use of specific exchange rates, this relevant objective would be better met than through fixed generic exchange rates.

0187

Some respondents suggested that implementation of Proposal 0187, by matching the highest price bids with the highest priced capacity, would facilitate greater levels of release and more efficient allocation than Proposal 0187A. Others disagreed, suggesting that implementation would maximise the destruction of capacity at the donor ASEP.

0187A

EDFE argued that, if 0187 were implemented, a User that had bought capacity at

an ASEP at above the reserve price could only place a reserve price on its surrendered capacity and thus would be inhibited from releasing that capacity. With 0187A, however, there are no reserve price maxima, and this would encourage the maximum amount of capacity to be surrendered.

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 of this Proposal would satisfy the obligations within Special Conditions C8D paragraphs 11 and 12 which require National Grid NTS to facilitate the transfer and trade of capacity between ASEPs. This Proposal has been developed such that it meets the requirements of the Entry Capacity Transfer (and Trade) Objectives detailed in these paragraphs 11 and 12.

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

(i) between relevant shippers;....

Both Proposals

Implementation would facilitate the achievement of this relevant objective by use of a pay-as-bid auction for the allocation of capacity not required by Users at a particular ASEP. By integrating the surrender mechanism into the RMSEC auction, competition would potentially be improved by enabling any User to obtain such capacity through placing the highest bid.

However, whilst acknowledging the potential achievement of a higher utilisation of installed capacity, some respondents believed that implementation by adding further complexity into Entry Capacity arrangements may deter new entrants and new gas flows. STUK also pointed out that bringing the RMSEC auction forward in the month would lead to less efficient bidding due to the additional uncertainty. STUK expressed concern that implementation might lead to an increase in constraints on the NTS so leading to increased gas prices.

0187

Some respondents suggested implementation of this Proposal, as compared with 0187A, by setting a cap at the reserve price, would provide less opportunity for gaming through speculative purchase of capacity at one ASEP to be used elsewhere.

However, E.ON argued that offering the surrendered capacity firstly at the ASEP where that capacity was surrendered would give capacity holders at that ASEP a competitive advantage. Some respondents also suggested that this relevant objective would not be facilitated due to the arbitrary constraint on exchange rates and limitations on information available to Users prior to the auction, including price and exchange rates. Other respondents accepted these limitations to the ex ante information available on the basis that this approach would serve to maximise the capacity transferred.

0187A

Some respondents suggested that as 0187A allowed Users to value their own capacity holdings, it would encourage more capacity to be surrendered into the RMSEC process, and therefore facilitate this relevant objective to a greater degree. Respondents who suggested that more capacity would be surrendered if 0187 was implemented took the opposite view.

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

Both Proposals

Some respondents argued that implementation would enhance security of supply by allowing Users the opportunity to obtain additional Capacity at sold out ASEPs than would otherwise be the case.

By linking the Transfer and Trade process to the RMSEC auctions Users would have an opportunity to confirm their requirements at specific ASEPs prior to its potential allocation elsewhere.

However, other respondents argued that, due to the increased complexity of entry arrangements, implementation could inhibit new sources of gas which would not enhance 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

Implementation has the potential of affecting the operation of the System by increasing physical constraints which may require commercial actions. By optimising the release of Entry Capacity, these Proposals would provide a greater opportunity to ensure delivery of gas supplies where demand was in excess of the obligated capacity level at an ASEP, but would reduce the ability for gas to flow at ASEPs where capacity had not been bought up to expected flow.

The degree to which such effects may be experienced is heavily dependent upon the Exchange Rates used. Hence, approval of the Methodology Statement is critical to managing the extent of any increase in physical constraints.

b) Development and capital cost and operating cost implications:

Implementation would have cost implications related to the delivery of the required system changes and calculation of Exchange Rates. The increasing complexity of the regime would have an ongoing overhead associated with it. By integrating Transfers and Trades within the RMSEC process, costs should be lower than for an entirely separate auction process.

0187

In addition, implementation might avoid the potential sterilisation of Entry Capacity and hence costs would be more efficiently incurred, although operational buy back costs might increase. National Grid NTS has developed a methodology to determine Exchange Rates that should avoid a material increase

in costs but this cannot be guaranteed if actual gas supplies differ from that assumed. A number of respondents pointed out the lack of transparency surrounding how these Exchange Rates are calculated in accordance with the methodology and suggested that an external audit would be required to provide assurance that this stated aim, ie no material increase in costs, is achieved in practice.

0187A

In addition, the Proposal, if implemented, may avoid the potential sterilisation of Entry Capacity and hence costs being inefficiently incurred. British Gas is confident that National Grid will manage any risk associated with buy-back costs.

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

Both Proposals

Under the current charging arrangements it would not currently be possible to develop an associated charging regime that would be cost reflective. However National Grid NTS intends to review charging arrangements as part of an ongoing review of transportation charges.

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

Both Proposals

No such consequence has been identified.

- 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

Implementation should have no material impact on the level of contractual risk of each Transporter. However, STUK pointed out that there may be a material impact if actual gas supplies differ from that assumed.

- 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

It is envisaged that implementation would have an impact on the UK Link system. National Grid NTS has requested that the impact be assessed by xoserve.

It is expected that approval of this Modification Proposal before 29th February 2008 would enable changes to be implemented in the November 2008 GEMINI release. Manual processes, using existing functionality where available, would be required until systems changes were implemented.

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

Administrative and operational implications would be expected for Users intending to utilise the proposed trade and transfer process.

Development and capital cost and operating cost implications

Both Proposals

Use of a pay-as-bid auction would be expected to ensure that surrendering Users receive the market price for capacity and similarly Users acquiring gas would pay the market price. Users costs would therefore better reflect market prices than if either Proposal were not implemented.

Consequence for the level of contractual risk of Users

Both Proposals

Implementation, by competitively deriving a market price for capacity, might consequently affect the contractual risk faced by bidding Users. STUK pointed out that transferring capacity too far in advance may increase the contractual risk on Users due to gas being stranded at the donor ASEP.

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

Both Proposals

As implementation could increase competition for Entry Capacity, Storage Operators and producers may have greater opportunity to secure capacity to allow them to input their gas onto the NTS; but they may have less certainty in respect of its availability.

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 consequence has been identified.

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

Advantages

0187

Implementation:

- Would facilitate flexibility for available capacity to be re-allocated to where Users value it most;
- Would maximise the potential Exchange Rate between ASEPs, thus maximising the efficient use of the NTS;
- Would allow Users the opportunity to secure additional capacity, in excess of an ASEP's obligated level, therefore allowing gas flows onto the System that would otherwise be prevented;
- Might avoid the potential sterilisation of Entry Capacity and hence costs being inefficiently incurred;
- Would bring forward the date of the RMSEC auction so that Users could manage their positions earlier than is currently the case, ie allows more time for other actions, if bids were rejected; and
- Could be implemented ahead of next Winter.

0187A

Implementation by:

- allowing Users to place an uncapped price on surrendered capacity would maximise the amount of capacity that is potentially surrendered.
- allocating bids starting at the lowest bid price and going up the price stack would maximise the efficient and economic trade of capacity.
- encouraging more capacity to be surrendered, would ensure the most beneficial Exchange Rate between ASEPs, thus maximising efficient use of the NTS.
- allowing Users the opportunity to secure additional Capacity, in excess of an ASEP's obligated level, would therefore allow gas flows onto the System that would otherwise be prevented.
- seeking to minimise the potential sterilisation of Entry Capacity, would reduce the potential for costs being inefficiently incurred.
- bringing forward the date of the RMSEC auction would mean that Users could manage their positions earlier than is currently the case, i.e. would allow more time for other actions if bids are rejected.

This proposal could be implemented ahead of next Winter and would allow unsold firm entry capacity to take its correct value in the surrender process.

Disadvantages

Both Proposals

Implementation would:

- Add further complexity into Entry Capacity arrangements, and may deter new storage entrants or new sources of gas.
- Bring forward the date of the RMSEC auction so that Users would have to manage their positions further away from real time than is currently the case,

ie with less knowledge of their requirements.

- Reduce the unsold level of Firm Capacity available at certain ASEP(s) in the Daily Entry Capacity Auctions. This might result in other gas not being able to flow on a Firm basis. However, National Grid has the ability to release additional discretionary firm capacity, and interruptible capacity.

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

Representations were received from the following:

		0187	0187A	Preference
BG Gas Services Limited	(BG)	Support	Support	0187
British Gas Trading Limited	(BGT)	Not in support	Support	0187A
Centrica Storage Limited	(CSL)	Not in support	Support	0187A
EDF Energy	(EDFE)	Support	Support	0187A
E.ON UK plc	(EON)	Comments	Comments	Neither
National Grid Gas Distribution	(NGD)	Support	Not in support	0187
National Grid NTS	(NGNTS)	Support	Support	0187
RWE group	(RWE)	Support	Not in support	0187
Scottish and Southern Energy plc	(SSE)	Qualified support	Not in support	0187
ScottishPower Energy Management	(SP)	Support	Not in support	0187
Statoil (UK) Ltd	(STUK)	Comments	Comments	Neither

Thus of the eleven responses received, six supported implementation of 0187, one offered qualified support, two offered comments, and two were not in support.

In respect of Proposal 0187A, five supported implementation, two offered comments, and four were not in support.

Of the responses received, five indicated a preference for 0187, and three for 0187A.

In addition to its representation, NGNTS has provided suggested legal text for both Proposals.

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

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

No such requirement has been identified.

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

It is anticipated that National Grid NTS would initiate a programme for works in respect of operational processes and associated systems in the event of implementation.

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

0187

The Proposer recommended that this Proposal be implemented in May 2008 so that experience would be gained in the operation of Transfer and Trade process and the determination of Exchange Rates before the 2008/09 winter period.

187A

The Proposer recommended that this Proposal be implemented in June 2008 such that experience can be gained in the operation of Transfer and Trade process and the determination of Exchange Rates before the 2008/09 winter period.

Both Proposals

This would allow timescales to be condensed so that the RMSEC auction can be nearer the end of the month and Users will have greater understanding of bidding requirements.

A decision on implementation before 29th February 2008 should enable systems requirements to be considered for the November 2008 GEMINI release.

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

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

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

At the Modification Panel meeting held on 21 February 2008, of the 10 Voting Members present, capable of casting 10 votes, 9 votes were cast in favour of implementing Modification Proposal 0187. Therefore the Panel recommended implementation of Modification Proposal 0187. At the same meeting, 7 votes were cast in favour of implementing Alternative Proposal 0187A. Therefore the Panel recommended implementation of Alternative Proposal 0187A.

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 10 Voting Members present, capable of casting 10 votes, 7 votes were cast in favour of implementing Proposal 0187 in preference to Alternative Proposal 0187A, and 1 vote were cast in favour of implementing the Alternative Proposal 0187A in

preference to Proposal 0187. Therefore, the Panel determined that, of the two Proposals, Proposal 0187 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

Text for both Proposals has been published alongside this Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters