

CODE MODIFICATION PROPOSAL No: 0187A
Alterations to the RMSEC Auction to Accommodate Transfer and Trade of Capacity
between ASEPs
Version 1.0

Date: 23/01/2008

Proposed Implementation Date: 01/05/2008

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

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.

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.

Summary of this Proposal:

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 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 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.

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.

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".
 - 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.
- 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.

- 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.

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 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", 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);
 - the volumes of Available Capacity to be offered at, above, and below the Unsold reserve price; and
 - 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:
 - 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.
 - 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:
 - i. Highest individual bid within the Group; then by
 - ii. Quantity of the Group; then by
 - iii. 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:

- 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.
- 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.

$$\text{Unit Offer Price} = \text{Recipient bid price} / \text{Exchange Rate.}$$

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;
- 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.

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 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 initiation process commencing May 2008)	July 2008
1 st May 2008	July 2008 RMSEC auction (Trade initiation process commencing June 2008)	August 2008
1 st Month M (where M is after May 2008)	M+2 RMSEC auction (Trade initiation process commencing M+1)	M+3

Implementation of this Modification Proposal is dependent upon Authority approval of an appropriate Entry Capacity Transfer and Trade Methodology Statement. National Grid NTS will be required to produce a revised Methodology Statement to align to this Modification Proposal.

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

Not applicable.

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.

As an alternative proposal, this should follow the same timetable as the original proposal 0187.

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

British Gas 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 better facilitates the efficient and economic operation of the NTS. If implemented it will provide Users at sold out ASEPs the opportunity to

seek to procure available capacity from other ASEPs. This will reduce the occurrence of sterilisation of capacity at locations where it is not needed and reduce stranding of gas offshore due to the lack of capacity where it is most valued. In order to maximise the efficient use of the NTS the Proposal details the process by which capacity shall be moved between ASEPs. The use of specific Exchange Rates, determined after the Initial Stage of the RMSEC process, ensures that the availability of capacity is maximised at Recipient ASEPs. This is because each Transfer and Trade is dependent upon the network as may be 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 the relevant objective of economic and efficient system operation is better met than through fixed generic exchange rates;

- in respect of Standard Special Condition A11 paragraph 1(c), the Proposal facilitates the efficient discharge of the licensee's obligations under the licence; specifically the Proposal satisfies 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. The proposer believes that this Proposal meets the requirements of the Entry Capacity Transfer (and Trade) Objectives detailed in paragraphs 11 and 12; and
- 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 capacity not required by Users at a particular ASEP. By integrating the surrender mechanism into the RMSEC auction competition is improved by enabling any User to obtain such capacity by placing the highest bid.

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

British Gas believes that this Proposal, if implemented, will enhance security of supply by allowing Users the opportunity to obtain additional Capacity at sold out ASEPs that would otherwise not be the case.

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

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

a) The implications for operation of the System:

British Gas believes that this Proposal, if implemented, has the potential to affect the operation of the System by increasing physical constraints which may require commercial actions. By optimising 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 the obligated capacity level at an ASEP, but would reduce 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, this proposal will need to be supported by an appropriate Methodology Statement prepared by National Grid.

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

British Gas believes this Proposal, if implemented, would have cost implications related to the delivery of the required system changes and calculation of Exchange Rates. The increasing complexity of the regime will 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.

In addition, the Proposal, if implemented, may avoid the potential sterilization 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) 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:

British Gas believes that for this Proposal, if implemented, it would not currently be possible to develop a charging regime that would be cost reflective. However the intention would be to review charging arrangements as part of an on-going review of transportation charges.

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

British Gas 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)

N/A

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

British Gas envisages that this Proposal will have an impact on the UK Link system if it is implemented. We would request that any such impact be assessed by xoserve.

It is expected that approval of this Modification Proposal before February 29th 2008

will enable changes to be implemented in the November 2008 GEMINI release. Manual processes, using existing functionality where available, will be required until systems changes can be implemented.

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

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

None anticipated.

b) The development and capital cost and operating cost implications

None anticipated.

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

British Gas 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)

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

However, as this Proposal 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 as to its availability.

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

British Gas is not aware of any such consequences.

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

Advantages

British Gas considers that:

- Allowing Users to place an uncapped price on surrendered capacity will maximise the amount of capacity that is potentially surrendered.

- Allocating bids starting at the lowest bid price and going up the price stack will maximise the efficient and economic Trade of capacity.
- By encouraging more capacity to be surrendered, this proposal ensures the most beneficial Exchange Rate between ASEPs thus maximising efficient use of the NTS.
- This proposal allows 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.
- This proposal seeks to minimise the potential sterilization of Entry Capacity, and hence reduces costs being inefficiently incurred.
- This proposal brings forward the date of the RMSEC auction so that Users can manage their positions earlier than is currently the case, i.e. allows more time for other actions if bids are rejected.
- This proposal could be implemented ahead of next Winter.
- Allows unsold firm entry capacity to take its correct value in the surrender process.

Disadvantages

British Gas considers that this Proposal:

- Adds further complexity into Entry Capacity arrangements.
- Brings forward the date of the RMSEC auction so that Users have to manage their positions further away from real time than is currently the case, i.e. with less knowledge of their requirements.
- May reduce the unsold level of Firm Capacity available at certain ASEP(s) in the Daily Entry Capacity Auctions. This may 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.
- Could give rise to increased incidents of Users buying capacity for the purposes of Trading to another ASEP. However, by taking from the lowest surrender price first, this should discourage such behaviour.

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)

From discussions with National Grid, British Gas understands that this proposal can be implemented in much the same way as National Grid's original proposal 0187, i.e. with little or no additional complexity to that original proposal. British Gas has also had informal discussions with a number of shippers and believes there

is some industry support for this alternative approach to Trades and Transfers.

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

None

13 Any other matter the Proposer considers needs to be addressed

None

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

British Gas recommends that this proposal is 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. This would allow timescales to be condensed such that 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.

15 Comments on Suggested Text

To be advised

16 Suggested Text

To be advised

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) B

Proposer's Representative

Chris Wright (British Gas)

Proposer

Clive Woodland (British Gas)