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Dear Julian

EDF Energy Response to UNC Modification 0138 "Transitional Arrangements for Entry Capacity Transfers to Sold Out ASEPs"

EDF Energy welcomes the opportunity to respond to this consultation, and whilst we support the principle of the proposal, we are unable to support it at this stage.

In particular we are concerned that the modification has not been fully developed, and so is unable to be implemented in its current form. We are further concerned that the transfer of sold capacity prior to the transfer of unsold capacity will sterilise capacity, and encourage the hoarding of capacity at certain ASEPs to prevent its transfer. We believe that this will sterilise capacity that could be released, or transferred to ASEPS where it is required, were this transfer process to take place after the transfer of unsold capacity.

Following discussions at the Transmission Workstream on 05 April 2007, it is apparent that "better" exchange rates could be provided for the transfer of sold capacity were it to take place after the transfer of unsold capacity. EDF Energy understands that this is due to the fact that when configuring the network to facilitate the transfers, NGG NTS will be facing significantly less uncertainty were unsold capacity to be transferred first. Whilst we recognise that no mechanism for the transfer of unsold capacity is currently in place in the code, we are aware that this eventuality could be incorporated into modification proposal 0138 to overcome this issue. EDF Energy is also aware from discussions at the Transmission Workstream that NGG NTS will be unable to provide fixed exchange rates prior to the transfer of unsold capacity, as the failure to transact a transfer will impact on all the other exchange rates. We therefore believe that the requirement on NGG NTS to provide fixed exchange rates prior to the commencement of the transfer process makes the proposal unworkable. In particular the opportunity has been created for a Shipper to request an exchange rate with no intention of transferring the capacity, knowing that this would prevent all exchanges from taking place. Whilst we perceive this risk to be minimal, we believe that it could have been overcome were the requirement only to publish indicative exchange rates.

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

   SSC A11.1 (a): the efficient and economic operation of the NS Pipeline system: Were this transfer mechanism to take place after the transfer of unsold capacity, then we believe that this licence condition would be facilitated. However this proposal would increase the incentive for Users to purchase capacity in order to prevent the transfer of unsold capacity. This could lead to sterilisation of capacity that could have been released were the transfer to take place after the transfer of unsold capacity. We further note that this proposal creates the opportunity for Users to prevent the transfer of sold capacity by requesting an exchange rate for capacity that they have no intention of transferring. Whilst we believe this risk to be minimal, it still creates the risk that capacity will be sterilised, and so the proposal fails to better facilitate the efficient and economic operation of the NTS pipeline system. We are further concerned that this proposal could encourage Users to purchase capacity in the long term QSEC auctions, with the intention of transferring it to another ASEP. We believe that this would give perverse investment signals for NGG NTS that would not facilitate the efficient and economic operation of the pipeline system.

SSC A11.1 (d): the securing of effective competition between relevant gas Shippers. Whilst we believe that the principle of releasing additional capacity at an ASEP that has been sold out will increase competition between Shippers, we believe that the effect of this proposal is to favour Shippers who hold capacity at numerous entry points that they may not fully utilise, at the expense of Shippers who do not hold entry capacity. We believe that the transfer of unsold capacity, released in an open auction would facilitate this objective as it would be open to all participants regardless of their characteristics. Further, as previously noted, this proposal opens the opportunity to sabotage the transfer process which is not beneficial for competition.

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

   Due to the issues raised above, EDF Energy believes that implementation of this proposal would not have a beneficial impact on the UK's security of supply, and could in fact have a negative impact. This is especially the case if Users enter into the QSEC auctions to secure capacity to transfer away from the ASEP, providing erroneous investment signals; and also if entry capacity is sterilised in order to prevent it being transferred.

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

   EDF Energy believes that the implementation of this proposal would create additional uncertainty about the level of capacity that was available, as Users will not be able to identify whether the capacity purchased in the QSEC and AMSEC auctions will be utilised at that entry point or not. Further this proposal could sterilise capacity from the market if Users decided to purchase capacity in order to prevent it being transferred elsewhere.

10. **Disadvantages**

    In addition to the disadvantages identified by the Proposer, EDF Energy has identified the following disadvantages:

    - Unworkable solution as the setting of fixed exchange rates prior to the transfer process requires all transfer requests to be actioned, otherwise the process fails.
    - Facilitating the transfer of unsold capacity prior to the transfer of sold capacity would result in the optimal configuration of the NTS as "better" exchange rates would be available as uncertainty would have been removed. This is therefore a sub-optimal solution.
    - Creates the potential for the whole transfer process to be sabotaged.
    - Could lead to erroneous investment signals were Users to enter into the QSEC auctions in order to transfer capacity away from the ASEP at a future date. This would have a detrimental impact on security of supply.

I hope you find these comments useful, and please contact me should you wish to discuss these comments further.

Yours sincerely

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