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**Re: Urgent Modification Proposal 0138: “Transitional Arrangements for Entry Capacity Transfers to Sold-Out ASEPs”.**

Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposal. National Grid (Distribution) (“UKD”) does not support implementation of the Proposal

Although urgent status was granted, we believe this proposal seeks to fundamentally question the concept of limited capacity availability and the market based approach to the acquisition of pre-booked entry capacity. As such, we believe that industry participants have been provided with insufficient development time or an adequate opportunity to assess the consequences of implementation and propose alternatives.

UKD notes the arguments put forward by the Proposer in relation to the facilitation of the Relevant Objectives. One of the main aspects of this Proposal is to avoid capacity sterilization. UKD remains to be convinced that the concept of “virtual” capacity reinforcement improves the situation. The transfer gives rise to two issues: How does the arbitrary introduction of capacity affect availability of the service to the initial acquirer and what is the effect on the value and usability of the capacity at the donor ASEP? We believe that the sterilization could be the result at the donor ASEP in extreme circumstances.

The exchange rates methodology is, as yet, unclear and it is also uncertain what impact using the same exchange rates, for this Sold Capacity Transfer Process (“SCTP”), would have ahead of using them for the proposed AMTSEC auction. It is possible that the SCTP may distort the market ahead of the Unsold AMTSEC Auctions and could undermine bidding and acquisition strategies and could give rise to significant uncertainties for auction participants. UKD also notes the comments made by National Grid NTS at the April 2007 Transmission Workstream relating to concerns about its ability to provide ex-ante exchange rates.

The proposal states that there would not be any significant system implications and that the proposal could be implemented using data-fix solutions. UKD does not have any assurance that this is correct, and given that transaction volumes are not limited, has concerns that the robustness of the established transportation regime could be undermined.

We also have several questions of process; for instance, it is not clear how transfer requests will be prioritised by NTS.

In summary, we believe that the benefits of the proposal are not demonstrably clear and, even with modest participation, could result in significant uncertainties for shippers, increasing business risk and giving rise to consequences which would be detrimental to competition.

Yours sincerely

Phil Lawton,  
Distribution Regulation Manager