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Dear Julian

EDF Energy Response to UNC Modification 0151 &151A "Transfer of Sold Capacity between ASEPs"

EDF Energy welcomes the opportunity to respond to this consultation, and support implementation of modification proposal 151 as a short term solution for this winter. We believe that there are some aspects of modification proposal 151A that could represent an effective enduring solution, however we believe that these require further development to make them workable and so we are unable to support implementation at this stage.

We are however concerned with the process and lead times that have lead to the raising of these proposals. We are concerned that changing the entry capacity baselines in April 2007 with little foresight or consultation on these adjustments has created a significant regulatory risk to the industry. We believe that this action alone will push Users into procuring long term entry capacity in an attempt to mitigate the risk from the regulator that baselines will be significantly changed again at the next Transmission Price Control Review (TPCR). These issues have been further exasperated by the delay in producing and enacting the licence conditions that will require the facilitation of a trade and transfer mechanism. This uncertainty has created a significant regulatory (and financial) risk for NGG and Shippers. This risk could have been mitigated by producing the licence conditions earlier and by engaging with the industry at an earlier stage. We therefore welcome the work that NGG has undertaken in an attempt to mitigate this risk and hope that an enduring solution for this issue can be developed along with the rest of the industry.

We believe that a core principle of any trade and transfer mechanism is that the facilitation of the transfer of unsold capacity should take place prior to the trading of any sold capacity. This will allow an open market mechanism to be enacted prior to a trading process that will favour Users with a portfolio of entry capacity. This process should also be in place for this winter to ensure that the most economic and efficient operation of the pipeline system and the assets connected with it can be achieved. We understand that enacting the transfer process ahead of the trade process will also enable "better" exchange rates to be provided for the trading of sold capacity as enable by modification proposal 151.

However we also believe that there are elements of EON's alternate proposal that can be developed to provide an enduring solution. In particular we believe that the concept of trading capacity within zones on a one to one exchange rate could represent a simple and efficient mechanism that could be enacted prior to facilitating trades across zone on a first come first served basis. However we believe that this mechanism should always be enacted after the facilitation of the transfer of unsold capacity and that further work needs to be undertaken to identify the zones that capacity can be traded within. In particular we are concerned that the zones proposed by EON are different to those proposed by NGG within modification proposal 118, and without further analysis this could make the proposal unworkable.

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

   SSCA11.1 (a): the efficient and economic operation of the pipeline system: We believe that by encouraging the trading of sold capacity between ASEPs both proposals will facilitate the efficient and economic operation of the pipeline system. However we believe that modification proposal

151 further facilitates this objective than 151A as it facilitates the transfer of unsold capacity prior to the trading of sold capacity for this winter. We understand that this will create "better" exchange rates than if sold capacity were transferred first, and so will ensure that the pipeline system is operated more economically and efficiently.

SSCA11.1 (c): the efficient discharge of the licensee's obligations under this licence: As previously stated we are aware that the licence conditions required to underpin this process have not yet been enacted in NGG's licence. Given that these proposals should be judged on the current arrangements we therefore do not believe that either proposal will facilitate this objective.

SSC A11.1 (d): the securing of effective competition between relevant gas Shippers: We believe that modification proposal 151 will facilitate this licence objective as it will release unsold capacity to the market in an open market mechanism prior to facilitating the trading of sold capacity which is only open to those who have capacity at different entry points. Using an open market mechanism based on an already established mechanism will ensure that those who value the capacity most will be able to acquire it and so be beneficial to competition between gas Shippers. We do not believe that modification proposal 151A will facilitate this objective as facilitating the trading of sold capacity first will ensure that Users with a portfolio of entry capacity will benefit ahead of those with a smaller portfolio, and so will therefore favour those who have the most capacity, which may not necessarily be those that value it most.

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

   We believe that both proposals will benefit security of supply by ensuring that capacity is available where it is required. However we believe that modification proposal 151 will have a more beneficial impact than 151A as it will release more capacity at constrained ASEPs than 151A.

10. **Advantages**

151:

- Facilitates the trading of sold capacity
- Ensures capacity is released to those who value it most first
- Can be implemented ahead of this winter
- Enables the maximum amount of capacity to be released at an ASEP

151A:

- Facilitates the trading of sold capacity

Disadvantages

151A:

- Favours Users with a larger entry capacity portfolio
- May not achieve the most economic and efficient outcome
- Unclear whether it can be implemented ahead of this winter
- Creates a new concept of zones that Users will have to understand in order to manage

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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