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Secretary, Modification Panel  
Joint Office

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**Urgent Modification Proposal 0151: Transfers of Sold Capacity between ASEPs**  
**Urgent Modification Proposal 0151A: Transfers of Sold Capacity between ASEPs**

Dear Julian

Thank you for inviting us to comment on these urgent modification proposals, which we are considering together.

RWE npower does not support implementation of either urgent modification proposal.

It is difficult to assess whether either of these proposals fully meets the objectives that Ofgem currently anticipates introducing into the NG NTS licence as we are yet to see detailed final drafting. Furthermore, the draft Entry Capacity Transfer and Trade Methodology Statement (the methodology statement) has yet to be approved. Without these two key elements of the obligation to facilitate capacity transfers and trades in place, we question whether it is appropriate to make changes to the UNC in anticipation of such changes being made.

In addition, we believe that it is unacceptable that such amendments were raised so close to the AMSEC auctions. They introduce considerable uncertainty as to the nature of the post-auction commercial regime. By increasing the perception of scarce capacity, combined with reduced baselines at certain ASEPs, may create bidding behaviour that leads to prices that do not reflect the true value of the capacity.

Indeed, it is this aspect of the proposals that concerns us. The introduction of a mechanism to transfer sold capacity between ASEPs creates an incentive to acquire capacity in the expectation of trading it. This incentive is increased where there are different reserve prices and Users acquire capacity at a relatively inexpensive ASEP with the intent of transferring it. In this context the requirement that reserve prices give cost-reflective locational signals will be undermined. The consequences will be that capacity becomes unavailable to physical players at the affected ASEP as well as distorting its value.

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In our response to 0150/0150A, we raised concerns about the complexity of the National Grid methodology for calculation of transfer rates and the implications of E.ON UK's requirement for 1:1 transfer rates. As we do not support either of the proposals for the transfer of sold capacity, we have not repeated these arguments here.

We do see merit in the concept of transferring sold entry capacity but believe that other mechanisms should be considered. For instance, Users could release sold capacity to National Grid at a predetermined price, perhaps related to the original auction reserve price. National Grid should then offer it back to the market in a pay-as-bid auction, so the capacity is made more widely available. This would increase transparency and remove what we see as unwelcome incentives for Users to acquire capacity in the expectation of transferring it.

We hope these views are helpful and would be happy to discuss matters further.

Yours sincerely

*By Email So Unsigned*

Charles Ruffell  
Economic Regulation