

Julian Majdanski  
**Joint Office of Gas Transporters**  
51 Homer Road  
Solihull  
B91 3QJ

Phil Lawton  
Distribution Regulation Manager  
Phil.lawton@uk.ngrid.com  
Direct tel +44 (0)1926 656448  
Direct fax +44 (0)1926 656602

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[www.nationalgrid.com](http://www.nationalgrid.com)

**Re: Urgent Modification Proposals 0151 & 0151A: "Transfer of Sold Capacity between ASEPs".**

Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposals. National Grid (Distribution) ("UKD") does not support implementation of either of these Proposals.

Although urgent status has been granted, we believe this proposal seeks to question fundamentally 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 the effect on the transportation regime as a whole.

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 / asset stranding could be the result at the donor ASEP in extreme circumstances and because of exchange rates could in overall reduce the amount of entry capacity available to UK gas importers as a whole.

We believe it is possible that having this transfer mechanism in existence could distort the market and undermine entry capacity bidding and acquisition strategies, giving rise to significant uncertainties for auction participants, including NTS. In any event, the concept that capacity acquisition was supposed to signal investment must be seriously questioned. If capacity can be moved around from ASEP to ASEP, then capacity may be acquired simply because it can be transferred elsewhere, (albeit at an undefined exchange rate), providing no level of confidence in terms of investment and in the process undermining a fundamental objective of having entry auctions in the first place.

As stated above we have reservations concerning proposal 0151. Additionally, we do not support proposal 0151A as it seeks to impose terms which impinge on the NTS's role as operator of the transmission system. For instance, transfer rates and transfer zones should be for the transporter to stipulate, not users, as they are related directly to licence obligations. Additionally, with respect to proposal 0151A, it seeks to introduce changes above and beyond the original proposal, specifically in relation to the AMSEC and RMSEC auctions. Therefore, as far as we are concerned the alternative fails at a fundamental level and should not be implemented.

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 and NTS, increasing business risk and giving rise to consequences which would be detrimental to competition in the gas supply market.

Yours sincerely  
Phil Lawton, Distribution Regulation Manager