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<u>Re: Modification Proposal 0156 & 156A: 'Transfer and Trading of Capacity between ASEPs'</u>

Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposal.

National Grid Gas plc (Distribution), ("NGD"), has in the past expressed reservations about the predecessors of these proposals. Notwithstanding these reservations, NGD would like to offer qualified support for both modification proposals. If implemented, both these proposals would allow the transfer of unsold and trade of surrendered firm NTS Entry Capacity between ASEPs, via an auction, or in the case of proposal 0156A a double auction process, facilitated by National Grid NTS which it is claimed would help prevent gas being stranded off-shore.

With respect to earlier proposals in this area, we have previously expressed concerns that these arrangements have the potential to undermine the primary auctions and the resulting investment signals. However, it is also possible to take a view that it was a failure to fully embrace the entry capacity auction process that led to the inappropriate signals being given to NTS and caused capacity baselines to be reset as part of NTS's current licence modification. Our concerns remain regarding the effectiveness of the auction process. In terms of finding a solution, we also appreciate NTS's requirement to develop a modification proposal to ensure compliance with the (proposed) licence obligation to facilitate a capacity transfer process and a requirement to set the commercial framework ahead of the forthcoming winter period.

With these considerations in mind, and acknowledgement that the baselines are not going to be aligned with physical capability, on balance we support implementation of a regime that allows the transfer of firm capacity from one ASEP to another. With respect to whether a single or double auction process is best, we believe the double auction would result in lower risk and more controllable costs for shippers and hence give our prime support for this version of the proposal. However, we would like to caveat our support with a further comment that the double auction version should only be implemented if NTS believe they have sufficient time and system capability to do so. If NTS believe that implementation is impractical, the simpler version should be implemented.

We agree with the proposer that aligning transportation capability, (without investment), with signals from shippers as to where the gas is most likely to be delivered, should produce the lowest cost solution and hence be a benefit to competition. However, we would like to have seen more use made of existing capacity arrangements, such as the release of non-obligated firm and/or interruptible products while exploring solutions to this issue. We are concerned that the proposed process provides further complexity to an already complex regime. The compounded regime must result in considerable risk for shippers and, even though efficiencies in pipeline operation should result from implementation, these advantages must to some degree be offset by risks accruing from the numerous auction rounds. However, we acknowledge that parity transfer rates within zones should help mitigate some of this risk for shippers although some of the additional risks could have been negated if a simpler, non-obligated release of entry capacity solution had been sought. Additionally, the use of non-obligated products would have reduced the risk of industry buy-back costs.

In summary, provided that gas is available for delivery at the recipient terminals over the long term, benefits to competition should flow and these should out weight the short-term risks and costs from the auction process.

Hence, UKD support the implementation of both modification proposals, with a preference for the alternate but giving due consideration to NTS's ability to implement in the challenging timescale.

Yours sincerely

Alan Raper
Network Code Manager