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Wednesday, 15<sup>th</sup> August 2007

Dear Tim,

**RE: Modification Proposals 0169 & 0169A - “Transfer and Trading of Capacity between ASEPs”**

As Proposer, E.ON UK **supports** Modification Proposal 0169. We do **not support** the alternative Mod 169A. As Mod 156A is also still a live proposal, and as we expect it to be considered at the same time with the three other proposals on trades and transfers, our preference is as follows (most preferred first):

- 1. Modification Proposal 156A (Support)**
- 2. Modification Proposal 169 (Support)**
- 3. Modification Proposal 156 (Qualified Support)**
- 4. Modification Proposal 169A (Do Not Support)**

**Mod 169**

Our rationale for raising Mod 0156A was to maximise the value of a new trade and transfer process and make use of all available time pre-winter, through the use of a two-round auction, to resolve the significant capacity allocation problems facing many Shippers. It should be noted that we would still prefer to see an October round as proposed in 156A if at all possible, but recognise the need for contingency arrangements in the event of further regulatory delays beyond the control of the proposer. As a result, we have raised Mod 169, which removes the obligation on NG NTS to run a round making available October capacity (due to likely time constraints) but most importantly retains the two-round auction for key winter capacity months November '07 through to March '08.

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Given the strong level of industry support expressed through the consultation process and Mod Panel vote for a two round auction (Mod 156A), we believe it is very important that this option should remain a possibility for the industry and that the Proposal shouldn't risk not being implemented by GEMA simply because a small part of the Mod had effectively elapsed at the point of implementation. This is due to an Ofgem decision on NG NTS' TPCR Licence obligations and the supporting trade and transfer methodology statement now not being expected until the start of September.

**Extent to which Mod 169 better facilitates the relevant objectives:**

- In respect of Standard Special Condition A11 paragraph 1(a), the Proposal would provide Users at sold out ASEPs the opportunity to seek to procure available Capacity from other ASEPs. This may result in the avoidance of sterilisation of Capacity and the stranding of gas offshore, and thereby better facilitate the efficient and economic operation of the NTS pipeline system.
- In respect of Standard Special Condition A11 paragraph 1(d), the Proposal would promote the securing of effective competition between relevant Shippers by use of two rounds of a pay-as-bid auction for the allocation of any available Capacity and the use of *ex-ante* Exchange Rates. Two auction rounds for the key winter months would clearly better facilitate competition between Shippers than a single round, which could severely limit the value of the process to Users.

**Mod 169A**

We do not support Mod 169A. Aside from the need for an extra allocation "round", for which there appears to be insufficient time and a lack of clarity about when and how it would occur, by interfering with the auction price signals Mod 0169A undermines the simplicity and efficiency of the proposed auctions in Mod 169 (and Mod 156/156A). As such, we do not believe that the Proposal better facilitates any of the relevant objectives and indeed would likely restrict competition between Shippers.

Whilst implementation of the Proposal might benefit certain parties, we do not believe that there are any obvious or meritorious benefits for the market as a whole. Rather, we believe that affording some Shippers a "second bite at the cherry" to unwind commercial decisions made in past auctions would be highly inefficient and an undesirable precedent to set.



The problem this proposal purports to address, as far as we can understand it, could be resolved by bi-lateral trading of entry capacity; a process which is currently available to any registered Shipper. We do not believe it is appropriate that the trade and transfer process should be used as a means to this end and therefore are unable to support implementation of Mod 169A.

Yours sincerely

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