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Re: UNC Modification Proposal 0187 and 0187A – Alterations to the RMSEC Auction to Accommodate Transfer and Trade of Capacity between ASEPs

Dear Julian

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

Summary

As Proposer, National Grid NTS supports implementation of Modification Proposal 0187. National Grid NTS also supports implementation of Modification Proposal 0187A. However, National Grid NTS believes that Proposal 0187 would facilitate greater levels of NTS Entry Capacity being released than would be the case under Proposal 0187A. For this reason, National Grid NTS considers that Proposal 0187 better facilitates the relevant objectives than Proposal 0187A.

Rationale

National Grid NTS considers that Modification Proposals 0187 and 0187A would:

- Provide Users with an opportunity to acquire Capacity at the ASEP prior to it being traded or transferred elsewhere, whilst
- Helping to avoid the potential sterilisation of Capacity by facilitating its allocation/reallocation elsewhere.
- Allow Users the opportunity to secure additional Capacity, in excess of an ASEP's Obligated level, therefore allowing gas flows on to the system that might otherwise be prevented.
- Allow Users holding Capacity that they no longer require to surrender it for reallocation either at the same ASEP or elsewhere, thereby contributing to more efficient use of that Capacity.
- Avoid the excessive loss of aggregate Capacity on the network.

National Grid NTS believes that Proposal 0187 would facilitate the release of greater levels of Capacity and more efficient allocation of Capacity in comparison to Proposal 0187A, for the following reasons:

- Matching the highest priced bids to the highest priced Capacity allocates that Capacity more efficiently than matching the highest priced bids to the lowest priced Capacity.
- Proposal 0187 allocates surrendered capacity before unsold capacity, thereby increasing the likelihood that any remaining unallocated capacity is unsold capacity, which would consequently

roll over to the daily auctions, as opposed to remaining surrendered Capacity, which would not roll over to the daily auctions.

- Proposal 0187 does not allow a surrender price higher than the reserve price. This ensures Users at the ASEP get the first chance to procure that Capacity and reduces the opportunity for gaming.

Extent to which implementation of Modification Proposals 187 and 187A would better facilitate the achievement (for the purposes of each Transporter's Licence) of the relevant objectives

National Grid NTS believes that both of these Proposals would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence:

- In respect of Standard Special Condition A11 paragraph 1(a) (the efficient and economic operation of the pipe-line system) Proposals 0187 and 0187A would allow Users at sold out ASEPs the opportunity to seek to procure potentially sterilised capacity from other ASEPs. This will reduce the occurrence of sterilisation of capacity at locations where it is not required and the potential stranding of gas offshore due to a lack of capacity at the relevant ASEP. Capacity made available at Recipient ASEPs is increased, as the determination of Exchange Rates after the rolling monthly capacity bids have been received enables full analysis to be made of the interactions between each Transfer and Trade. Proposal 0187 facilitates greater levels of Capacity release and more efficient Capacity allocation than Proposal 0187A;
- In respect of Standard Special Condition A11 paragraph 1(c) (the efficient discharge of the licensee's obligations under the Licence) Proposals 0187 and 0187A satisfies the obligations within Special Conditions C8D paragraphs 11 and 12 which require National Grid NTS to facilitate the transfer and trade of capacity between ASEPs. Proposal 0187 has been developed such that it fully meets the requirements of the Entry Capacity Transfer (and Trade) Objectives detailed in paragraphs 11 and 12; and
- In respect of Standard Special Condition A11 paragraph 1(d) (the securing of effective competition) Proposals 0187 and 0187A would promote the securing of effective competition between relevant Shippers by use of a pay-as-bid auction for the allocation of capacity not required by Users at a particular ASEP. By integrating the surrender mechanism into the RMSEC auction competition is improved by enabling any User to obtain such capacity by placing the highest bid.

If you have any questions, please do not hesitate to contact me

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