

Tim Davis
Joint Office of Gas Transporters
31 Homer Road
Solihull
West Midlands
B91 3LT



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Dear Tim

EDF Energy Response to UNC Modification Proposal 0187 & 0187A: “Alterations to the RMSEC Auction to Accommodate Transfer and Trades of Capacity between ASEPs”.

EDF Energy welcomes the opportunity to respond to this modification proposal. We support the implementation of both proposals, however we believe that modification proposal 0187A will facilitate the relevant objectives to a greater degree than proposal 0187. Proposal 0187A is therefore our preferred proposal.

EDF Energy participated in the 2007 TTSEC auctions and considered surrendering capacity into the auction process. However ultimately we decided to retain this capacity as we were unable to apply a reserve price for this capacity and a potential outcome of surrendering capacity would have been that we were left paying for capacity that we were unable to utilise whilst receiving less money than we had paid for it. The inability to specify a reserve price therefore represented a barrier to entry for surrendering capacity in the TTSEC auction last year. We therefore welcome the inclusion of this aspect into both proposals.

However we note that the main difference between 0187 and 0187A from our perspective is that under 0187 the reserve price for surrendered capacity is capped at the prevailing reserve price for the ASEP. The reserve price at an ASEP represents the minimum value that the capacity at this particular ASEP can be bought for, and so capacity at any ASEP will go at, or above this reserve price. An outcome of 0187 is that a User could have bought capacity at an ASEP at above the reserve price that it no longer requires, but can only place a reserve price on its surrendered capacity that is below what it will continue to have to pay for this capacity. We therefore believe that whilst 0187 will lower the barrier to surrender capacity, it will still remain, but 0187A will remove this barrier.

At the same time we recognise the concern raised by other market participants that modification proposal 0187A will introduce the prospect of speculation and arbitrage between ASEPs. We believe that a better solution would be to introduce a reserve price that is capped at the price that the surrendered capacity was purchased for. However this is not a solution that has been proposed, and the mechanisms to support this would require further industry discussion at a future date, probably post implementation of either 0187 or 0187A.

2. **Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipeline system to which this licence relates:

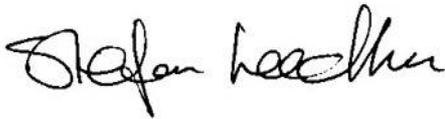
Under 0187 there is a risk that some Users will not surrender all of the capacity that they do not require as the reserve price that they can place on this capacity may be less than the amount that they paid for this. This barrier is removed under 0187A and so encourages the maximum amount of capacity to be surrendered and allocated where it is most valued. 0187A therefore facilitates this requirement to a greater degree than 0187.

Standard Special Condition A11.1 (d): the securing of effective competition between relevant Shippers.

By increasing the amount of capacity that is surrendered, it could be argued that this encourages competition between Shippers by making the market more liquid. As 0187A should encourage more capacity to be surrendered into the RMSEC process, it will therefore facilitate this licence condition to a greater degree than 0187.

I hope you find these comments useful, however please contact me should you wish to discuss these in greater detail.

Yours sincerely

A handwritten signature in black ink that reads "Stefan Leedham".

Stefan Leedham
Gas Market Analyst
Energy Regulation, Energy Branch