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Dear Julian

EDF Energy Response to UNC Modification 0150 &150A “Introduction of Unsold Entry Capacity Transfers”

EDF Energy welcomes the opportunity to respond to this consultation, and support implementation of modification proposal 150 as a short term solution for this winter. We believe that there are some aspects of modification proposal 150A that could represent an effective enduring solution, however we believe that these require further development to make them workable and so we are unable to support implementation at this stage.

We are however concerned with the process and lead times that have led to the raising of these proposals. We are concerned that changing the entry capacity baselines in April 2007 with little foresight or consultation on these adjustments has created a significant regulatory risk to the industry. We believe that this action alone will push Users into procuring long term entry capacity in an attempt to mitigate the risk from the regulator that baselines will be significantly changed again at the next Transmission Price Control Review (TPCR). These issues have been further exasperated by the delay in producing and enacting the licence conditions that will require the facilitation of a trade and transfer mechanism. This uncertainty has created a significant regulatory (and financial) risk for NGG and Shippers. This risk could have been mitigated by producing the licence conditions earlier and by engaging with the industry at an earlier stage. We therefore welcome the work that NGG has undertaken in an attempt to mitigate this risk and hope that an enduring solution for this issue can be developed along with the rest of the industry.

We believe that a mechanism should be in place to facilitate the transfer of unsold capacity for this winter and that any transfer mechanism should be enacted prior to the trading of unsold capacity. We believe that this will ensure any spare capacity is released to the market through an open process, rather than favouring larger players with significant entry capacity interests. We are also aware that this will ensure more favourable exchange rates can be provided for the trading of sold capacity which will facilitate the economic and efficient operation of the pipeline system.

As an enduring solution we believe that the auction processes represent the best opportunity for facilitating the transfer of unsold capacity, and will build upon a market mechanism that the industry understands and can manage. However we believe that this should represent a simple extension to the auctions, and the inclusion of zones within this auction will significantly alter the operation of these mechanisms. We are therefore unable to support EON's proposal due to the inclusion of zones within the auction process, the extension of this process to the RMSEC auctions with such little notice and the facilitation of trades prior to the facilitation of transfers. However we believe that the basic principles of this should be explored when developing an enduring solution.

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

SSCA11.1 (a): the efficient and economic operation of the pipeline system: We believe that by encouraging the transfer of unsold capacity from one ASEP to a sold ASEP both proposals will ensure that capacity is not sterilised thereby promoting the economic and efficient operation of the pipeline system. However we believe that modification proposal 150 further facilitates this objective than 150A as it facilitates the transfer of unsold capacity prior to the trading of sold

capacity for this winter. We understand that this will create “better” exchange rates than if sold capacity were transferred first, and so will ensure that the pipeline system is operated more economically and efficiently.

SSCA11.1 (c): the efficient discharge of the licensee’s obligations under this licence: As previously stated we are aware that the licence conditions required to underpin this process have not yet been enacted in NGG’s licence. Given that these proposals should be judged on the current arrangements we therefore do not believe that either proposal will facilitate this objective.

SSC A11.1 (d): the securing of effective competition between relevant gas Shippers: We believe that modification proposal 150 will facilitate this licence objective as it will release unsold capacity to the market in an open market mechanism that will not discriminate between different sizes of Users or Users with different portfolios of entry capacity. Using an open market mechanism based on an already established mechanism will ensure that those who value the capacity most will be able to acquire it and so be beneficial to competition between gas Shippers. We do not believe that modification proposal 150A will facilitate this objective as facilitating the trading of sold capacity first will ensure that Users with a portfolio of entry capacity will benefit ahead of those with a smaller portfolio, and so will therefore favour those who have the most capacity, which may not necessarily be those that value it most.

3. **The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

We believe that both proposals will benefit security of supply by releasing additional capacity that may have historically been sterilised. However we believe that modification proposal 150 will have a more beneficial impact than 150A as it will release more capacity at constrained ASEPs than 150A.

10. **Advantages**

150:

- Releases unsold capacity to the market in an open mechanism that builds upon existing mechanisms that Users understand and can manage
- Ensures capacity is released to those who value it most first
- Can be implemented ahead of this winter
- Enables the maximum amount of capacity to be released at an ASEP

150A:

- Releases unsold capacity to the market

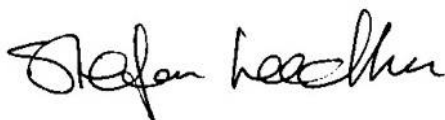
Disadvantages

150A:

- Favours Users with a larger entry capacity portfolio
- May not achieve the most economic and efficient outcome
- Unclear whether it can be implemented ahead of this winter
- Creates a new concept of zones that Users will have to understand in order to manage

I hope you find these comments useful, and please contact me should you wish to discuss these comments further.

Yours sincerely



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