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Dear Tim,

RE: Urgent Modification Proposal 0150A – “Introduction of Unsold Capacity Transfers”

As Proposer, E.ON UK **supports** implementation of Modification Proposal 0150A.

We consider that the facilitation by NG NTS of entry capacity trading / transfers is a key issue which, if not addressed quickly could lead to sterilised capacity at certain ASEPs, ultimately affecting a User's ability to bring competitively priced gas into the country; particularly affecting winter 07/08. It is also in the best interests of UK security of supply that Users are able to resolve any problems that may have been exacerbated by reduced entry capacity baselines, and can optimise their own portfolios as early as possible. Forcing market participants to leave such important decisions until the start of winter is counter-productive and could lead to inefficient decision making. It is therefore crucial, that robust and User-friendly arrangements are in place well before winter 07/08.

We consider that Modification Proposal 0150A better facilitates the relevant objectives than Mod 0150. We believe that our Proposal is significantly more simple and straightforward than NG's proposals and requires little or no additional input from Users. Fundamentally, this Proposal seeks to change the way that capacity is allocated by NG, such that any unsold capacity is carried over from previous RMSEC and AMSEC auctions and re-allocated by NG between ASEPs within a single “zone”. This is both User-friendly and transparent.

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- Modification Proposal 0150A & 0151A are both reliant on acceptance of zone-based entry capacity allocation. It should be remembered by market participants that this very concept, incorporating fixed 1:1 exchange rates for transfers within zones was first raised by NG NTS / Transco back in 1999 during the consultation on the introduction of entry capacity auctions and again last year as the basis for Modification Proposal 0118. On this basis, we consider the concept is completely workable from NG's perspective and does not actually present any undue increase in buy-back risk. In respect of NG's objection to 'User-defined zones', it is the Proposer's recommendation only that Theddlethorpe move into an "existing" NG 10YS zone and it is not our view that approval of this Mod would automatically change the zones.

To address NG's concerns raised in their response, that:

- (i) *“National Grid NTS considers it wholly inappropriate to put forward such fundamental changes as part of a variant to an Urgent Modification proposal.”*

We would re-iterate our comments made in our response to Mod 0151A that such a statement implying UNC parties are restricted in some way in raising UNC Modification Proposals is incorrect and potentially misleading.

- (ii) *“National Grid NTS does not understand how an additional auction round can be added to the 2007 AMSEC. The 2007 AMSEC finishes on the 24 May and an Ofgem decision on this Modification proposal is not expected until the 12 June. We would therefore welcome the Proposer's views on how this would work as it is unclear from the Proposal.”*

We are not proposing to add an additional round to the AMSEC. It is a separate auction, following completion of the 2007 AMSEC and completion of the sold capacity trade request process (as per Mod 0151A), as specified in Modification Proposal 0150A.

Extent to which Modification Proposal 0150A better facilitates the relevant objectives:

- User-friendly – the Proposal is simpler, less costly to implement and significantly more straightforward than NG's proposed "AMTSEC auction", as it is based on the existing capacity auction process for RMSEC and AMSEC auctions and uses 1:1 exchange rates for within-zone transfers. As a result, Mod 0150A better facilitates the relevant objectives under Standard Special Condition A11 paragraph 1(a), the efficient and economic operation of the NTS pipeline system. The simplicity and transparency associated with 1:1 exchange rates can also be considered to better facilitate the relevant objectives under Standard Special Condition A11 paragraph 1(d)(i); the securing of effective competition between relevant shippers.

- Applies to all RMSEC, as well as AMSEC auctions post October 2007, which can be seen as an improvement on Modification Proposal 0150 as it facilitates transfers of unsold capacity on a much more frequent basis than previously proposed by NG NTS. As a result, Mod 0150A better facilitates the relevant objectives under Standard Special Condition A11 paragraph 1(c), the efficient discharge of the licensee's obligations under this licence and 1(f) the promotion of efficiency in the implementation and administration of the network code, since the Mod does not require additional Proposals to be brought forward to realise an “enduring” solution, post March 2008 (as necessitated by Mod 150). This also adds significantly to regulatory and commercial certainty, enabling shippers to make more efficient and economic decisions.
- Allows Users the opportunity to secure additional capacity, in excess of an ASEP’s baseline, therefore allowing gas flows onto the system that may otherwise be prevented. The Mod would also avoid the potential sterilisation of entry capacity and hence costs being inefficiently incurred. We believe that Mod 0150A will, crucially, result in more capacity being released for transfer than under Mod 0150; primarily due to a fixed 1:1 exchange rate within-zone, and as a result, Mod 0150A better facilitates the relevant objectives under Standard Special Condition A11 paragraph 1(e), the securing of the domestic customer supply security standards.
- Can be implemented well ahead of winter 07/08, when it is needed most by Shippers and on this basis better facilitates the relevant objectives under Standard Special Condition A11 paragraph 1(d)(i); the securing of effective competition between relevant shippers.
- Better reflects Ofgem’s risk-reward proposals for NG as outlined in Ofgem’s final TPCR proposals. As a result Mod 0150A better facilitates the relevant objectives under Standard Special Condition A11 paragraph 1(c), the efficient discharge of the licensee's obligations under this licence.
- Can easily be extended to DSEC auctions, using the same proposed arrangements, if sufficient demand exists within the market, without the need for a completely separate auction process.

Overall, E.ON UK believes that Modification Proposal 0150A better facilitates the relevant objectives than Modification Proposal 0150 and accordingly supports implementation of Mod 150A.

If you have any questions or queries regarding this response, please do not hesitate to contact me on 02476 181421.

Yours sincerely

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