

Representation For. 0042
"Revision of the Emergency Cash-out Price"
Version 1.0

Date of Communication: 22/08/2005
External Contact: Steve Gordon (Scottish Power Uk Plc)
Slant: For
Strictly Confidential: No

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Dear Julian,

The following is the Scottish Power response to:

Modification 042 "Revision of the Emergency Cash-out price"

Modification 044 "Revised Emergency Cash-out & Curtailment Arrangements"

Thank you for allowing us to respond to these modifications.

We are disappointed that rather than a gradual, consultative workstream development of these proposals, we have a series of proposals, sometimes urgent and over a number of years' raised, then rejected, then adapted to fit with the contents of the rejection letter, and finally rejected again. Hopefully, these new proposals, which we believe to be an improvement on the existing arrangements, will deliver a solution for the coming winter.

Mod 042

ScottishPower support this modification proposal. We believe that this works better than the existing arrangements and avoids the artificiality of a 30-day period to calculate the price. We are concerned that a system marginal price (SMP) cash out for under-delivery:

- Creates a perverse incentive to 'game' the market by making an extreme cash-out price a possibility,
- Only requires a very small action to create the price which is not volume based,
- Can be influenced by the behaviour of one distressed market participant who sees a potential gas deficit emergency approaching and bids an extreme price to ensure gas for his portfolio.

We believe these risks outweigh the benefits of a dual cash-out regime which may incentivise market participants to source gas.

Mod 044

Scottish Power does not support this modification. However, there are a number of elements of this proposal which we support - and our main difficulty is with the use of an SMP for under-delivery cash out as above.

We agree with the thinking behind the Emergency Curtailment Quantity (ECQ). Although we have concerns over the transparency of the calculation methodology, we believe that the most relevant information should be used to determine what the ECQ would be, and are happy with a multi-stage approach dependent of the level of information available.

We also agree that commercial interruption should not count towards the ECQ.

The Claims Process is extremely important but we believe sufficiently developed to be implemented along with the rest of the ECQ methodology. Any changes to the procedures surrounding the calculation of the ECQ and the claims procedure can be made subsequently.

Should you have any queries on the views expressed please contact me on the telephone number as shown.

Yours sincerely,

Steve Gordon
Commercial & Regulation Manager (Gas)
ScottishPower Energy Management