

Dear Julian

Modification Proposal 046: Extension of the Sunset Clauses for Registration of Capacity at NTS Exit Points

Thank you for providing SGN with the opportunity to comment on the above modification proposal.

SGN fully supports this proposal.

Following the Authority's decision in June 2005 to delay implementation of Enduring Exit Arrangements until September 2007, which would provide for the release of capacity from Gas Year 2010/11 onwards, a mechanism is required to ensure that Transporters can continue to formally signal capacity requirements and receive confirmation that such requirements can be met for the intervening years 2008/09 and 2009/10.

Current UNC provisions are due to expire in September 2008. Without transitional arrangements a Transporter's ability to ensure they can confidently continue to meet Licence obligations to secure offtake capacity and meet peak demand will be severely restricted. SGN believes implementation of transitional arrangements proposed in this modification proposal are required by 1st October 2005 to ensure adequate time for consideration of capacity and pressure requests at NTS/LDZ Offtakes for Gas Year 2008/09 onwards.

SGN believes the proposals put forward by UKT, which essentially extend current UNC provisions, are pragmatic and simple to implement. They will allow Transporters to signal requirements for flat capacity, flexibility capacity and Offtake Pressure at each Offtake. Allocations will then be confirmed by Transco NTS through the release of an Offtake Capacity Statement. This will allow Transporters to continue to undertake informed planning and investment decisions and better facilitate the relevant objectives by ensuring economic and efficient investment in and operation of the pipeline system. Such arrangements would also ensure Transporters could continue to meet Licence obligations.

UKT draw comparisons in the report between capacity booking arrangements for NTS Direct Connects and DNOs. It is noted that Shippers normally signal capacity requirements on shorter timescales than Transporters. There are many reasons why this is appropriate. However additional mechanisms exist outwith the capacity registration process to allow Shippers and Developers to reserve capacity over a longer timeframe. Shippers and Developers can enter in to an Advanced Reservation of Capacity Agreement.

The ARCA can also be used to underpin a capacity request where investment in the network is required. Transco NTS has recently circulated proposals for an ARCA arrangement for DNOs. SGN believes there are significant differences between Transporters and Direct Connects which need to be considered in determining whether such financial commitments are required for DNOs. The most significant consideration is the licence obligations facing DNOs to meet demand and undertake economic and efficient investment in the pipeline system. Given such licence obligations, we do not believe additional contractual arrangements are required to underpin a DNO's capacity request.

UKT has recently initiated a separate consultation on the transitional IExCR methodology and associated provisions. A response is due by the 22nd September 2005. Also Ofgem's consultation on transitional incentive arrangements is due out shortly. SGN will comment further on the merits of such arrangements as part of these separate consultations. However, we do not believe that any additional incentives are

required for the interim period. We believe we would have considerable difficulty in designing such incentives. We do not believe these issues should impinge on these proposals.

SGN has a couple of minor comments on the proposed legal text, which we have attached as an appendix.

I hope these comments are helpful.

Regards

Beverley Grubb
Market Development
Scotia Gas Networks

APPENDIX 1

Modification Proposal 0046 - Legal Text

Section B - System Use and Capacity

Reference to amended paragraph 3.9.1(b)(ii) should read 3.9.3 (b)(ii).

Part IIC - Transition Rules

1.6.3 For clarity this should make it clear that information will be provided for each DNO User by NTS/LDZ Offtake for each Gas Year.