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Julian Majdanski
UNC Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
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Dear Julian

Modification Proposal 0120

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the above modification proposal.

SSE does not support this proposal.

SSE does not believe that the proposed cost structure is reflective of the cost of operation of storage on the system and the imposition of additional costs will have the following effects:

- Increase wholesale gas prices, as storage costs will either be passed through to the market or, limit storage response to only greater price differentials.
- Reduce storage cycling;
- Limit the benefit of system balancing provided by storage to National Grid Gas (NGG) because of reduced storage cycling;

SSE also believes that the proposal will devalue storage and potentially make investment in new storage developments uneconomic. In the near future the UK will become more reliant on storage as production from the UKCS declines. It is unfortunate that this proposal effectively puts in place a barrier to investment that subsequently may reduce security of supply.

SSE do not believe this Modification Proposal will better facilitate the relevant objectives, in particular and with reference to the individual objectives, our comments are as follows:

- This proposal requires that charges are applied to each User in relation to its UDQO. The UNC already provides for charges to be applied to the Users UDQI. This means that in the event there are nominated counter flows at a facility the total charge will not reflect the physical flow at that facility. It cannot be appropriate for a commodity charge to be constructed to recover costs that are based on nominations rather than physical flows. The imposition of the charge at

UDQOs and UDQIs is not cost reflective. Commodity charges by their very nature must have a direct linkage with throughput.

- The imposition of the charge will limit storage cycling due to higher costs which may limit the responsiveness of storage flows to price & demand signals, reducing the efficiency of the system's operation as a whole and increasing prices to customers.
- Storage flows provide benefits to the system. In particular, storage flows tend to react to price and therefore, demand signals. This can be characterized as flowing gas into store during periods of low demand and out of store during periods of high demand. This would appear to provide a benefit to the SO in terms of physical system balancing. No financial compensation is given by the SO for this service. SSE would argue that due to potentially undervalued benefits, it could be that the users of storage should receive payment for services provided to NGG.

SSE believe that implementation of this proposal will lead to less efficient and economic operation of the pipe-line system and may fail to secure effective competition between relevant shippers.

Yours sincerely

Jeff Chandler
Energy Strategy