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Modification Panel Secretary
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28th March 2008

Dear Julian

Modification Proposal 0195 / 0195A: Introduction of Enduring NTS Exit Capacity Arrangements

Thank you for providing SGN with the opportunity to comment on the above Modification Proposals. SGN supports implementation of Modification Proposal 0195 and alternative Modification Proposal 0195A. Modification Proposal 0195A offers an alternative to the daily interruptible "use-it-or lose-it" product offered under Modification Proposal 0195; it proposes a standing off-peak capacity product for Shipper Users, which can be utilised where forecast demand at D-1 is less than 80% of 1 in 20 peak day demand.

SGN continues to maintain that DNO and Shipper User arrangements need not be identical. We believe that it is appropriate that arrangements reflect the different nature and requirements of Users. Providing arrangements do not unnecessarily compromise one party or group of Users, relative to the other, SGN believes that in some circumstances different arrangements can be appropriate. Modification Proposal 0195 and 0195A propose different arrangements in respect of the capacity products and booking arrangements. Whilst the off peak product offered under 0195A can not be utilised by DNO Users, we believe these arrangements are entirely appropriate. As such we do not offer any particular view or preference for one proposal relative to another. We will leave it to Shippers to comment on the merits of this specific aspect that distinguishes 0195A from 0195. Overall we believe both proposals have the potential to drive the most accurate information and efficient outcome for the Total System and all participants.

SGN believes Modification Proposal 0195 and 0195A offer a pragmatic and efficient enduring solution for offtake reform. They allow Users to signal and secure the range of long term, medium term and short term capacity products and level of certainty that they require, whilst providing NTS with the information they require to develop and operate the system in the most economic and efficient manner possible.

SGN believes both proposals offer a more measured, balanced and efficient long term solution relative to the 0116 suite of proposals.

SGN is concerned that a significant amount of industry time and effort has been focused on developing and analysing potential arrangements over several years. It has proven very difficult to develop efficient arrangements which address the concerns of all interested parties. In the meantime interim and transitional arrangements have been extended on several occasions, increasing uncertainty and risk for participants. SGN is keen that reform of NTS offtake arrangements is brought to a close. Modification Proposal 0195 and 0195A have

been developed with the consensus of Review Group 166. We believe they provide a stable platform from which participants can move forward.

SGN believes Modification Proposal 0195 and 0195A provide pragmatic and efficient long term arrangements in relation to the following areas:

- They provide Users with an opportunity to book and secure capacity on a long term basis with a firm commitment that NTS will deliver capacity in all but exceptional circumstances. This is essential for DNO Users who have reasonable certainty regarding future needs and have onerous legal and regulatory obligations relative to Shipper Users, who do not have the same degree of certainty regarding future needs.
- By allowing Users to book initial or additional long term NTS Exit (Flat) Capacity where they require or are able, in a consistent and transparent basis through an Annual Application Window, arrangements provide the opportunity for National Grid NTS to receive clearer long term investment signals that will allow them to plan and develop the network in a co-ordinated and efficient manner.
- By requiring Users to back long term NTS Offtake (Flat) Capacity bookings with financial commitment, this should help minimise any potential for over booking of capacity and provide NTS additional certainty regarding future requirements.
- Whilst further consultation is required regarding the “strength of signal test” and level of User commitment, the 4 years suggested under both proposals strikes a reasonable balance, sharing risk across all participants. SGN looks forward to providing more detailed comments on such arrangements as part of the consultation on the enduring ExCR Methodology.
- Proposals include annual and daily capacity products which will allow Users to fine tune positions.
- The proposals recognise interactions between NTS Offtake (Flat) Capacity, NTS Offtake (Flexibility) Capacity and Assured Offtake Pressures for DNO Users and where it becomes apparent through the annual process that NTS is unable to deliver the requested pressure or level of NTS Offtake (Flexibility) Capacity, arrangements allow DNO Users to request an adjustment to the level of NTS Exit (Flat) Capacity.
- Arrangements allow DNO Users to continue to secure NTS Exit (Flexibility) Capacity through the current UNC process. This makes use of tried and tested arrangements which are well understood and have proven to be efficient. SGN has no concerns that Shipper Users will continue to access offtake flow rate variations through the OPN process and in accordance with their NExA. We note and welcome the recent analysis produced by National Grid NTS regarding NTS Offtake (Flexibility) Capacity. SGN has responded to Ofgem. We strongly believe much more analysis and detailed consideration is required. We believe the arrangements proposed in Modification Proposal 0195 and 0195A provide a pragmatic and efficient approach. Both proposals require publication of much needed information which will allow the industry to monitor the situation, including details of the maximum available flex, the quantity of flex allocated and the daily quantity offtaken. Along with information on linepack variations we believe this will greatly improve transparency and is sufficiently robust. There is no compelling justification for a more complex arrangement at this point.
- Both proposals build on the current OCS booking arrangements and incorporate incremental changes implemented through Modification Proposals last year to further increase efficiency e.g:
 - o changes introduced to improve timing of the OCS process relative to DN Interruption tender process,
 - o changes introduced to allow Transporters to fine tune capacity requests and allocations towards the end of the OCS window to try strike a more efficient balance between DNO requirements and NTS capability and
 - o changes introduced to allow DNO Users to request new or incremental offtake capacity outwith the annual window to meet a request from a User where capability can be accommodated on the distribution network but not at the NTS/LDZ offtake. This allows capacity to be more fully utilised where available and avoids potential delay until the next annual window.None of these aspects are included in Modification Proposal 0116CV, as such we believe it to be less efficient.
- Both proposals provide a simpler, more stable and less risky framework for new entrants, relative to Modification Proposal 0116V and 0116VD.
- Compared to all the 0116 suite of proposals other than 0116A, both proposals provide Users with a mechanism for securing new or incremental capacity outwith the Annual Window. Under the 0116 suite of proposals there is no mechanism

for securing capacity on a long term basis outwith the annual window. We believe this is a significant drawback as it is detrimental to competition and the efficient use of the network.

- As indicated above, whilst the off peak capacity arrangements set out in Modification Proposal 0195A would not be accessible to DNO Users, SGN believes such arrangements to be appropriate for Shipper Users. They maximise use of capacity on any gas day without creating an inappropriate advantage relative to DNO Users and without increasing risk or having an adverse impact on DNO Users. The integrity of the system is protected through robust incentive / penalty arrangements to ensure Shipper Users reduce flows under specific conditions where operating requirements dictate.
- Most importantly, both Modification Proposal 0195 and 0195A avoid the unnecessary complexity and inefficiency introduced through Modification Proposal 0116V and 0116VD which predominantly rely on auction arrangements for allocating capacity. Given the different nature and requirements of Users, SGN believes auction arrangements, particularly for the long term release of exit capacity, would provide limited and potentially spurious investment signals for NTS and unnecessary financial risk and uncertainty for Users.
- Implementation and ongoing operating costs are not thought to be significant, particularly in relation to Modification Proposal 0116V and 0116VD.

SGN notes that further consultation is required e.g. in relation to ExCR Methodology and Exit Capacity Substitution Methodology. Whilst these arrangements are outwith the scope of the UNC and modification process, SGN is keen to participate in such consultations. Clarification is required regarding NTS's obligations to release capacity, particularly in excess of baseline and the extent to which they may be permitted to reduce capacity below baseline "if this may avoid, reduce or defer investment".

There are a number of small incremental changes that SGN believes may be appropriate and could improve overall efficiency. However SGN believes such changes could be developed over time and progressed on an incremental basis using the existing modification process. They do not in any way detract from Modification Proposal 0195 and 0195A which we believe provide a robust framework for moving forward. Areas which SGN is considering further include:

- Restrictions on the amount of NTS Exit (Flat) Capacity that can be applied for outside the Annual Application Window. Similar restrictions do not currently apply under the process set out in the UNC for DNO Users or that will be retained for NTS Offtake (Flexibility) Capacity.
- Under Modification Proposal 0195 and 0195A Users will be required to hold an appropriate level of credit based on a VAR. The proposal states that VAR will take account of any payments due in the following 12 months. This is a significant change for DNO Users and is potentially inconsistent with other credit arrangements recently introduced under the UNC.
- DNO Users ability to transfer and assign NTS Offtake (Flexibility) Capacity to another User or the same User at another Offtake. Whilst arrangements are not included in Modification Proposal 0195 or 0195A we believe they could further improve efficiency of the arrangements.

In terms of the relevant objectives SGN believes both Modification Proposal 0195 and 0195A satisfy relevant objectives as follows:

Standard Special Condition A11.1(a): the efficient and economic operation of the pipe-line system and Standard Special condition A11.1(b): the coordinated, efficient and economic operation of the combined pipe-line system and / or the pipe-line system of one or more gas transporters:

As stated above, both proposals:

- would remove uncertainty regarding future arrangements and provide a stable and robust basis for Users to signal requirements going forward,
- arrangements recognise the interaction between the capacity and pressure products and provide a mechanism for NTS and DNO Users to adjust requirements during the annual application process to reflect the capability of the network and maximise efficient use of the combined pipe-line system,
- they provide a wide range of tools for NTS to manage the network and constraints and
- the capacity booking and allocation arrangements and level of risk is consistent with the basis on which the recent DPCR has been determined.

We believe overall this will further facilitate the co-ordinated, efficient and economic operation of the pipeline system of each Transporter and the combined pipeline system and promote security of supply.

Standard Special condition A11.1(c): the securing of effective competition:

- Both proposals allow Shipper Users to book on a basis that is consistent with the nature of their business and the level of risk is more commensurate with the nature of their business, whilst still addressing the needs of National Grid NTS.
- Both proposals remove unnecessary risk and complexity for new entrants relative to 0116V and 0116VD.
- Proposals allow Users to signal and book new or incremental capacity outwith the annual window in order to meet end user requirements.

Overall we believe Modification Proposal 0195 and 0195A have the potential to further facilitate the securing of effective competition.

We hope you find these comments helpful. Should you require any further information please contact me at the address given above.

Yours sincerely

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