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Dear Julian,

Modification Proposals 0195/0195A: “Introduction of Enduring NTS Exit Capacity Arrangements”

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

SSE support the implementation of Modification Proposal 0195 & 195A, but have a preference for 195A as we believe it better facilitates the relevant objectives.

We rank the proposals in the following order, most favoured first:

195A – support
195- support
116A – support
116CVV – not supportive
116BV – not supportive
116 VD – not supportive
116V – not supportive

In summary, SSE:

- supports 195 and 195A as these proposals require strong User commitment from those signalling incremental capacity, whilst retaining some of the beneficial aspects of the current ARCA regime, such as flexible commitment and start dates.
- believes that 195A responds to the Competition Commission’s comments concerning the utilization of ‘spare capacity’ by ensuring that all capacity that can be made physically available is made available outwith peak demand periods. By avoiding peak periods Interconnectors, storage sites & power stations with back up fuel will not drive unnecessary & inefficient investment in the NTS through the purchasing of enduring entry capacity.

- does not believe that an off peak flat capacity service under 195 A will introduce a “flight from firm”. Power stations at the most expensive exit point on the network could in theory save £3m a year in exit charges by not operating on 80 % peak days. However, an annual average spark value of £ 0.34 MWh would cover this cost. Power prices during times of high demand are typically several hundred £/MWh and it would be uneconomic to miss this generation opportunity by not having firm capacity.
- agrees that neither of the 195/ 195A proposals recommend implementation of a flexibility product. SSE remain unconvinced on the strength of the evidence produced by NGG that a flex product is required or is constrained. We believe that the use of flexibility should be monitored before unreasonable changes are imposed that will have significant impact on the operation of the gas and ultimately power markets.
- support that proposals 195 and 195A do not treat all offtakes in exactly the same manner. We maintain this is not a necessary requirement given the fundamentally different nature of the offtakes and the businesses they serve. Both proposals allow DNs to book the flexibility they require to meet their licence obligations. We consider treating all offtakes in the same manner for exit capacity products would set a precedent implying that all offtakes should be treated in the same manner for all other aspects of transportation services including charges and pressure commitments. This could have unintended consequences and could ultimately constrain the efficiency of the gas and power markets.
- supports 116 A as it provides certainty and stability going forward at a time when substantial investment in gas fired plant is required.

Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Gas Transporter Licence Standard Special Condition A11.1

- (a) the efficient and economic operation of the pipe-line system to which this licence relates;**

The inclusion of an off peak flat capacity service as part of 195A will promote the use of spare capacity on the system and increase utilisation and hence efficiency of system operation.

Both 195 and 195A encourage User commitment signals for incremental investment and notice periods for surrendering capacity no longer required. This will help to inform NTS investment decisions which should in turn facilitate the efficient operation of the system.

The process for release and reduction of enduring flat capacity and flexibility in the notification process are positive features of these proposals. They reflect the physical realities of capital projects where Users would be able to advise NGG of changes at dates outside the Application Window. We believe these principles demonstrate that 195 and 195A better facilitate the relevant objectives more than the 116 variants.

- (b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economical operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;**

Implementation of either 195 or 195A will provide enduring arrangements under which Transporters can make efficient investment decisions. As stated above the flexibility provided by these proposals to notify capacity release and reduction will enhance efficiency of investment and thereby operation of the whole system.

(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

By providing a framework for signalling enduring capacity requirements these proposals would support NGG in meeting its licence obligations concerning the provision of capacity for 1 in 20 demand requirements.

195A will provide for more cost reflective charges as off-peak users do not drive investments to meet the 1 in 20 demand obligations.

(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

- (i) between relevant shippers**
- (ii) and suppliers;**
- (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;**

Implementation would remove the uncertainty created by the current sunset clause and thus facilitate the achievement of this objective.

It would introduce the same NTS exit (flat) capacity arrangements for shippers, offtaking gas directly from the NTS, with that applying to DNs. This would permit DNs to offer comparable terms to shippers in respect of similar rates of offtake.

The ability to appoint an agent for the initial allocation of enduring rights will help to ensure capacity is allocated to the appropriate parties in a fair manner, so they may compete on equal terms. This is critical for storage sites where there are multiple users whose historic exit capacity holdings will differ from future requirements.

Depending on the charges for daily off-peak capacity, 195A will further support competition between shippers, as they will be able to manage access risks. Particularly at storage, interconnectors and plant with back-up fuel capability and enhance their ability to compete in the market. It is unreasonable that under the 116 proposals that bi-directional site Users who by their nature do not make use of peak exit capacity at times of peak system use, but actually operate to reduce total system investment , were to incur firm exit charges.

A “flight from firm” is considered highly unlikely by direct connect power stations. Even the most expensive exit points create annual costs that are low relative to potential earnings during periods of peak power and gas demand. To forego the opportunity to generate at peak times undermines the investment in a power station.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

Jeff Chandler
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Energy Strategy