

**Enduring NTS Offtake (Flexibility) Capacity
Review Group 0166 Homework
15th November 2007**

To the extent that the NTS Offtake (Flexibility) Capacity product is likely to remain unconstrained, SGN believes the current OCS arrangements that apply to DNs provide a robust basis for DNs under the enduring regime.

OCS Allocation Mechanism

Medium to Long Term Allocation

The current regime allows DNs to submit requests for NTS Offtake (Flexibility) Capacity during an Application Window running from June to July each year for capacity covering a period up to Y+4. Allocations are confirmed by NG NTS in September through the release of the Offtake Capacity Statement (OCS). Recent amendments under Modification Proposal 0139 improved the efficiency of arrangements by allowing DNs to request incremental amounts of capacity over the medium to long term outwith the annual Application Window, where required in response to a capacity request from a customer connected to the DN network.

Short Term Allocation

DNs can also book NTS Offtake (Flexibility) Capacity on a short term daily basis through the OPN process.

Taken together SGN believes arrangements provide DNs with the information and certainty required to allow them to plan and manage their networks over all time horizons, giving sufficient notice where DN investment may be required and providing short term access to incremental capacity where available and required for operational purposes. SGN believes current arrangements facilitate the economic and efficient operation of the network.

Incremental Changes for Enduring Regime

To the extent that NTS Offtake (Flexibility) Capacity is likely to become constrained some minor incremental changes may be required to improve transparency and efficiency.

Improved Transparency and Efficiency

We believe current arrangements would benefit from improved transparency. We believe this could be achieved through the following measures:

- Reporting potential availability of NTS Offtake (Flexibility) Capacity over the planning horizon at a national, zonal and potentially offtake level.
- Reporting actual allocation of capacity at a national and zonal level.
- Reporting peak annual utilisation at a national and zonal level.
- Reporting on potential influencing factors on capacity availability and any potential future developments that could have a significant or material impact.

We believe that such information would allow Users to better understand potential availability and influencing factors and allow DNs to consider whether alternatives means of providing flexibility may need to be considered e.g. investment on the DN network. Where necessary, DNs could consider alternatives, including costs implications, before

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submitting capacity requests to NTS. We believe this could improve transparency and provide a more efficient outcome. Such reporting would also improve User confidence that capacity is allocated in an efficient and non-discriminatory manner.

Allocation Mechanism

To the extent that capacity could be constrained and demand exceeds supply, the OCS process relies on capacity being allocated on a pro-rata basis according to the level of capacity requested. As NTS Offtake (Flexibility) Capacity is provided as a by-product of NTS Offtake (Flat) Capacity and no specific investment is carried out to provide the product, SGN believes such an approach is proportionate, efficient and equitable, spreading the risk equally across all participants. Some incremental changes may be required along with reporting provisions referred to above to prevent Users from inflating requests in order to secure the full level required once scaled back, but we believe such a mechanism would be simple to implement and manage. Similar principles have been adopted under the DN PCR incentive arrangements whereby bookings in excess of 10% of previous levels would be investigated.

In the event that the NTS can't meet a DN's Flex requirements in full or if the DN is unable to effectively utilise the Flex available it is essential that where no other alternative is available the cost of investment on the DN network is allowed for and fully recoverable through the PCR or through a capex reopener.

SGN does not believe an auction mechanism is warranted. We believe such an approach would introduce unnecessary complexity and would provide little benefit. As NTS does not invest to provide flex, no investment signal is required. An auction would simply serve as an allocation mechanism. We believe it would add unnecessary complexity and risk e.g. although a zero priced product, scarcity could create unnecessary uncertainty and price volatility which as we have seen at entry can result in significant revenue recycling. We believe such complexity and risk could deter new entrants and be detrimental to competition and customers. It would not be cost reflective or efficiency.

Summary

In summary SGN believes the current OCS process is reasonably robust. Some incremental changes may be required but we believe they would be minimal and simple to implement. SGN does not believe an auction process is required and that holding auctions would create unnecessary costs and complexity.

Whilst SGN is comfortable with current arrangements for DN's, we do not believe it is necessary to introduce consistent arrangements for Shippers. However it is essential that where different arrangements exist, they do not introduce unfair advantage or adversely penalise one group of participants relative to another.

We look forward to receiving further analysis from NG NTS on NTS Offtake (Flexibility) Capacity availability at a national, zonal and nodal basis along with further information on potential areas constraint and influencing factors. We believe such information is key to developing appropriate enduring arrangements.