

Grampian House
200 Dunkeld Road
Perth
PH1 3GH

John Bradley
UNC Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
B91 3QJ

E:mail: Jeff.Chandler@scottish-southern.co.uk

Date : 11 Sep 2009

Dear John,

Modification Proposal 0265

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 Modification Proposal.

The Modification Proposal defines the NTS Entry Capacity Retention Charge as a Transportation Charge within the UNC and so allow National Grid NTS the ability to invoice for (and refund) the revenue associated to this charge. SSE is not supportive of the Retention charge nor the Substitution Methodology and therefore finds itself unable to support this proposal which would facilitate implementation.

The implementation of Substitution was to avoid sterilisation of capacity and consequently ensure efficient investment. SSE is supportive of this principle but does not believe that the Retainer methodology achieves this. The Retainer methodology allows Users to pay a nominal fee for capacity that is in no way cost or value reflective and removes that capacity from any subsequent substitution consideration. However, the Retained capacity can subsequently remain unpurchased and unused. Consequently, a potential opportunity to Substitute and avoid future unnecessary investment will have been lost, leading to additional costs for customers.

As described above, the Retainer charging methodology allows Users to pay a generic fee for capacity. But this charge is not cost reflective of the reserve price of an ASEP. As such we do not believe that it meets the primary objective of the charging methodology to reflect the costs incurred by the licensee in its transportation business and consequently does not meet the Licence Objective.

Extent to which implementation of the proposed modification would better facilitate the relevant objectives *Standard Special Condition A11.1 (a): the efficient and economic operation of the pipeline system to which this licence relates*

SSE does not support the Retainer substitution methodology and consequently cannot support this proposal. We think the 2 Stage Auction methodology is a better solution and should be implemented for the following reasons:

1. It will make use of the existing QSEC process and by making use of an existing process will be more efficient. It avoids the added complexity of retainer payments in a regime that is already complex which creates a barrier to new entrants.
2. Users will only have to bid to protect capacity from substitution once incremental capacity has been signalled. The Retainer method is less efficient as Users lack certainty and will have to make untargeted retainer payments due to lack of transparency about future investment signals.

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

Yours sincerely

Jeff Chandler
Gas Strategy Manager
Energy Strategy