ScottishPower

energy management

Martin Watson
National Grid

31st August 2007

Dear Martin,

Firstly, we appreciate the opportunity for the industry to engage in how the baselines will be set with respect to the future long term auctions. Thank you for giving Scottish Power the opportunity to respond to this preliminary consultation in redefining how these baselines are set.

We believe that the logical starting point for setting baselines is the physical capability of individual ASEPs, and historic usage. We find it hard to understand the precise methodology used in the recent redefinition of the baselines, and have seen severe impacts on current baselines for certain types of ASEP at the expense of others.

Although the long term auction process is designed to send out signals of intent with regard to future use, we believe that it is inappropriate to disregard the importance of both ongoing physical usage and shorter term auctions. Although we have had a number of years of activity under the IECR, there are ASEPs which obtained connection agreements under the previous regime. Deemed capacity availability was per the previous baselines and there was no need to book long term capacity. It would appear that capacities agreed in connection agreements along with short term auction signals and existing physical use have been ignored under the revised baselines.

The result is that some ASEPs are now in a highly unfavourable position with respect to long term capacity holdings in comparison with those established post 2002. Any new trades and transfers/substitution methodology introduced could exacerbate that disadvantage.

Clearly, the patterns of usage of entry capacity vary widely between different types of ASEP. Primarily, there is a distinction between the way capacity is used at storage ASEPs, particularly those which have third party access exemption, and import terminals. A mechanism should be in place to make optimal usage of any capacity that is not being used at these storage sites (on a necessarily shorter-term basis), rather than adopting an approach which creates winners and losers in a way which could be deemed discriminatory.

From a security of supply perspective, we also believe sufficient capacity should be available at individual ASEPs to allow maximum withdrawal and ensure optimal flexibility for the system.

We have reservations about accepting the current zoning methodology. Whilst we understand the value of grouping nodes within a zone from a system operation

perspective, we believe that a further distinction relating to type of ASEP should be taken into account.

We have referred to the nature of storage operations above – we also believe that most of the flow of capacity under the trades and transfers/substitution methodology will be away from the storage sites on the system to the entry points, but not necessarily in the most expedient way because of the "block" nature of the capacity product.

We also see a benefit from a more flexible approach to transferring capacity allocations between entry points (particularly import terminals) across the system than the current zonal methodology allows.

We believe that the allocation of unallocated capacity should take into account the differences between types of ASEP and the difficulties for certain ASEPs referred to above, to avoid some of the anomalous outcomes and potential discrimination to which we refer.

I hope these comments have proved useful. We look forward to engaging in the capacity baselines methodology development going forward. If you have any comments or questions on the above, please feel free to contact me on 0141 568 2464.

Yours Sincerely,

Steve Gordon
Commercial & Regulation Manager (Gas)
Scottish Power Energy Management Limited