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Subject: Fw: Entry Capacity Substitution Workshop 5 -SSE preferences
FAO JB

Andrew, I apologise for the late response.,

SSE is supportive in principle of substitution and efforts to minimise investment through substitution where it is genuinely viewed as being economic and efficient to do so. My concern with the proposals on the table is that they are all focused on the short term. The decision is based on a snap shot of demand at that point in time. They do not take account of future requirements and therefore over the long term they may not offer the optimal solution i.e. they may be less efficient. At the most extreme, a very small change in demand for entry capacity the following year at an ASEP that has had capacity removed, could have significant investment implications and completely outstrip any savings made. I think this was best demonstrated by the example given by Poyry - an increase of 16mcm/d at Easington takes out all spare capacity on the system. This could happen without any consideration of the alternative costs of investment to provide the 16mcm/d at Easington relative to having to invest at other entry points in future. It would seem sensible to maintain a buffer to provide some protection.

Please find SSE's preferences for the substitution options:

Option1 ,Literal interpretation of substitution, **Non supportive** - unlimited inefficient destruction of Donor capacity

Option 2 , Limits on Quantity Available for substitution **Non supportive** - NG discretion, could undermine TBE if based on this process.

Option 3 , NG Discretion on release, **Non supportive** - NG discretion,release process opaque, treatment of competing projects.

Arrangements need to be transparent. The basis for withholding / releasing capacity need to be understood by participants. Leaving it to NG to decide if or how much should be withheld from substitution introduces risk, uncertainty and potentially inconsistency.

Option 4 , Ofgem Discretion on release, **Non supportive** - Ofgem discretion,release process opaque, lack of certainty.

Arrangements need to be transparent. The basis for withholding / releasing capacity need to be understood by participants. Leaving it to NG to decide if or how much should be withheld from substitution introduces risk, uncertainty and potentially inconsistency.

Option 5 , Economic Test, **Non supportive** - No transparency, exchange rates of knowledge of bid values. Confuses cost with value.

This focuses on the ASEPs concerned at that point in time and not wider implications for the system and investment in future years. I also think this is too complex.

Option 6, Exchange rate cap, **supportive of the exchange rate cap but with further development** - principles of efficient substitution but with safe guard against unlimited capacity destruction.

Option 7, Option to Buy, **further development required**- An option to put a donor at the back of the queue for substitution. How effective?, additional earnings for NG for nothing.

Option 8, Sub reserve price , **Non supportive**- similar to 7 above, but more complex. How does this would work if you have several shippers at an ASEP - some bidding at or above reserve price to guarantee capacity and some reserving by bidding below reserve price. What does this do to competition and incentive to book capacity?

Option 9 Early warning system, **Non supportive**, NG discretion, process opaque, reliability of data, no user commitment, treatment of competing projects.

Option 10 Early warning system, **further development required**, allows 2 nd bidding at QSEC for baseline once incremental signal has been given in primary auction. Downside: leadtime delays and complexity of QSEC - already too complicated.

Option 11 Early warning system BGT proposal, **further development required**, allows 2 nd bidding at QSEC for baseline once incremental signal has been given in primary auction. Downside: leadtime delays and complexity of QSEC - already too complicated

Regards

Jeff

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