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Jan Gascoigne  
Regulatory Frameworks  
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Dear Jan

**Consultation Document NTS GCM 06:  
Further Revision to Obligated Entry Capacity Reserve Price Determination**

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

SSE does not support the proposal to include spare capacity in the transportation model when calculating entry capacity charges. Spare capacity is included implicitly by using maximum forecast base case flows rather than obligated levels of capacity. The use of forecast flow numbers introduces subjectivity into the setting of charges, this was one of the main reasons for rejecting the Transcost model and implementing the Transportation model.

The inclusion of spare capacity will result in lower capacity charges and result in an under recovery of revenue. This under recovery will be recovered via a commodity charge. SSE considers the recovery of a capacity fee by imposing a commodity charge not to be cost reflective and an unwarranted cross-subsidy. In the response to GCM01 the industry was nearly unanimous in its support for recovering capacity revenue from capacity charging by adjusting charges to meet allowed revenue, thereby avoiding the use of commodity charges.

As the flow of gas from the UCKS declines, more spare capacity will become available. If spare capacity is factored into setting charges this will lead to even greater commoditisation of capacity charges and as such become even less cost reflective.

Including spare capacity will lead to greater instability in charges year on year. This will add uncertainty and have negative consequences for investment in the NTS.

SSE does not agree that including spare capacity will reduce the risk of under-utilised assets. The location of potential gas storage sites, interconnectors and future gas fields are not primarily driven by where spare capacity exists. But more by where the (depleted) gas fields, salt layers or export sources are located. Hence, the discounting

of entry capacity price, by including spare capacity, is unlikely to drive a particular choice of ASEP.

SSE also believes that this proposal has a detrimental impact on new entrants. New entrants will have to underwrite investment signals for incremental capacity and then have to pay an ever-increasing commodity charge. This is not a regime that is designed to encourage new investment and increase security of supply.

If you would like to discuss any of the above points please do not hesitate to contact me.

Yours sincerely

Jeff Chandler  
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Scottish & Southern Energy