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Dear Jan

Consultation Document NTS GCM 04:

Introduction of NTS Exit (Flexibility) Capacity Charges under the Enduring Offtake Arrangements

Thank you for providing Scotia Gas Networks (SGN) with the opportunity to comment on the above consultation document.

Questions for Discussion

Q1. A zero reserve price for all NTS Exit Zones is introduced for the annual auction of NTS Exit (Flexibility) Capacity, the first of which is proposed under Modification 116V to be held in July 2007.

Q2. The reserve price for daily NTS Exit (Flexibility) Capacity would be the same as the reserve price for annual NTS Exit (Flexibility) Capacity, with the first daily auctions proposed under Modification 0116V to be held in October 2010.

In relation to the specific questions raised, SGN considers a zero reserve price to be appropriate for annual and daily NTS Exit (Flexibility) capacity products as this is consistent with NG NTS's stated position that it will not invest to provide additional flexibility capacity. NG NTS has always maintained that NTS Exit (Flexibility) Capacity is a by product of investment for NTS Exit (Flat) Capacity.

As such we believe a zero reserve price would be compliant with National Grid's Transporter Licence objectives and the EU Gas Regulations. In particular we believe a zero reserve price would be reflective of actual costs incurred. It would also avoid any cross subsidy and encourage efficient use of capacity that is available.

Locational Variations in Reserve Prices

We note paragraph 4.4 states the reserve price should be zero "unless there are grounds for setting higher levels for any NTS Exit Zone to overcome any concerns regarding lack of competition". We are not sure what is intended by this statement but it seems inconsistent with the logic presented elsewhere in the consultation document and referred to above in support of a zero reserve price. We do not believe it would be appropriate to have locational variations in reserve prices.

Revenue Recovered From Release of NTS Exit (Flexibility) Capacity product

It is not clear from the details presented under Appendix A how any revenue recovered from the release of annual or daily NTS Exit (Flexibility) Capacity products will be dealt with. We assume this will be made clearer under future consultations referred to relating to TO Exit Capacity charges and TO Exit Commodity charges.

Exit Capacity Release Methodology Statement

We note reference is made throughout the consultation document to the Exit Capacity Release Methodology Statement (ExCR). This is obviously an important document, setting out amongst other things, details of the NTS Exit Zones and quantities to be made available. SGN provided comments on a draft of this document some time ago. It would be helpful if National Grid NTS could confirm when any amendments or conclusions are likely to be published.

I hope these comments are helpful.

Regards

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