



19 September 2008

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Dear Eddie,

The following is the Scottish Power response to

**NTS GCM 05:  
NTS Exit (Flat) Capacity & Exit Reform**

**NTS GCM 12:  
Retrospective Negative TO Entry Commodity  
Charge & Separate Management of K**

Thank you for giving us the opportunity to comment on the above charging methodology papers.

**NTS Exit (Flat) Capacity & Exit Reform**

Since we have no decision as yet as to what the approved modification is going to be to deliver Exit arrangements going forward, we agree that a consistent approach to the setting of prices for NTS Exit (Flat) Capacity can and should be taken for all UNC Modification Proposal except 0116A. This involves a consistent approach for the generation of auction reserve prices or indicative prices. 0116A requires and envisages no Charging Methodology changes.

We agree that NTS Exit (Flat) Capacity prices are set on a nodal, offtake specific, basis, and that zonal exit prices are no longer required.

We have concerns over the pricing at certain bi-directional sites, particularly onshore storage. The capacity provided at entry and exit for a storage point is the same physical capacity and should not be double counted. For some sites this is a higher price despite actually being a system entry point. We understand that in the demand modeling:

“Bi-directional system points will be assumed to be in supply mode and hence will have a zero exit flow.” If this applies to prices paid as well then we don’t have a problem. The more highly priced of these sites also tend to be the more innovative independently owned facilities that have helped bring effective competition to the UK storage market. The inefficiency of having to secure massive blocks of entry capacity to maximum withdrawal for such a seasonal/ flexible product is

compounded by having to also book exit capacity to maximum injection. We believe this would be discriminatory, and, because both entry and exit capacity need to be secured in advance in long term blocs, would be a deterrent to people looking to develop new onshore storage.

We agree there will only be a need for a TO Exit commodity charge if the flexibility product is introduced by the implementation of one or less desirable 0116 modifications.

We agree that these arrangements are implemented with effect from the date of implementation of the relevant UNC Modification Proposal.

Also, we believe that the proposed changes to the Gas Transmission Transportation Charging Methodology achieve National Grid Gas's relevant GT Licence objectives,

### **Retrospective Negative TO Entry Commodity Charge & Separate Management of K**

We believe that proposed changes to National Grid's Transmission Transportation Charging Methodology meet the relevant GT Licence objectives, with separate Entry and Exit K components for charge setting, and a methodology which ensures that the sum of the two equals the K calculation.

We have concerns over the application of any retrospective charge, and particularly any over-recovery mechanism which is rigidly ring-fenced so that it affects what people are willing to pay at the initial allocation stage. However, we believe that this is an acceptable approach in this situation – retrospective in the light of all capacity holding payments in the previous period and pertaining to those with entry flows in that period. There could be a perverse incentive to pay up for and hoard capacity if it were levied only holders of capacity in that period.

Since PC73 and the separation of Entry & Exit in commodity as well as capacity charging, we believe that separate management of k for Entry and Exit has been appropriate. This is particularly true with the advent of auctions at Exit and the uncertainty surrounding Entry arrangements like substitution and trades & transfers. We expect potential for over-recovery – or certainly greater volatility – in both entry and exit revenues.

Should you have any queries on the views expressed, please contact me on the telephone number as shown.

Yours Sincerely,

A handwritten signature in blue ink that reads "Steven Gordon". The signature is written in a cursive, flowing style.

Commercial & Regulation Manager (Gas)  
Scottish Power Energy Wholesale