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Our Reference:

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Dear Eddie,

Consultation Document NTS GCM 11: Retrospective Negative TO Entry Commodity Charge

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

SSE supports and agrees that the proposed changes listed below from GCM11 of the Transmission Transportation Charging Methodology meet National Grid Gas's relevant GT Licence objectives, specifically that:

Trigger

- The retrospective Negative TO Entry Commodity charge would be used if there remained a residual over-recovery amount after taking into account any revenue redistributed via the TO Entry Commodity Rebate Mechanism (cc. GCM10).
- The mechanism would be triggered even if the buy back offset mechanism (GCM09) or the TO Entry Commodity Rebate Mechanism (GCM10) had not been triggered.
- The mechanism would be triggered at the end of the formula year.

Mechanism

- Any residual TO entry revenue remaining after taking into account credits resulting from the Entry Capacity buy-back offset (GCM09) and the TO Entry Commodity Rebate (GCM10) mechanisms would be available as a credit to shippers.
- Credits would only be paid based on MSEC allocations.
- Each Shipper's credit would be calculated as a proportion of the total available credits from the ratio of Shipper relevant entry allocations to total relevant entry allocations over the formula year.
- Credits would only be paid if the residual over recovery was in excess of £1m.
- Credits would be capped at the level of the SO Entry Commodity charge level.
- Credits would be paid following the end of the formula year based on relevant entry allocations.

SSE believes the proposal contained in GCM11 satisfies the relevant methodology objectives as:

- Where transportation prices are not established through an auction, prices calculated in accordance with the methodology should reflect the costs incurred by the licensee in its transportation business. In addition it should properly take account of developments in the transportation business, and finally it should facilitate effective competition between gas shippers and gas suppliers.
- In improving the efficiency of the TO Entry Commodity process, the likelihood of over recovery is reduced and hence the aggregate charges would more closely reflect the costs incurred within the formula year.
- GCM11 should prevent cross subsidies between entry and exit Users, facilitating effective competition between gas shippers and suppliers.
- The proposal modifies the TO Over-recovery mechanism to take into account past and potential future changes to the NTS Entry capacity regime and hence “takes into account developments in the transportation business”.

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

Yours sincerely

Jeff Chandler
Gas Strategy Manager
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