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Our Reference:
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Dear Eddie,

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

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 GCM12 of the Transmission Transportation Charging Methodology meet National Grid Gas's relevant GT Licence objectives, specifically that:

K Management

- The Licence defined TOKt ('K') term would be split into separate Entry and Exit K components for the purpose of setting charges.
- The applicable interest rate used to calculate K within the Licence depends on whether there has been over or under recovery.

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.
  - The TO Entry Commodity rebate (GCM10) mechanism would be triggered if there remained a residual over recovery amount after taking into account any revenue redistributed by the buy back offset mechanism (as described in GCM09).
- 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 based on the outcome of all NTS Entry Capacity auctions that represented a TO revenue stream.

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.

  - As specified by GCM09, any residual over recovery at the end of the formula year would first be used to offset buy back costs in those months within the formula period when buy back costs had occurred and no credit had been paid or where the credit was less than the buy back cost.

  - As specified in GCM10, any residual over recovery at the end of the formula year would secondly be used to rebate TO Entry Commodity charges paid within the formula period.

- Credits would only be paid based on relevant entry allocations i.e. those allocations that would attract the TO Entry Commodity charge.
- Each Shipper's credit would be calculated as a proportion of the total available credits from the ratio of the 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 (this equates to the minimum TO Entry Commodity price of –0.0001 p/kWh).
- Credits would be capped at the level of the SO Entry Commodity charge such that the combined impact of SO and TO Entry Commodity charges did not represent a credit to Shippers.
- Credits would be paid following the end of the formula year based on relevant entry allocations i.e. those allocations that would attract the TO Entry Commodity charge.

SSE believes the proposal contained in GCM12 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.

  - So far as is consistent with the aforementioned cost reflectivity, properly take account of developments in the transportation business.

  - So far as is consistent with cost reflectivity and developments in the transportation business, facilitate effective competition between gas shippers and between gas suppliers.

- In improving the efficiency of the TO Entry Commodity process, the likelihood of over recovery is reduced and hence the aggregate of all entry and exit charges would more closely reflect the costs incurred within the formula year.
- GCM12 should prevent cross subsidies between entry and exit Users and hence should facilitate effective competition between gas shippers and between gas suppliers through more stable and transparent charges.
- 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". This proposal is consistent with enduring entry trade and transfer arrangements and with the potential for more variable exit revenue, which may be a consequence of exit reform.

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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