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Our Reference:
Your Reference:

Date : 14 Jan. 09

Dear Eddie,

Consultation Document NTS GCM 13:
April NTS Exit Capacity Price Changes

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

SSE is not supportive of the option 4 proposal from consultation GCM013.

Exit Prices are set each year in October for the following 12 months but the Transportation Owner Maximum Allowed Revenue changes in April of each year. This misalignment of gas year (October – September) and formula year (April – March) has the potential to lead to an initial under- or over-recovery for the first six months of formula years.

NGG have proposed a preference for a potential one-off Exit Price change in April 2009, recalculating Exit Prices without updating supply data. Based on analysis undertaken by NGG, and assuming implementation of GCM012, it had been demonstrated that implementing GCM013 option 4 could reduce exit price volatility given variable RPI over the remainder of the price control.

However, following an update at the TCMF meeting on Thursday the 4th Dec this revenue rebalancing is no longer required as a revision of AQ values returned expected revenues to allowed levels. With the expected implementation of Exit Reform revenues will be based on actual bookings from 2012 onwards which should remove further uncertainty associated with AQ levels. This issue demonstrates why its not appropriate to make changes in April without due consideration. Each "application" for a change should be consulted upon and considered on its own merit.

In addition Option 4 does not address the following concerns:

- It would create the potential under the methodology document for 2 price changes in a year. This creates an unacceptable level of risk for customer supply contracts, without any clear need at this point in time or justificaiton.

- It is our understanding that this introduces inconsistencies between the methodology and Special Licence Condition C7 which specifically states that exit capacity charges can only be changed once a year. This proposed option in our view potentially circumvents Licence provisions which is neither possible or appropriate.

- To the extent that it is necessary in future to make a change to the charging methodology, we would expect NTS to consult the industry on proposal that take account of specific circumstances and requirements. We would also expect NTS to seek permission from Ofgem in accordance with the Standard Licence Condition 4A.

- In order to ensure cost reflective charges, our preference at this point would be that both supply and demand assumptions should be updated. Option 4 proposes only updating demand assumptions. SSE believes this runs the risk of reducing cost reflectivity and runs the risk of introducing cross subsidy.

- High volatility at individual exit node points associated with new supply and demand assumptions . The volatility of charges associated with individual exit points can be 1000s of % compared with less than 10 % total charge volatility that this proposal seeks to remedy.

As a result of the temporal nature of option 4 and the potential price risk uncertainty imposed on customers & commitment to licence obligations SSE is not supportive of this charging methodology. SSE would support no change, Option 1, or a review group to assess the impact of aligning the gas and licence years to April.

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
Energy Strategy