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Our Reference:
Your Reference:

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Dear Eddie,

**Consultation Document NTS GCM 16:
Supply & Demand Balancing Rules & Supply Source Data**

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

The Transportation Model is used to set all entry and exit capacity prices and to calculate these it requires supply to equal demand. This is achieved by reducing supplies in a merit order to match the modeled demand.

Changes to the supply and demand assumptions in the Transportation Model can change the direction of the flow of gas and this can impact prices for exit points close to supply points. It has been demonstrated that changing the supply and demand balancing rules and the source of the supply data could reduce the impact of supply changes on exit price volatility.

Provided that prices are cost reflective then SSE is supportive of efforts to improve stability or predictability. Based on the indicative prices published on 16 April 2009, which we understand have been produced based on the methodology described below, SSE is supportive of consultation GCM016.

It has been proposed that the sources of Supply are divided into six categories. The marginal category to match demand is then assumed to have an equal percentage supplied from all entry points in that category. SSE believes this will be more consistent than choosing an arbitrary single marginal supply point to achieve balance.

The ascending merit order of supply categories is listed below:

- 1) Beach supplies
- 2) Interconnectors
- 3) Long-range storage
- 4) LNG Importation

- 5) Mid-range storage
- 6) Short-range storage

It has further been proposed that the supply data values are taken from the ten year statement for entry flows with the following exceptions:

- Bacton excluding BBL and IUK
- Barrow
- Burton Point (also known as “Point of Ayr”)
- Easington including Langedale, excluding Rough
- St Fergus
- Teesside including Excelerate
- Theddlethorpe
- Wytch Farm (Onshore field)

and

- Physical capability would be used for all other supply components.
- ASEPS would be capped at obligated levels.

SSE believes that it would be appropriate to use Section 4.6 of the Ten Year Statement to identify eligible entry points and the year that they are due to become operational. New entry points would only be included as available supply in future years if they were under construction.

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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