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Our Reference:
Your Reference:

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Dear Eddie,

**Consultation Document NTS GCM 17:
New ASEP NTS Entry Capacity P0 Pricing**

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

SSE is supportive of consultation GCM017.

National Grid proposes through this consultation that for new entry points, the P0 price within the QSEC price stack should be calculated consistently with the P0 price for all existing entry points. The P0 price for existing entry points is the transportation model derived annuitised long run marginal cost for the relevant entry point with that point flowing at the obligated level.

This proposal, GCM17, would ensure that the P0 price was set on a consistent basis for new and existing ASEPs and should remove a potential cross subsidy.

Under the prevailing Charging Methodology, the Obligated NTS Entry Capacity reserve price for a new ASEP is zero and an ASEP is treated as new for Quarterly System Entry Capacity (QSEC) auctions until obligated entry capacity is released.

The Obligated NTS Entry Capacity reserve price is the P0 price in the QSEC price schedule with price P1 up to P20 relating to incremental capacity. The P0 price for all existing ASEPs is the annuitised long run marginal cost (LRMC) generated from the Transportation Model with the relevant ASEP flowing at the obligated level.

While the obligated entry capacity level is zero at new entry points, capacity can actually be released at the zero P0 price due to the UNC quarterly entry capacity allocation rules and there is evidence that this has occurred. Capacity can be released at the P0 price when the economic test has been passed through bids at earlier quarters. The NPV of the bids required

to pass the economic test is 50% of the project value. This suggests that later capacity sales in other auctions will cover the other 50%. This is unlikely to be the case if significant capacity has already been released at a zero price and this could lead to a potential cross subsidy.

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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