

ScottishPower

energy management

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February 26, 2008

Dear Andrew,

Thanks for giving Scottish Power the opportunity to comment on the following:

**Summary Report and Discussion Document on Entry Capacity
Substitution**

General Thoughts on Substitution

We have concerns over the lack of joined up thinking on all the different elements of capacity, and remain apprehensive about the implementation of a substitution regime.

We are worried that the substitution process could lead to capacity being moved from where it is needed. Also, to avoid this, market participants might need to secure capacity that was not required

We are unsure about the level of benefit that will be derived by the implementation of the arrangements – as stated in the document: “potential adverse impact of some substitution options in terms of complexity and resultant market uncertainty may far outweigh any potential benefit.”

Also, we fundamentally believe that the substitution methodology should cater for the differences between entry points and the ways that capacity is used by these different points. We believe that because capacity needs to be purchased in an inefficient way it will lead to higher costs through the supply chain. It is discriminatory to treat the same things in different ways, but not discriminatory to do so for different things.

We are generally in agreement with National Grid's concerns and the shipper comments that have been reflected in the document. However, one thing we are happy with is that these arrangements are not being put in place retrospectively.

We have concerns over being able to meet the proposed timetable. We believe that we will need to understand all the possible ramifications prior to implementing the regime because of the permanent nature of the substitution of capacity that can occur under these arrangements.

Capacity Available for Substitution

We believe that as much capacity as possible should be retained for the short term – and support raising the level of retained capacity to 20%. This would also encourage new entrants to the market.

We believe that forecast flows could be excluded from substitution, but share the concern over accuracy of information – this would need to be monitored. Perhaps a further incentive could apply in order to avoid inaccurate forecasts and prevent capacity hoarding.

Single Quarter Problem

In principle under a substitution methodology, we believe that having one quarter booked should not mean that all capacity effectively stays at that ASEP. However, the capacity booked should be made available. We have concerns about the prospect of permanently moving capacity away from any entry point, believing that we may face dangerous and unforeseen consequences.

Lower NPV Test

We would prefer a consistent approach. The current NPV model can cause confusion without further differentiation.

We need to understand the current models better to comment any further on the appropriateness of these tests.

Exchange Rate Cap

We believe there should be an exchange rate cap. We believe this cap should be 10:1 which is consistent with arrangements elsewhere, otherwise the product becomes too diluted. However, this should be kept under review.

Availability of Capacity

Again, we would prefer consistency, but would like to see capacity being made available earlier if it can be. If this is 18 months for substituted availability we see no good reason to delay this.

Other Issues

We would be happy to be involved in establishing new arrangements. Certain ASEPs have already been severely impacted because the prevailing arrangements at the time did not require the same level of long term bookings. The

implications of any changed arrangements will need to be understood prior to implementation.

We believe that storage points and LNG import terminals should be treated differently. We believe that not doing so could be considered discriminatory.

We do not support the removal of the reserve price discounts.

We also support separate QSEC auctions for new entry points. In fact, we support holding a QSEC auction more frequently given the 42-month lead times.

At present we believe gas entry capacity products, whilst complex, are not flexible enough to meet the needs of some categories of user and we support further differentiation of the product offering.

Scottish Power are keen to be centrally involved in all processes relating to the release of entry capacity going forward. If you have any questions on any of the points raised in this response, please call me on 0141 568 2464.

Yours Sincerely,

A handwritten signature in blue ink that reads "Steven Gordon". The signature is written in a cursive, flowing style.

Commercial & Regulation Manager (Gas)
Scottish Power Energy Management Limited