

Andrew Fox  
UKT Commercial  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

E:mail: [Jeff.Chandler@scottish-southern.co.uk](mailto:Jeff.Chandler@scottish-southern.co.uk)

Date : 24 Aug 2009

Dear Andrew,

### **Formal Consultation, Entry Capacity Substitution Methodology Statement**

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

SSE is not supportive of the proposed Substitution Methodology Statement.

We are disappointed that the substantial effort invested by the industry has been curtailed with only one method of substitution being put forward for consultation. Particularly, as we believe the Retainer approach to be inferior to the other Substitution methodologies that have been developed.

The implementation of Substitution was to avoid sterilisation of capacity and consequently ensure efficient investment. SSE is supportive of this principle but does not believe that the Retainer methodology achieves this. The Retainer approach allows Users to pay a nominal fee for capacity that is not cost or value reflective and removes that capacity from any subsequent substitution consideration. However, the Retained capacity can subsequently remain unpurchased and unused. Consequently, a potential opportunity to Substitute and avoid future unnecessary investment will have been lost, leading to additional costs for customers.

SSE does not agree with NG NTS that the 2 Stage Auction methodology could be implemented at some later date. This will create regulatory uncertainty and have unforeseen consequences, possibly delaying investment in storage and import infrastructure. It is preferable to take the required time to implement the best solution

first time round rather than rush through an inferior solution to meet an arbitrary deadline. SSE believe the 2 Stage Auction methodology should be implemented and is a better solution for the following reasons:

1. It will make use of the existing QSEC process and avoid the added complexity of retainer payments in a regime that is already too complex which creates a barrier to new entrants.
2. Users will only have to bid for existing capacity to protect capacity from substitution once an incremental capacity has been signalled. The Retainer method is less efficient as Users lack certainty and will have to make untargeted retainer payments due to lack of transparency about future investment signals.
3. The User commitment to buy capacity is more cost reflective being based on the ASEPs specific reserve price, rather than an arbitrary, low value and generic retainer payment.

Considering the wide spread industry preference for a methodology other than the Retainer approach (Conclusions Report to the May 2009 Informal Consultation on Entry Capacity Substitution 10 July) we question whether the views of industry have been appropriately considered. We question whether an informal consultation that rules out solutions supported by the industry before the final consultation, excluding these options from further consideration and any subsequent Impact Assessment would constitute due process.

Substitution is a difficult balance between ensuring that assets are used to their most efficient and ensuring that the capacity/infrastructure exists to enable gas to flow into the UK. The impact on wholesale costs through inefficient substitution could cost much more than the savings made by ensuring that all capacity is used. SSE believes exchange rate caps are appropriate in conjunction with a methodology that allows partial substitution. SSE believes a cap of no more than 2:1 should be implemented. However, this number is arbitrary, subjective and based on anecdotal evidence from NG NTS that one substitution could exhaust all unsold capacity if caps were not implemented. We have no data or information to suggest that the different methods of Substitution should warrant different exchange rates.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

Jeff Chandler  
Gas Strategy Manager  
Energy Strategy