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Dear Jan

Discussion Document NTS GCD 02:
Introduction of NTS Exit (Flexibility) Capacity & Commodity Charges under the Enduring Offtake Arrangements

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the specific questions raised in the above Discussion Document.

Inaddition to answering the specific questions SSE would like to make the following comments:

- SSE does not support the introduction of an exit flexibility capacity and commodity charge. SSE does not believe that all offtakes at the NTS need to be treated the same; Shippers compete in a competitive market and Distribution Network Operators operate in a regulated regime. Treating all offtakers in the same way may lead to a loss of diversity of utilisation and will introduce unnecessary complexity and cost. SSE's view of the implementation and ongoing costs associated with flex will be given in response to Ofgem's Impact Assessment.

- SSE believe the current NEXA arrangements adequately facilitate the usage of varying gas offtake at power station direct connects without adding further complexity and cost.

- SSE considers that the imposition of capacity flexibility charges will result in an increase in risk premiums when submitting BOAs and PGBTs in the electricity market. This will subsequently increase BSUoS charges and the cost of electricity to customers. SSE believes this to be detrimental to competition and will impact on the provision of demand side response.

In answer to the specific questions:

a zero reserve price for all NTS Exit Zones is introduced for the annual auction of NTS Exit (Flexibility) Capacity, the first of which is proposed under Modification 0116 to be held in July 2007;

the reserve price for daily NTS Exit (Flexibility) Capacity would be the same as the reserve price for annual Exit (Flexibility) Capacity, with the first daily auctions proposed under Modification 0116 to be held in October 2010;

Q1 & Q2.
Notwithstanding SSE do not support the flex product, we consider a zero reserve price to be appropriate for long and short term allocation of capacity, as allocations will result from the current asset base and NGG state that no investment signal can be given to release incremental flexibility capacity.

the NTS SO Exit (Flexibility) Commodity Rate will be the same rate for all NTS Exit Zones and determined each Gas Year based on identifying relevant proportions of SO costs attributable to flexibility product usage, according to the ratio of NTS Exit (Flexibility) Capacity baseline for the NTS to the aggregate NTS Exit (Flat) Capacity baseline for all NTS Exit Points;

Q3.
SSE believes that a flex commodity charge adds excessive complexity to the regime. The methodology for determining the baseline for flexibility has not been shared with the industry and is not transparent. Therefore, using it to apportion SO costs is a bold assumption and it must be considered as arbitrary and therefore not reflective of costs. We note that NGG considers that a correlated gearing exists between system reserve costs and the use of flexibility. SSE would like this to be reviewed because system reserve relates not only to system pressure but also supporting firm exit flows at peak periods. Because peak flex usage will not occur at the same time as peak demand then this proposal may not be appropriate.

there will be no change to the current SO under/over-recovery mechanism. Any under/over-recovery amounts arising from the NTS SO Commodity Charges (Flat and Flexibility) would be combined and the respective commodity rates scaled by a common factor to manage the under/over-recovery, hence maintaining initial price ratios (referred to as Option (a) in the paper);

Q4.
SSE supports the option described as “Single Target Revenue Ratios” in the paper. Under this option SO commodity rates are set for entry , exit & flex at the beginning of each year. To manage under/over recovery all the rates would be scaled equally to the initial price ratios. However, we note the above question does not say that Entry commodity charges would be included in the common scaling and therefore it does not appear to be the same as the “Single Target Revenue Ratios” option described in the paper.

the NTS SO Exit (Flat) Commodity Rate at NTS Exit Points would be set at a level which when combined with the proposed NTS SO Exit (Flexibility) Commodity Rate would recover 50% of the SO allowable revenue.

Q5.
SSE support the principle that 50 % of SO allowed revenue should be recovered from Entry commodity charges and 50 % from Exit commodity charges.

If you would like to discuss any of the above points please do not hesitate to contact me.

Yours sincerely

Jeff Chandler
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