Scotia Gas Networks plc
Perrie Street
Dundee
DD2 2RD
Phone 01382 613037
Mobile 07817 215077

Jan Gascoigne
National Grid
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

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Dear Jan

Discussion Document NTS GCD 03:
Recovery of TO Allowable Revenue form Exit Users from 1 October 2010

Thank you for providing Scotia Gas Networks (SGN) with the opportunity to comment on the questions raised in this discussion document.

Q1. The derivation of NTS TO Exit Commodity rates, applicable to flat capacity utilisation or alternatively to both flat and flex utilisation, in the light of capacity sale and auction derived revenues, as an appropriate mechanism to ensure NG NTS can comply with its revenue restriction licence obligations.

In principle SGN supports the use of an NTS TO Exit Commodity rate to make up any under-recovery of TO Exit allowable revenue, but subject to two qualifications:

1. Exit Capacity charges and reserve prices should be adjusted so as to aim to recover the total TO Exit Capacity target allowed revenue. The TO Exit Commodity charge would therefore only be used of offset under-recovery arising due to forecasting error. (See the “Other Issues” section of SGN’s response to NTS GCD 01 for more detail on why SGN consider that the TO Exit Capacity charges and reserve prices should be adjusted to aim to recover the total TO Exit allowed revenue).
2. The NTS TO Exit Commodity charge should be applied to flat capacity only as applying it to flex capacity as well would introduce unnecessary complexity and cost into the revenue recovery methodology. SGN does not support the introduction of an SO Exit flex commodity charge (See SGN’s response to NTS GCD 02) and considers it consistent with this position not to support the introduction of a TO Exit Flex Commodity charge.

Q2. If exit buy-back costs were recovered through the proposed exit capacity neutrality mechanism, the introduction of an Exit buy-back mechanism in light of capacity sale and auction-derived revenues, as an appropriate over recovery to ensure NG NTS can comply with its revenue restriction licence obligations.
SGN does not object to the introduction of an exit buy-back mechanism to cope with over-recovery, although with the proposals for unadjusted exit capacity charges as they are now it is difficult to see when such a mechanism would be used.

Q3. The derivation of a negative NTS Exit Commodity Price, applicable to flat capacity utilisation or alternatively to both flat and flex utilisation, in the light of capacity sale and auction derived revenues, and if over-recovery was in excess of but-back costs, as an

appropriate over recovery mechanism to ensure NG NTS can comply with its licence obligations.
SGN supports the principle of a negative TO Exit Commodity charge to manage but over-recovery, but considers that it should be applied to Flat capacity only for the reasons given in the response to Q1 above.

Q4. the NTS TO Exit Commodity charge when negative is collared to prevent the aggregate of NTS TO and SO Exit Commodity charges from being negative.
SGN supports this proposal.

Q5. The NTS TO Exit Commodity rate would be set at a level which when combined with revenue recovered from the NTS TO Exit (Flat) Capacity and NTS TO Exit (Flex) Capacity charges would recover 50% of the TO allowed revenue.
SGN supports the proposal in principle. It is the balance of revenue recovery between the TO Exit Capacity charges and the TO Exit Commodity charges which is the issue.

We hope these comments are helpful.

Should you require any further clarification or wish to discuss any point in more detail, please contact me at the above address.

Yours sincerely

Beverley Grubb
Commercial Manager
Scotia Gas Networks