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Dear Eddie,

**Discussion Document NTS GCD 05:  
Options for an SO Commodity Charge for NTS Storage Facilities**

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

SSE is not supportive of the implementation of a SO commodity charge for NTS connected storage facilities.

**Q1. Should storage continue to avoid an SO Commodity Charge?**

SSE believes that storage should continue to avoid an SO commodity charge for the purpose of reflecting the correct cost structure of storage operations on the system. The additional costs associated with an SO Commodity Charge would have incremental and potentially exponential effects on certain aspects of the wholesale gas market, with storage costs passed through to the market and end user. In addition, the benefit of system balancing provided by storage to National Grid Gas would likely manifest to a reduced rate of activity, with storage cycling rates becoming operationally redundant over shorter time periods.

As outlined in the Ten Year Statement, there are a number of storage projects awaiting planning approval and Final Investment Decisions. The possible introduction of an SO Storage Commodity Charge would likely devalue storage and potentially make new investment in developments uneconomic.

**Q2. Which SO costs should be included within an SO Storage Commodity Charge?**

As highlighted in the discussion paper (3.6), “The components of SO costs which are considered to be relevant to NTS storage could be used directly to produce an SO Commodity charge for storage. The precise level of costs for the relevant components may be difficult to forecast (particularly incentive performance and k)”. The only suggested charge, as included in (2.2), is the internal costs and a proportion (related to the internal

costs) of the incentive and k mechanisms. SSE believes these are the only relevant costs for storage users.

**Q3. Should the charge apply to physical or commercial flows?**

If such a charge were to be applied, it would be considered appropriate for the charge to focus on physical (net) flows rather than commercial (gross) flows. This would determine the true nature of activity on the system. A cost based on commercial nominations/flows would not be cost reflective.

**Q4. If a charge were based on physical or commercial flows what are the estimated systems costs to Users and the industry?**

Unknown at this stage. National Grid's estimation of £2.5m from SO revenue for this formula year (4.1) could be subject to significant inaccuracies. The estimate for annual storage utilisation for a given year cannot be forecast exactly due to the use of storage being based on underlying volatility and seasonal spreads. In addition there is significant uncertainty year on year as to the timing of new facilities.

**Q5. Would it be unduly discriminatory to have a different commodity charge for storage Users?**

SSE does not consider a different commodity charge for storage users to be unduly discriminatory. This is based on legal advice that where classes of NTS Users are not materially comparable, different treatment can be appropriate. SSE considers that the service being provided is 'the service to flow gas at storage sites' which is not the same service as flowing from entry terminal to exit point.

**Q6. Are there any possible approaches or issues that have not been discussed in the discussion document but warrant further consideration?**

Once a cost has been agreed the level of revenue recovered will not meet that forecast due to uncertainty regarding storage cycling throughput. It is SSE's opinion that this will require some form of k factor for the storage SO commodity charge with a consequential impact on the main separate K factor commodity charge. As combining to a single K factor will lose the cost reflectivity that this entire consultation is striving to achieve. However, these proposals will add further complexity and uncertainty to subsequent annual charges.

Considering the relatively small charge to be recovered of circa. £2.5 m SSE does not consider the implementation of a SO storage commodity charge to be an effective and efficient use of the industry resources.

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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Energy Strategy