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Our Reference:

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Dear Eddie,

**Consultation Document NTS GCD06
Supply and Demand Balancing Rules in the Transportation Model**

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the above Discussion Document. In response to the specific questions SSE provides the following comments:

Supply & Demand Balancing

_ Q1. Do respondents consider the preferred option, Rule Three, to be transparent and cost reflective?

SSE prefers a methodology that is firstly cost reflective, transparent, then predictable or stable. We believe this is the requirement of the licence.

Price volatility is specifically an issue for exit where long term prices will be determined by prevailing charges at the time. Prices at entry can be hedged via QSEC auctions therefore the issue of price stability should focus on exit points. I understand that the issue is particular to those exit points that are close to entry points and that the varying of the supply assumption creates volatility.

I believe a process where groups of supply are aggregated & a percentage utilisation applied to achieve supply demand balance is preferable to an operational merit order that is subjective. However, the analysis conducted to date is insufficient to enable SSE to commit to a preference at the moment.

_ Q2. Do respondents consider any of the alternative options to be more transparent and cost reflective?

- **Rule 3 produces the least variable entry and exit prices across the three scenarios.**

- **Rule 3: Supplies split into the following three groups:**

1. Beach, Interconnectors, LNG Importation, Long-Range Storage (Rough)
2. Mid-Range Storage
3. Short-Range Storage (LNG)

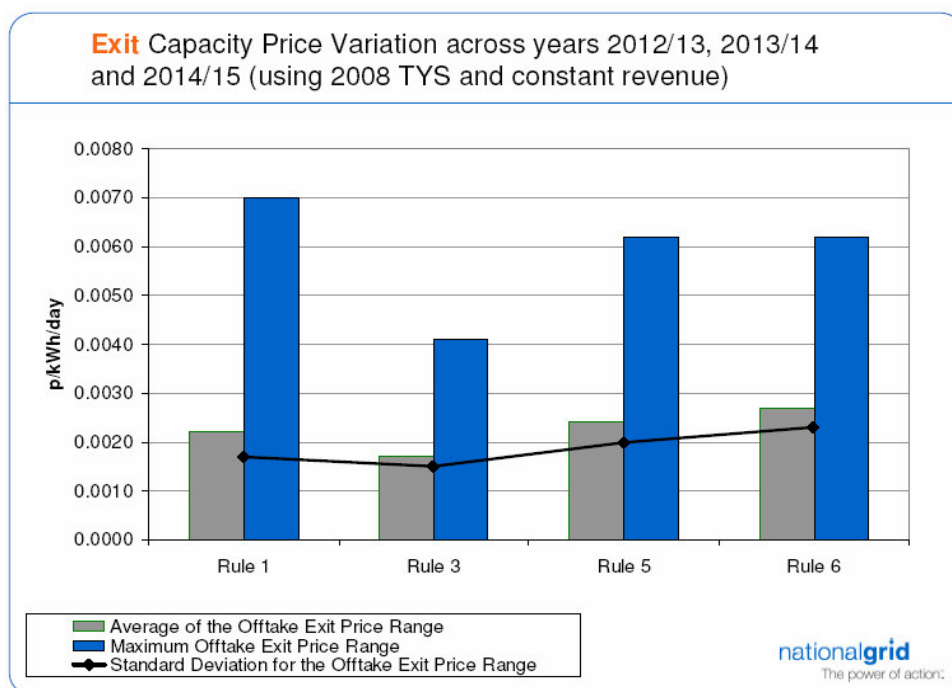
However, the supply/demand scenarios used in this analysis have not required the use of LNG Storage under Rule 3.

- **Rule 6 could produce more stable prices in scenarios with more demand variation.**

- **Rule 6: Supplies split into the following two groups:**

1. Beach, Interconnectors, LNG Importation, Long-Range Storage (Rough)
2. Mid-Range Storage, Short-Range Storage (LNG)

Although options 3 & 6 produce least price variation between average, max and lowest standard deviation. However, they may not be the most cost reflective. It would be helpful to provide the results for all individual exit & entry points as averages & std devs mask the impact on individual sites. Please provide the results of all individual exit & entry points for the analysis undertaken. Without this SSE will be unable to support a change and will favour the status quo.



_ Q3. Do respondents consider an option differing from those proposed to be more transparent and cost reflective?

With respect to how to group supply sources for scaling back to meet demand I think the following would be appropriate & should be modelled and results published.

1. beach
2. I/Cs, LNG importation – as these are price sensitive
3. storage -LRS & MRS the difference between LRS & MRS become increasingly blurred with new developments and both types will flow on a 1:20 peak day.
4. LNG storage.

Sources of Supply

_ Q4: Do respondents consider averaging supply data from a number of Ten Year Statements to be an appropriate approach to dampening entry and exit price volatility?

SSE do not support an averaging of multi year 10 TYS results. This would be a retrograde step. The transportation model and its assumptions were introduced to move away from averaging and to use 1 year of the most up to date data. Averaging old data that is no longer relevant will dilute the benefits of using current data.

_ Q5: For each of the four supply types; Beach, Interconnector, LNG Importation and Storage, which data source do respondents consider to be most appropriate to use for charge setting purposes?

_ Obligated Entry Capacity

_ Physical Capability

_ Ten Year Statement

SSE is unable to offer a view regarding different treatment for different supply level due to lack of analysis & results. We offer the following comments:

1. Do not use historical data.
2. Beach flows – 1. model TBE 10 year data 2. obligated and 3. capability.
3. LNG import terminals, storage & I/Cs are all price sensitive-. Need to investigate the impact of modelling 1. obligated and 2. capability.
4. Split Bacton as a part beach flow & the BBL interconnector as an obligated or capability flow.
5. Teeside treat as a beach flow not an LNG terminal.

That said SSE understands that using baseline capacity rather than booked capacity/capability to develop charges is cost reflective. In particular we would note that it is the cost of providing the baseline capacity that NGG is seeking to recover and not the level of booked capacity, which could vary.

It is important that the industry is informed of the modelling results of using obligated capacity or baselines rather than physical capability. The network must be built to meet peak day flows and the costs in building the network to meet 1:20 conditions (baselines) should be reflected in the charges. If we were to allocate costs on baselines this may result in more stable prices. Charges would only change when the network changed which would have the added benefit of making charges cost reflective and stable.

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

Yours sincerely

Jeff Chandler
Gas Strategy Manager

Energy Strategy