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Our Reference:
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Dear Richard,

NTS GCD09:NTS Enduring Exit Capacity Charge Setting

Thank you for providing SSE, with the opportunity to comment on the above discussion document. SSE offers the following comments rather than answering the specific questions.

SSE believe the level of capacity charges for gas entry and exit points are a secondary issue when considering where to invest in gas assets. For example, at entry, beach gas is landed near to the shore because laying pipelines offshore is roughly twice as expensive as onshore; storage sites are built where depleted fields or salt deposits are located and not where entry capacity is inexpensive. At exit, power stations are built where planning permission can be obtained; where cooling water can be extracted and where future carbon capture can be demonstrated. As such, gas capacity charges do not in practice provide locational signals for investment.

Not only do these charges not provide a locational signal for investment, their volatility and unpredictability could discourage investment altogether. This discussion document highlights the conflict between attempting to set cost-reflective charges and producing stable, predictable charges. In the interests of facilitating significant investment in the energy industry over the next decade; stable, predictable costs are more important than the current incremental LRMC methodology of determining costs. A charging model that reduced or removed pricing volatility would give greater investor certainty and encourage investment.



SSE believe that the change options raised in this consultation paper may lead to future unknown unintended consequences that will require further amendments to the charging methodology. We also have concerns that treating Direct Connect exit points in different ways may be unduly discriminatory.

The issues raised in this consultation paper of baseline & incremental demand being higher than supply and excessive price volatility, are only issues because of the theoretical rules on which the current charging methodology is based. An alternative methodology described in the following paragraph would not be affected by the high baseline demand assumptions nor suffer from volatility of charges caused by supply balancing assumptions.

An alternative charging methodology that was based on a uniform rate, calculated by dividing the allowed revenue by baseline and incremental entry and exit capacity would provide stability of charges and remove the complexity that the current model suffers from. The entry capacity regime is arguably moving towards this methodology as a greater share of allowed revenue is recovered by the TO commodity charge.

SSE believe that before implementing any of the proposed charging options described in this discussion document, we should wait to allow two things to happen to enable a more accurate view of exit capacity (demand) requirements. One is that exit substitution should be implemented to enable the transfer of unbooked capacity to incremental points. The second is for the surrender of unwanted exit capacity in July 2011 prior to the commencement of the enduring exit regime in October 2012. If this does not remedy the issues then SSE would welcome a review to consider an alternative charging methodology along the lines described above.

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

Yours sincerely

Jeff Chandler
Head of Gas Strategy
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