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Dear Dominic

NTS GCM 03: Introduction of 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 consultation.

SSE does not support the structure of the charge as described in this consultation.

SSE does not believe that the proposed cost structure is reflective of the cost of operation of storage. Our concerns are discussed below:

- This proposal requires that charges are applied to each User in relation to its UDQO. The UNC already provides for charges to be applied to the Users UDQI. This means that in the event there are nominated counter flows at a facility the total charge will not reflect the physical flow at that facility. It cannot be appropriate for a commodity charge to be constructed to recover costs that are based on nominations rather than physical flows. The imposition of the charge at UDQOs and UDQIs is not cost reflective. Commodity charges by their very nature must have a direct linkage with physical throughput.

- Storage flows provide benefits to the system. In particular, storage flows tend to react to price and therefore, demand signals. This can be characterized as flowing gas into store during periods of low demand and out of store during periods of high demand. This would appear to provide a benefit to the SO in terms of physical system balancing. No financial compensation is given by the SO for this service. SSE would argue that due to potentially undervalued benefits, it could be that the users of storage should receive payment for services provided to NGG.

- The imposition of the charge will limit storage cycling due to higher costs which may limit the responsiveness of storage flows to price & demand signals, reducing the efficiency of the system's operation as a whole and increasing prices to customers.

If a Storage SO Commodity Charge is implemented SSE would like to add the following comments for consideration:

- SSE would like to have greater transparency regarding the methodology used to determine the cost element attributed to the Storage SO commodity rate relative to all the revenue collected by the normal SO commodity charge. In particular this is required for future years where new storage facilities are expected to become operational. The charge rate is mentioned in 3.4 but insufficient detail has been made available to enable full understanding.

- To determine the Storage SO Commodity Charge it would appear that the forecasting accuracy of the number of storage facilities and their modes of operation together with the estimation of the costs associated with their operation will be key. For example certain planned storage facilities will have the capability for very high cycle rates. In some cases as high as nine cycles/annum. However, operation of these facilities will be determined by the volatility of price and other commercial drivers. These parameters will be very difficult for NGG to forecast accurately a year in advance. An error in this forecast could have a large impact on the amount of the SO revenue recovered by storage throughput. To manage this the following suggestions are offered:

1. A methodology that allows for storage operators and Users to offer their assumptions of usage may provide more accurate forecasts. These, however, would need to be treated confidentially and the results only made available on an aggregated basis including all storage facilities.
2. Due to charges being forecast driven and in the interest of cost reflectivity, SSE think it important that Storage SO Commodity Charge revenue is collected separately from other SO Commodity charges, rather than all SO Commodity Charges revenue being collected as one. Hence over or under-recovery in one particular year can be accurately targeted for recovery in the next year, hence improving the cost reflectiveness of any charge.

Yours sincerely

Jeff Chandler
Energy Strategy