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Our Reference:  
Your Reference:

Date : 5 May 2010

Dear John,

### **Modification Proposal 0284**

Thank you for providing SSE, with the opportunity to comment on the above Modification Proposal.

SSE is not supportive of proposal 0284.

NG NTS (NG) proposes that the zero auction reserve price for Within day Daily NTS Entry Capacity be removed from the UNC and that the reserve price be set out in the NTS Transportation Statement and calculated in accordance with the NTS Charging Methodology Statement.

SSE believes that the issue of revenue under-recovery is primarily driven by allocation of gas Entry capacity by auctions and has resulted in the following issues:

1. Lack of certainty of revenue collection for NG and volatility of charges for Users.  
The auctions have resulted in periods of significant under & over recovery. An administered capacity charge that removes the need for auctions would provide more certainty and encourage more investment and security of supply.
2. A regime of great complexity for buying obligated and incremental capacity.  
Which has resulted in some 32-modification proposals since June 2005 to try and introduce incremental change to address fundamental underlying issues. This level of regulatory uncertainty in an area of key importance for infrastructure investment has a negative impact on gas storage projects and new supplies of gas.
3. Long-term auctions were implemented to encourage long-term bookings and introduce user commitment. However, NG have stated in the Transmission Planning Code Review that they will use data from the 10-year Transporting Britain's Energy (TBE) planning process in preference. The inadequacies of auctions for signalling investment were demonstrated at Easington in 2006. It was known that Norwegian Gas would be landed but multiple shippers were unable to co-ordinate a capacity investment signal and has resulted in capacity arriving too late.

SSE recognises that volatile commodity charge levels are an inevitable outcome when auctions are used to collect fixed allowed revenue. The issue of under-recovery is an illustration of the inefficient nature of auctions and it is conceivable that overrecovery of revenue could once again be an issue as it was a number of years ago with bidding at St Fergus and then Easington. SSE believes this proposal is an over-reaction to the current under-recovery situation.

SSE has booked long term capacity to facilitate its investment in storage as there are significant risks associated with relying on shorter term capacity products that may not be available when required. However, due to the lead time associated with QSEC bookings and SO treatment, these revenues will not feed through in to TO revenue recovery until later years. In addition the move from pricing based on UCAs to LRMCs is also due to start feeding through into revenue recovery for NG in future years. Combined, these proposals will increase the revenue recovered from capacity auctions and so reduced the size and impact of the TO Commodity charge.

**Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter’s Licence) of the Relevant Objectives**

- SSE believes that in respect of Standard Special Condition A11 (a), the efficient and economic operation of the pipeline system, this proposal will **not** encourage longer-term bookings of entry capacity and therefore be consistent with the economic and efficient development of the system.

This is because this proposal fails to reflect the operational requirements of Shippers who have a portfolio of offshore supplies and are only able to identify what their capacity requirements are in the short term.

And

This proposal will reduce the attractiveness of maintaining declining offshore fields and so reduce the longevity of these fields. This will have a detrimental impact on capacity bookings as fields are decommissioned earlier than would have been expected. This will result in larger TO commodity charges as NGs’ pipelines are underused coupled with the associated consequences to the UK’s security of supply and tax revenues.

- SSE believes that in respect of Standard Special Condition A11 (d) so far is consistent with sub-paragraphs (a) to (c) the securing of effective competition (i) between relevant shippers, this proposal will **not** encourage Shippers to purchase longer term capacity and encourage further utilization of the secondary capacity market.

This is because this proposal fails to reflect the operational requirements of Shippers who have a portfolio of offshore supplies and are only able to identify what their capacity requirements are in the short term.

and

This proposal has failed to undertake any analysis on competition and Shippers. Although NG will recover the same level of revenue the way in which it is recovered has scope to create “winners” and “losers” amongst the shipping community.



and

This proposal could have a detrimental impact on prompt liquidity and NBP volatility by reducing the attractiveness of the UK for marginal gas supplies.

Please do not hesitate to contact me if you wish to discuss this further.

Yours sincerely

Jeff Chandler  
Head of Fuel Strategy  
Energy Strategy