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Our Reference:  
Your Reference:

Date : 5 May 2010

Dear John,

### **Modification Proposal 0285**

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

SSE is not supportive of proposal 0285.

NG NTS (NG) proposes that UIOLI interruptible Capacity is only released at an ASEP when there is at most 10% Unsold NTS Entry Capacity expressed as a percentage of the NTS Entry Capacity that NG NTS is obliged to release. The unsold quantity would be established prior to daily auctions and the price for released interruptible capacity would be zero.

If implemented, this Proposal will ensure that only firm capacity can be purchased on a prompt basis at most ASEPs, because there is a surplus of capacity. When combined with Proposal 0284, which removes the discount for prompt firm capacity purchases, all prompt capacity bookings will now have to be firm and pay the reserve price.

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.
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 and has a negative impact on gas storage projects and new supplies of gas.

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. An administered capacity charge that removes the need for auctions would provide more certainty and encourage more investment and security of supply.

SSE has booked long term capacity products 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, 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 NGG 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 otherwise expected. This will result in larger TO commodity charges as NGs’ pipelines will be under-utilised.

- 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 does not 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.

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This proposal has failed to undertake any analysis on competition and Shippers. Although NG NTS 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.

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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