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Julian Majdanski
UNC Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
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Dear Julian

Modification Proposal 0071:

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the above modification proposal.

SSE is not supportive of the proposal.

SSE believes the compensation mechanism proposed by NG NTS in modification 71 would in most cases under compensate storage users. SSE also think that this proposal is less cost effective than mod 71A because valuations of gas in store should reflect wholesale prices at the time shippers become able to withdrawal gas from store. Basing the value on the value of summer gas does not reflect this.

The proposed SAP price compensation does not adequately reflect the value of gas on peak days when storage curtailment may be called. The SMP_{buy} price compensation may not be precisely correct as compensation for shippers adversely affected by storage curtailment, but it is more appropriate than SAP and no less arbitrary than the price of emergency curtailment under modification 44.

Any failure to ensure adequate compensation is made available will threaten security of supply as shippers will be perversely incentivised to deplete stocks of gas faster than normal in order to at least withdraw the gas in winter rather than at the end of winter.

If modification 71 is approved, the NEC will have a cheap call option to manage emergencies that does not reflect the true value of the option. This is inherently damaging to the UK in the long run. Failure to adequately compensate the curtailed storage will devalue storage products and may make future storage investment uneconomic. We welcome Ofgem's suggestion of a review of emergency storage curtailment in the decision to modification 35. This will hopefully look wider than just discriminating against storage and look to other sources of flexibility. In addition other methods of paying for flexibility that remove perverse incentives such as NG NTS bilateral contracts and or NG NTS incentives can be investigated.

SSE would like to add that it would have preferred had modifications 71 & 71 A not been afforded urgent status but followed the normal process. This would have allowed more time for a more comprehensive review of arrangements as suggested in Ofgem's decision letter on modification 35.

Yours sincerely

Jeff Chandler
Energy Strategy