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Our Reference:

Your Reference:

Date : 8 February 2008

Dear Julian,

Modification Proposal 0187 & 0187A

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

SSE is concerned that the entry capacity regime with the addition of Transfer and Trade may become overly complex and may deter new storage entrants or new sources of gas. The financial saving made by ensuring that capacity assets have a high load factor of utilisation may be over-shadowed by high commodity prices driven by complexity, uncertainty and ultimately the discouragement of new entrants and gas flows.

SSE was supportive of the interim Transfer and Trade mechanism but was disappointed by the resulting inability to transfer capacity within the Easington Zone. SSE is supportive of an independent review to verify the appropriateness of the following assumptions: zonal maximums, demand assumptions, exchange rates and stability limits.

However, SSE is hopeful that the changes proposed in the enduring arrangements in modification 0187, in particular the use of ex-post exchange rates will ensure the release of capacity that is unwanted. Consequently SSE offers **qualified** support of modification proposal 0187 on the basis that an external review is undertaken and confirms the validity of the Transfer & Trade assumptions.

SSE is hopeful that this proposal will prevent the sterilisation of capacity that is unwanted and would otherwise be unused and hence avoid costs that would be inefficiently incurred. Transferring capacity to where it is wanted could allow the flow of additional gas on to the network that otherwise would be prevented. It is SSE's view, that both of the above benefits would, if implemented, result in the more efficient and economic operation of the pipeline system.

SSE does not support modification 0187A.

In particular, Mod 0187A seeks to:

- remove the prevailing reserve price cap that is proposed in 0187 for capacity that is surrendered and replace it with an uncapped price. SSE believes that this will encourage speculative behaviour by providing the opportunity for dominant players to transfer capacity from low to high priced ASEPs and from low to high load factor ASEPs. SSE has serious concerns that this will present a barrier to entry and a disincentive for those attempting to signal new entry points. The capped approach of 0187 should avoid these unintended consequences.
- allocate unsold capacity before that of surrendered capacity. SSE believes that surrendered capacity should be allocated first in order that any remaining unallocated capacity at the end of the RMSEC allocations can be made available in later auction processes.

It is SSE's view, that both of the above principles would, if implemented, not result in the efficient and economic operation of the pipeline system.

Yours sincerely

Jeff Chandler
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