



Julian Majdanski
Modification Panel Secretary
Network Code Development
51 Homer Road
Solihull
West Midlands B91 3LT

25 January 2008

0141 568 2464

0141 568 4909

Dear Julian,

The following is the Scottish Power response to

Modification Proposals 0187 and 0187A - Alterations to the RMSEC Auction to Accommodate Transfer and Trade of Capacity between ASEPs

Thank you for allowing us to respond to these modifications. We feel very strongly about the importance of getting an enduring trade and transfer process in place, and very concerned by the unforeseen consequences that are possible in variants of it.

Scottish Power supports implementation of mod 0187
Scottish Power strongly opposes modification 0187A

Modification 0187 should deliver an enduring trades and transfers regime that will avoid some of the anomalies and problems associated with the interim arrangements, as well as providing a non-retrospective solution (i.e. it applies to auctions which have not yet taken place).

The alternative modification seeks to establish enduring arrangements for trade and transfer, which takes what is a balanced and fair proposal, worked up over a period of months through the transmission workstream (0187), and proposes one that meets none of the relevant objectives and instead detracts from the ability of what has been proposed to meet these.

A fundamental flaw of the alternative proposal is in the quoted justification:

“British Gas believes that it will lead to a more economic and efficient allocation of volumes of entry capacity, **taking capacity from where it is least valued to where it is most valued**” This is not the objective of the trades and transfers process – it is to move capacity from where it is not needed/required, to where it is. In our view mod 0187 does

this economically and efficiently. Mod 0187A destroys this and offers instead the possibility of a highly inefficient and uneconomic system.

The prices at each entry point relate to the long run marginal cost of providing capacity at these points. That is part of the justification of why the ASEP cap exists in mod 0187. One of the recognised dangers of the interim regime was that it could lead to the pricing of capacity across the system being dictated by where a constraint exists. Again – the proposer’s intention of “taking capacity from where it is least valued to where it is most valued” would achieve this undesirable and inefficient consequence.

Mod 0187A if implemented would go completely against the principle of cost-reflectivity. It would encourage speculative behaviour, and offer the opportunity for larger/dominant players to Hoover up capacity at lower priced entry points, with the incentive of making money at another more expensive entry point. This would be seriously anti-competitive and be a serious barrier to entry and a disincentive for those attempting to establish new entry points. Moreover, while we don’t believe that the proposer’s intention was to enable anti-competitive behaviour – the proposal would offer the opportunity to “shut down” or seriously alter the commercial basis of smaller competitor ASEPs. The capped approach of 0187 should avoid these unintended consequences and possible future litigation action between participants.

The potential for one or two shippers to disrupt and bring adverse consequences to the rest of the market because they are operating where there is a constraint turns the concept of “polluter pays” totally on its head. This kind of behaviour is only hinted at as a disadvantage by the proposer. We believe this disadvantage is fundamental.

In terms of the advantages of the proposal, we do not see how the arrangements proposed in 0187A could possibly maximise capacity availability – as it will encourage hoarding and panic buying of capacity to ensure that it stays where needed and to ensure that people who want to use it at the ASEP are not held to ransom. The only advantages specifically associated with this proposal would be for speculative behaviour by dominant players.

It has always been possible to go in and buy up someone’s capacity at a price higher than what would normally be paid and offer it back at a higher price, or to hoard the capacity. The provision of interruptible – and the inability of this to be transferred away previously, has prevented this. It is a serious consequence of introducing transfer and trades (and indeed substitution) unless there is provision to avoid this. Mod 0187A legitimises and codifies this type of behaviour by removing the provisions to discourage it within mod 0187.

Mod 0187 offers an acceptable and equitable trades and transfer methodology that should facilitate and maximise the release of entry capacity on an enduring basis. Mod 0187A has potential catastrophic consequences for the industry, and detracts from all the relevant objectives as described - and should not be implemented.

Should you have any queries on the views expressed, please contact me on the telephone number as shown.

Yours Sincerely,



Commercial & Regulation Manager (Gas)
Scottish Power Energy Wholesale