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Our Reference:
Your Reference:

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Dear John,

Modification Proposal 0287

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 proposal 0287.

National Grid NTS have proposed that all entry and exit capacity transfers must be completed by 0300 rather than 0400. This is to allow Planned UK Link downtimes that may occur between 0400 & 0600 and would not permit NG NTS 60 minutes within which to approve or reject Gemini nominated capacity transfers. SSE has not been made aware in the past that Planned down times have created problems or that up to 60 minutes are actually required.

There will be a number of negative unintended consequences if this proposal were to be implemented:

- It will reduce the available time for trading and transfers between counterparties by 1 hour, from 0400 to 0300. This timing is significant because it is during this time, at the end of the gas day that positions are known with more certainty and capacity transfers can be completed to balance capacity positions and hence avoid capacity over-run charges.
- This is particularly relevant for storage sites when storage is used to achieve energy balance and when storage operators hold capacity and provide it to customers as a bundled product. Capacity transfers resulting from UIOLI injection and withdrawal services will also be adversely affected by these proposed changes.

- There will be an the impact on the whole Gas Market i.e. reducing the window for capacity trading would have the effect of closing the within-day gas market at 02:30 (rather than 03:30 when APX gas shuts down) reducing market liquidity.
- Shippers may not be able to increase flows through Beach Terminals, reducing their ability to offer gas into the market and thus creating an unnecessary constraint and barrier to gas entering the NTS.
- The Power market trades 24 hours a day and has no artificial constraints. CCGT fuel costs may increase late in the day as potential gas capacity overrun charges are passed through in BOA costs.
- Holders of Firm Entry Capacity will want to hold on to capacity as late as possible before releasing it. While they hold it, it has option value to turn up supplies in response to other supply issues or in response to other markets eg. Power. This could reduce the volume of capacity available for transfer.
- It will inevitably increase balancing costs which will be passed through to customers - surely we should be looking at ways of extending trading hours and increasing liquidity. This appears to be a backward step.

SSE does not agree with the proposed cost split, which is 90 % transporters & 10 % Shippers (albeit that the current cost estimate is zero). As explained above, Shippers will not benefit from this proposal, in fact they will suffer because the standard of service offered by the monopoly provider is being reduced and capacity over-run costs may be incurred. Consequently, Transporters should bear the full burden of User Pays costs because this Proposal is for their benefit.

SSE does not agree with the Proposer that implementation of the proposed Modification would better facilitate the relevant objectives as detailed in the Modification Proposal.

In standard special condition A11.1 (a) SSE does not agree that this proposal will improve the efficient & economic operation of he pipeline. The ability of Shippers to transfer capacity and ensure it is allocated to whom values it the most economically and efficiently will be reduced and capacity over-run charges might be incurred. Ultimately, this will impact the use of UIOLI injection & withdrawal storage services and hence on the earnings of storage sites and will be detrimental to further investment in new storage projects.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

Jeff Chandler
Head of Fuel Strategy
Energy Strategy