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Andrew Fox
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Dear Andrew

**Consultation Document:
The Entry Capacity Transfer & Trade Methodology Statement**

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the specific question raised in the above Consultation Document.

In-addition to answering the specific question SSE would like to make the following comments:

- The risk model “Encap” is a key part of the methodology and SSE would like an independent audit/review undertaken on how the model works to ensure the model meets the licence conditions and to ensure adequate transparency of reporting of operation.
- When considering Capacity Exchange Analysis, in particular section 28 h), SSE believe that the current statement gives National Grid NTS (NG) excessive discretion in determining an appropriate exchange rate. SSE believes that more specific criteria for selection requires to be documented. This would include specifying the particular scenarios to be modelled and how the distribution of risk will be “taken account” of.
- SSE has a broad general concern that the approach taken to determine the level of exchange rates and how much capacity can be transferred may not be as efficient as possible. We are unable to quantify this, but in general it would appear that capacity would not be transferred if a corresponding incremental flow of gas were not reduced from the donor ASEP. This approach is likely to sterilise/negate capacity from a donor ASEP equal to the difference in quantity between Obligated Baseline to the gas flow level forecast by NG NTS. If one considers the future of the UKCS and its declining production, this interpretation of the licence obligation and its implementation in the methodology would appear to have negative consequences for the release of capacity. In the future ever increasing amounts of unused capacity will be available on the network but this will be prevented from transfer because UKCS flows will be forecast to reduce. SSE is concerned that this potential sterilisation of capacity has been created by using forecast flows rather than baseline quantities. The unintended consequence of which is to sterilise capacity which is exactly what the licence obligation was supposed to prevent.

In answer to the specific question:

When a capacity transfer (of unsold capacity) is being considered in accordance with the proposed methodology it may be identified that more capacity is required from the donor ASEP than is made available at the recipient ASEP. We would like to know whether an upper limit should be placed on the exchange rate (i.e. if more than "n" units of capacity are required from the donor to create one unit at the recipient should the transfer be prohibited? If so, what should the limit be?

SSE agree that some upper limit should be applied. This will prevent very inefficient transfers taking place. However, at this moment in time SSE has no knowledge of the range of exchange rates that will apply. As a result any cap proposed by SSE might be inappropriate in terms of unduly stifling transfers or set at such a level as to have no meaningful impact. Once experience has been gained of the transfer process it might be more relevant to re-consult on this issue again.

If you would like to discuss any of the above points please do not hesitate to contact me.

Yours sincerely

Jeff Chandler
Gas Strategy Manager
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