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Date : 15<sup>th</sup> March 2007

Dear Bob,

**Re: Notice under Section 23 (3) of the Gas Act 1986**

Thank you for the opportunity to respond to this formal consultation on changes to the gas transporter licence of National Grid Gas (NGG). Our comments focus on the entry points of most relevance to SSE, i.e. Hornsea and Garton.

**Baseline Entry Capacity at Hornsea**

It is stated in the Section 23 (3) Notice that the proposals are made within the context of implementing the revised transmission price control for NGG with effect from 1 April 2007 as set out in the document "Transmission Price Control Review: Final Proposals, Decision Document, 4 December 2006, Ref: 206/06". In this context, in all iterations leading up to the Final Proposals, Hornsea's baseline entry capacity was 175 GWh/day or greater. However, in the Final Proposals document, this was reduced by approximately 11 GWh/day to 164.1 GWh/day.

It was due to concerns that the existing 175 GWh/day baseline capacity at Hornsea was proving insufficient that we participated in the QSEC auctions in September 2006. Through this auction, we provided NGG with the necessary signal to trigger investment in 23 GWh/day of incremental entry capacity at Hornsea from Q1 2010, thereby taking Hornsea's entry capacity to 198 GWh/day. The cost to us in giving this signal was substantial.

We are therefore extremely disappointed at Ofgem's final decision and the ease at which 11 GWh/day was dropped from Hornsea's entry capacity baseline. Not only is this contrary to market signals and inconsistent with the rationale that baseline entry capacities have been changed to reflect long-term auction signals, it goes against earlier Ofgem thinking:

*"Ofgem expects that for all years after the end of the next TO price control (post 2007), Transco will offer for sale in the long term auctions at least, the level of baseline capacity specified for 2007."*<sup>1</sup>

We believe that we provided the appropriate signal to NGG well in advance of the TPCR Final Proposals, that a minimum of 175 GWh/day would be required through to Q1 2010 (when it will

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<sup>1</sup> Transco's National Transmission System, System Operator incentives 2002-7, Final Proposals, December 2001

increase to 198 GWh/day). We therefore believe that the licence amendment should provide for 175 GWh/day from 1 April 2007, rather than the proposed 164.1 GWh/day.

### **Baseline Entry Capacity at Garton**

The Final Proposals document for the 2007-2012 TPCR also shows Garton's baseline entry capacity as 420 GWh/day. However, the revisions to the licence show Garton's baseline entry capacity as 0 (zero) GWh/day. We believe that the appropriate level of capacity to be made available is further confused by the way in which capacity is incentivised and then incorporated into the system operator (SO) baseline.

As we understand it, permanent obligated incremental entry capacity attracts incentive revenue for five years from the date on which the capacity is delivered. Following this five-year period, the investment enters NGG's regulated asset base and the permanent increase is reflected in the SO baseline. For Garton, the 3-year signal necessary to facilitate incremental entry capacity was released through the 2003 quarterly system entry capacity (QSEC) auction. Since October 2006, NGG have been paid revenue reflecting the incremental investment required to provide the 420 GWh/day of entry capacity signalled at Garton. On this basis, i.e. that following the five year period the capacity enters the baseline, we would expect Garton's 420 GWh/day to appear in the baseline from October 2011.

Whilst we recognise that the section 23 (3) notice is the first step in a two-step process, we have been unable to reconcile the figure in the licence amendment with the information contained in Table 10.1 of the TPCR Final Proposals. Given the apparent contradiction between the licence amendment and the TPCR, we would welcome clarity on the treatment of new entry point capacity and a clear steer on when Garton's entry capacity will be reflected in the baseline entry capacity data.

I hope this clearly sets out our concerns but should you require any further explanation or information, please do not hesitate to contact me.

Yours sincerely,

Rob McDonald,  
**Director of Regulation**