

Nienke Hendriks
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Office of Gas and Electricity Markets
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30th June 2005

Dear Nienke,

Gas Transmission – New NTS entry points reserve prices in auctions and unit cost allowances (UCAs) – Consultation Document

Thank you for giving us the opportunity to respond to this document. We appreciate the work being undertaken by Ofgem in this crucial area and are pleased to be able to discuss our views with you. We respond as a gas shipper, electricity generator (gas consumer), and storage operator.

We believe that UCAs for all new entry points need to be set on a cost-reflective basis and the steps outlined in the consultation document appear reasonable in this respect. In particular Step 2 “Identify reinforcement projects necessary to accommodate the new entry flow”. This suggests that the cost of capacity could be zero where no incremental reinforcement is required. We would expect the information on what incremental investment is required to be made available to those requesting the UCA for a new entry point.

Where NGT is providing the connecting pipeline, these costs need to be included in the UCA determination. There needs to be an incentive to locate gas storage and entry points close to The NTS. We would not like to see the same connection policy adopted in gas as in electricity where everybody pays for NGT to provide a connection to any new power station – the “super shallow” connection policy.

It is disappointing to see the discrepancy between the NGT and independent estimates of providing connecting pipelines to sites. This is a significant element of capital expenditure in assessing the feasibility of any project involving a connection to the gas system.

The current IECR methodology of providing 50% of assumed project costs by indicative bids over 8 years raises a number of questions. It would be difficult for bidders in the auctions to meet this requirement without input from NGT on what the value of these bids should be. However, provision of this information by NGT could undermine the auction. It could also mean that a considerable amount of capacity is bought which is not required

(especially by storage sites whose pattern of withdrawal is considerably different from other entry points, i.e. gas entry at beach/LNG importation terminals). These difficulties would be avoided if a truly cost-reflective connection charging policy was in place.

We would prefer that the September auctions should only be delayed if absolutely necessary and that it would be more appropriate to decrease NGTs notice period in calling the auctions. We would also prefer that the revised UCAs were not used in these auctions given that there are significant changes proposed and most bidders will have already determined their auction strategy. However, where UCAs are likely to change in the near future, it would be naïve not to expect that bidding strategies will be revised in that knowledge and on that basis.

This consultation has helped clarify some of the existing methodology and we would welcome the opportunity for industry discussion through the workstream process. Whilst we have responded on some issues raised, we would like to spend more time examining the alternative methodologies put forward in this paper. We believe that the time is right for a thorough review of the allocation methodology used for entry capacity, and believe this can be achieved in conjunction with determining the most appropriate solution for the exit regime. We would expect that any significant change would not be delivered until the advent of the next price control.

Should you wish to discuss these comments further, do not hesitate to call me on the above number.

Yours Sincerely,



Commercial & Regulation Manager (Gas)
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