

Robert Hull  
Director, Transmission  
9 Millbank  
London  
SW1P 3GE

Dear Robert,

Thanks for giving Scottish Power the opportunity to comment on the following consultation:

### **TPCR baseline re-consultation**

We appreciate all the work underway to address the inefficiencies in the current capacity allocation methodology. We were originally very supportive of the capacity auction methodology. However, it has been proven not to work, or to work very inefficiently, providing little in the way of signals. The lengths that have been gone to in order to make the auctions work have resulted in a trades and transfers regime that encouraged speculative and gaming behaviour and serious distortion of capacity pricing.

The baseline slashing at certain ASEPs has no doubt exacerbated the problems we are currently experiencing. We also believe that the failure to recognise the differences between certain types of ASEPs (no distinction between Rough and Easington pipeline entry) gave rise to the majority of the problems we have experienced in recent times in terms of allocating capacity and controlling the costs associated with it. We have also already seen the establishment of an interim trades and transfers regime, based on a methodology that has been retrospectively applied.

There's been a lack of joined up thinking with a failure to understand fully how the various methodologies and their outcomes - baselines, trades and transfers and substitution - all interact with one another. The reform process has been piecemeal with result that some implications aren't being realised and other unintended consequential impacts are being felt.

However, we appreciate that work is underway to put into place enduring arrangements, on trades and transfers and on re-determining capacity baselines, and we welcome this and the opportunity to be part of the process.

### **Specific Questions**

#### **CHAPTER 4: TPCR approach to baseline determination**

**Question 1:** *Do you agree with the objectives of the TPCR baseline review?*

We agree that the baselines should reflect the physical capability of the network, and of the entry point in particular, and take into account changing gas flows. Whilst this is better than using a theoretical maximum or physical maximum it is very important to realize that capacity was previously released on this basis and a radical departure would have serious consequences for shippers and users necessitating a full and complete consultation.

Ofgem need to be proactive in ensuring these types of changes are widely communicated to the industry. This consultation provides an opportunity for this, but the timing and limited information has left us with problems on the short term/trades and transfers side.

We consider that “setting baselines to strengthen investment signals ...through the long-term entry capacity auctions” not to be as valid an objective as “the replacement of an unreliable system which provides little investment signals with an allocation mechanism that does”.

**Question 2:** *Do you agree with the modelling approach we asked NGG NTS to carry out? If not, why not.*

Taking the variables into account to derive the baselines in line with system capability and the modeling approach seem sensible, if overly conservative.

**Question 3:** *One of the main difficulties we faced in the run up to Final Proposals was to account for zonal constraints. Are there any better ways accounting for zonal constraints?*

Not sure. We believe these do need to be taken into account. However, we have fundamental concerns on the basis of existing zones. Even if these are logical groupings from a system operation perspective, we do not agree it follows that the zonal groupings should be used for allocation of entry capacity. Also, we are not sure if capacity baseline methodology is the appropriate place to account for zonal constraints rather than the emphasis being on contingency provision in normal system operation.

**Question 4:** *Are there any other issues we should have considered in this chapter?*

Yes – the differences in the way allocation can be more efficiently handled for different types of entry point. Continuing to ignore the differences between storage sites, interconnectors, LNG and beach terminals, using “non-discrimination” as a reason will just add to the inefficiency of the system operation. We would welcome more frequent allocation and transfer of capacity rights at different types of entry point.

## **CHAPTER 5: Sensitivity analysis**

**Question 1:** *Would you consider any of the alternative approaches for allocating the free increment as discussed in this chapter more or less appropriate than the approach adopted for the TPCR Final Proposals baselines, please given reasons why.*

Our order of preference would be:

1. Ten Year Statement – based on data provided by users/shippers. Like auctions but without the distortions.
2. Baselines already established – but in this document the figures for some ASEPs are contradictory and often don't make sense. We hope these figures were not used in the baseline derivation.

3. Based on sold capacity – in theory people have signaled what they intend to use in future. This is highly inefficient though because some people have never had to signal capacity expansion. Also, there are entry points, which were established pre-IECR methodology, where future capacity was “deemed” with the connection.

Any large changes produced by these different types of approach should be highlighted and consulted upon, prior to implementation.

**Question 2:** *We allocated the Caythorpe and Blyborough (Welton) free increments to Hornsea and Theddlethorpe respectively, do you agree with this approach or should these free increments have been allocated in a different way and if so, how and why?*

There appears to be a lack of clarity on the basis of the decision to allocate these to Hornsea and Theddlethorpe. We have concerns over reducing the overall capacity allocated for storage sites on the system.

**Question 3:** *NGG NTS presented three principles in order to allocated baseline capacity, namely to (i) allocate in line with physical capability; (ii) constrain not to exceed previous obligated levels; and (iii) broadly commensurate with buyback target. Do you agree with these principles? Please explain why or why not.*

Yes. The principles are fine. However, we believe that there are other factors that need to be taken into account. For example, the type of entry point and how capacity is used, and the nature of the signal previously required to secure capacity - as outlined in our comments on Q1 above.

**Question 4:** *NGG NTS presented slightly different ways of reallocating entry capacity to different entry points, would you find these approaches more or less appropriate? Please give reasons why.*

We prefer the methodology starting at 8814 GWh/d level rather than the unallocated 1554 GWh/day. The approaches put forward by National Grid are not constrained by the zonal levels in the current baselines, and we believe they are more appropriate in allocating the baseline amounts at individual ASEPs.

**Question 5:** *Are there any other considerations which we have not highlighted which we should have taken into account?*

At the risk of repetition, the point about alternative allocations at different types of entry point.

## **CHAPTER 6: Way forward**

### **Reallocating TPCR Final Proposals aggregate baseline capacity**

**Question 1:** *Is our approach for allocating the free increment, taking zonal constraints into account appropriate given the premise that baselines need to reflect the physical capability of the system?*

Appropriate – yes, but not optimal. We believe that the impacts of zonal constraints should be minimized, especially where flexibility in terms of types of

entry point exists within a zone – and this will more readily take into account the physical capability of the system.

**Question 2:** *Are there any other factors that we have not considered which should be assessed in considering an appropriate adjustment to baselines?*

Interactions of ASEPs across the system by ASEP type as mentioned above.

**Question 3:** *What are your views on the different options outlined for allocating capacity in a different way, whilst maintaining aggregate baselines at the current TPCR Final Proposals level of 7629 GWh/d?*

We have concerns over the figures derived under pre-TPCR baselines “scaled back”. Also, as stated elsewhere we believe sold flows would be much more reasonable than a derived figure under a flawed methodology.

**Question 4:** *What are the advantages and disadvantages of keeping baselines unchanged at their current TPCR Final Proposals level?*

The only advantage is that it might reduce the risk of buy-backs.

The disadvantages are far more important – particularly the fact that certain ASEPs may be unable to obtain firm capacity to flow required volumes of gas, despite little or no real physical constraints. These concerns might be alleviated by an enduring and appropriate trades/transfers and substitution regimes

## **Increasing aggregate baseline capacity**

**Question 5:** *If we were to increase the aggregate baselines how could we quantify possible increases in buyback costs and/or capex allowance also given the timescales involved?*

We would suggest looking at historical use of buy-backs and the costs associated with it as a basis – any simulation should bear in mind any trade, transfer, or substitution methodology in place.

**Question 6:** *If we were to increase the aggregate baselines how should we allocate the additional capacity? Which mechanism, if any, should we use?*

We find merit in the NGG approach, with less emphasis on zonal constraints. We would advocate looking at interactions of ASEPs within the system and allocating the additional capacity where there is flexibility.

**Question 7:** *Are there any other considerations which we have not highlighted which should be taken into account if we were to increase aggregate baselines?*

All the consequences of not increasing the baselines need to be taken into account. The main aim of the price control review relates to National Grid's revenues. National Grid and Ofgem commit large resources to the process and much of the discussions are between these 2 parties alone. In an area like this

that seriously impacts the entire community – right down to the end consumer – the bar is raised, the financial consequences are much greater, and the debate should be visibly widened to incorporate the stakeholders. In our view the capacity baselines issue was treated like any other aspect of the price control. This consultation and the process of which it is part, is very much welcome.

Scottish Power are keen to be centrally involved in this process going forward. If you have any questions on any of the points raised in this response, please call me on 0141 568 2464.

Yours Sincerely,

A handwritten signature in blue ink that reads "Steven Gordon". The signature is written in a cursive, flowing style.

Commercial & Regulation Manager (Gas)  
Scottish Power Energy Management Limited