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Office of Gas and Electricity Markets
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22th Jan 2013

Dear Ikbal

**Statutory Consultation on changes to GDN Licence Conditions
Special Condition E6: Distribution Network Exit Capacity costs and incentive revenue,
(Ext).**

Thank you for giving ScottishPower the opportunity to respond to above Statutory Consultation. Our response has been marked as non-confidential and therefore can be published on your website.

We have no specific concerns with the revised Licence Conditions as drafted however the value of allowances assigned to GDNs within RIIO-GD1 to enable them to recover the costs associated with NTS Exit Capacity pass-through does give us cause for concern.

It would appear that there is a disconnect between the allowances published for the recovery of NTS Exit Capacity in the RIIO-GD1 Final Proposals, and those calculated using Exit Capacity volumes stated in RIIO-GD1 and multiplied by the published indicative NTS charging rates within the RIIO-T1 Initial Proposals. We also believe that it is inappropriate for allowances to be calculated utilising the prices charged by the GDNs (to shippers), rather than the prices charged to the GDNs (by NGGT) which more accurately reflect the costs faced by the GDNs. These discrepancies mean that the allowances published within the RIIO-GD1 documentation against NTS Exit Capacity are far greater than we would have expected.

It was concluded that as a result of the direction given by Ofgem within the consultation on measures to mitigate network charging volatility arising from the price control settlement, that an extended period of stability and predictability would exist during the transition from one price control period to another. This period of stability was supported by Ofgem introducing a number of initiatives on Network Operators including the requirement to increase the availability of allowed revenue reporting information and the introduction through Licence of a two year lag on cost pass-through mechanisms.

However, the published allowances for NTS Exit Capacity within RIIO-GD1 are likely to result in an increase to charges in order to recover this charging element effective from 1st April 2013. This price increase will be unexpected to Gas Shippers and their Suppliers who will have based their fixed price contracts with customers on NTS charging rates based on RIIO-T1 Initial Proposals. We believe that should these published allowances be permitted to remain, that this will result in Gas Suppliers and their customer facing further financial uncertainty which in the current economic environment is most unwelcome.

We would ask that Ofgem take the necessary corrective action to adjust the allowances within RIIO-GD1 assigned for the recovery of NTS Exit Capacity to the level as indicated within the RIIO-T1 Final Proposals documentation.

If you wish to discuss any aspect of this response, do not hesitate to contact me.

Yours sincerely,

Marie Clark
Energy Commercial Manager
ScottishPower