



06 August 2008

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Dear Andrew,

The following is the Scottish Power response to

Discussion on “The Entry Capacity Substitution Methodology Statement”

Thank you for giving us the opportunity to comment on this document. We understand National Grid’s obligation to publish an approved methodology statement, and appreciate the volume of work undertaken to date to accommodate and inform about this major change to the entry regime.

General Comments

Like a number of market participants we feel considerable concern over the potential consequences of introducing entry capacity substitution. In theory moving capacity around from where it is not required to where it is would be sensible, but it might not be consistent with the desire for investment signals from capacity holdings previously obtained via a nodal auction. At least we have the opportunity to establish a methodology ahead of the auction process during which long-term capacity is secured unlike with trades & transfers where we had the farcical situation with a methodology established after the auctions for capacity had taken place. We may end up with a series of “patches” to fix the unintended consequences so it is important that we get this right.

Impact Assessment

We strongly believe that an impact assessment should be undertaken prior to a final methodology being established. Given the timescales involved we believe that this should be undertaken as soon as possible. The IA should consider the impacts on costs to individual holders of capacity, the effect on prices by the additional of potential new participants in the capacity allocation regime, the impact on recovery and re-distribution, and the qualitative impacts on security of supply, the development of long-term competition and innovation/new entry.

Q1 – Cost Minimisation

We believe that it might be prudent to minimise the availability of substitution initially because we agree that there will be a high level of initial substitution capacity volumes, much of which might not be economic or efficient. We would prefer a pilot for major regime change and the release of smaller quantities/restricted volumes for substitution initially would allow us to determine what the impact may be of unrestricted volumes, as well as curtail an amount of unnecessary initial activity.

Q2 – NPV Test

We would prefer to use the same NPV test detailed in the IECR for substitution – for consistency and the avoidance of additional complexity, although we believe this should be subject to review.

Q3 – Lead Times

We believe that substitution should be subject to the same 42-month lead time as funded incremental obligated. For practical reasons as well as the reasons of consistency and avoiding complexity.

Q4 – 10% Initial Baseline Quantity retained

This seems to be the only available option at the moment.

For system efficiency and to ensure against unforeseen negative consequences, we would like to see a fixed quantity of capacity which would not be available from ASEPs on aggregate and then account could be taken of the characteristics of individual entry points, historic flow and forecast requirements in determining where and how much would be retained. We would prefer to see this arrangement reviewed though after initial experience of the substitution regime.

Q5 – Single Quarter

We agree that National Grid should monitor this when the substitution regime comes into effect, but take no action at present.

Q6 – Using Zones

We have a fundamental concern that a product that has been acquired for many years and is allocated on a completely nodal basis should be subject to zonal arrangements. Furthermore, in this case since no differences exist we believe that the within-zone process could be dispensed with.

Q7 – Licence Revenue Drivers

We believe that there should be some assessment criteria for the order of multiple recipient ASEPs, but believe we need fuller discussion on how LRD's will work before we can say that this is the best way forward.

Q8 – Identifying Donor ASEPs

We believe that additional discretion is needed to select favourable donor ASEPs to avoid unintended consequences. The methodology should reflect this and parameters for this discretion could be set later by revisions after review of the substitution process.

Q9 – Approaches to Quantity of Restriction

Neither of the options presented seem completely favourable to us, although we prefer reducing all potential donor ASEPs together by equal amounts. We would be keen to discuss other options and select the most efficient methodology separately.

Q10/11/12 – Transitional Rule for new ASEPs

Although we'd like to see long term auctions at all ASEPs when people bid for a new ASEP, we agree that substitution should not be considered for these ASEPs which occur outside the full QSEC auction.

We believe that transitional rules would be helpful – favouring a phased approach to avoid more serious unintended consequences. As stated elsewhere, ideally this would take the form of a "pilot" substitution methodology release.

Most importantly we expect that staff involved will be able to explore the methodology employed, including any transitional arrangements, and appreciate the seminars arranged by National Grid prior to the next auctions.

Should you have any queries on the views expressed, please contact me on the telephone number as shown.

Yours Sincerely,



Commercial & Regulation Manager (Gas)
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