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Date : 21 Jan 2015

Dear [REDACTED]

Gas Industry Proposal to Amend EU Network Codes to Retain UK 6-6 Gas Day

Thank you for the opportunity to respond to ACER's request for more information from affected companies to the change in the gas day.

1. Name & type of organisation or stakeholder

SSE is a €19 bn publicly listed utility company that operates in the UK and Republic of Ireland. We have interests in electricity generation, transmission and distribution, gas production, gas distribution, gas storage and supply both gas and electricity. We have followed and participated in the development of the EU codes with interest and welcome the broad aims of the Third Package.

2. Please provide a short description of your interest, motivation & role in this amendment proposal.

SSE ships and supplies gas to the UK and throughout the Republic of Ireland to over 3 million gas customers and 4 GWs of CCGTs. In addition, we have minority equity interests in a number of gas fields in the North Sea. These supply approximately 5 -10% of our annual gas demand.

SSE's interest is to maintain a 6-6 gas day across the UK and the Republic of Ireland. The NBP is the most liquid and transparent gas trading hub in Europe and provides a trusted price index to attract LNG and pipeline supplies to the UK. It allows purchasing and hedging free from manipulation and this allows GB customers to benefit from competition and have amongst the cheapest retail gas prices in Europe.

SSE is very concerned that having a dual gas day will damage the liquidity of the NBP. Estimates of cost by the TSO, NG NTS, of the allocation risk and the subsequent cashout penalty resulting from the 6-6 upstream and 5-5 downstream gas days is £30 m/year based on historic data.



We believe this may encourage upstream 6-6 gas to be sold at beach terminals at a discount to the NBP to mitigate the allocation risk. This may occur at eleven sub terminals, this will reduce the total volume of gas traded at the NBP and its liquidity. A drop in liquidity may result in wider bid/offer spreads which will increase costs to customers. Even worse it may result in the loss of its status as a trusted trading hub with consequences for contracting and hedging strategies including increased reliance on long term contracts.

SSE has been proactive in transposing the EU codes into the UNC, as well as being an active member of the Gas Day Industry Workgroup chaired by DECC to find a solution to the problem of dual gas days in the UK and the Republic of Ireland.

3. Do you support, oppose, or have a neutral position towards the proposed amendment being further considered by ACER? Please specify the main reasons why you think ACER should or should not pursue this amendment request.

SSE is strongly supportive of the proposed amendment that would allow the UK and Republic of Ireland to keep the 6-6 gas day. We believe ACER should pursue this amendment request as it is the lowest cost solution, which minimises change and keeps the same market benefits as existed before the gas day change without damaging harmonisation. This is further supported as follows:

1. We cannot foresee any adverse impact on harmonisation by maintaining the 6-6 gas day. The interconnector IUK already responds dynamically to arbitrage opportunities even though it operates with different gas days at each end. We therefore believe that trading with the continent through the IUK and the benefits it brings would be unaffected by maintaining a 6-6 gas day in the UK and the Republic of Ireland.

2. Without this amendment to the EU code for UK and the Republic of Ireland, the downside risk of a dual gas day, as described above is £30 m/year of misallocation and a loss of NBP liquidity.

3. The other potential solution that UK market participants are developing to scale the hour mismatch may not be implemented in time and places the risk on downstream shippers for an unknown period of time. Although better than doing nothing this is not a risk nor cost free solution.

4. SSE's view is that the upstream operator community is unlikely to spend £60 m to change to a 5-5 day when there is no legal requirement and the UKCS is a mature production area.

Should you wish to discuss any points raised in this response please do not hesitate to contact me.

Yours sincerely

