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Our Reference:
Your Reference:

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Dear Denis,

**Distribution Networks Pricing Consultation Paper DNPC 07:
LDZ System Charges Capacity Commodity Split**

Thank you for providing SSE with the opportunity to comment on the above Consultation Document.

Under the proposal, the Charging Methodology will be changed from 1st April 2011 (the same time as the new LDZ System charges proposed in DNCP02 are planned to be implemented), so that the capacity element of the LDZ System charges is set to recover 100% of the revenue and the commodity element reduced from 5% to zero.

SSE agree with the proposed changes and has the following comments to make on the specific questions:

- 1. Should the Charging Methodology be changed so that the capacity element of the LDZ System charges is set to recover 100% of the revenue from the LDZ system charges, and the commodity element is set to zero, compared with the current 95%/5% target split?*

For all DNs only a small proportion of the costs reflected in the LDZ system charges (5%), relate to throughput and the rest are capacity related costs. These are more appropriately recovered through capacity charges as these do not vary with throughput. Hence putting the capacity element up to 100% and reducing the commodity element to 0% is cost reflective and SSE understands this can be achieved without significant change to the billing system.

- 2. Should Interruptible supply points pay 50% of the firm LDZ System capacity charge so as to maintain the value of the discount received by interruptible supply points at its current level, on average?*



Interruptible supply points currently pay 50% of charges. Removing the 5% commodity element would reduce their charges to less than the 50%. There will need to be an increase to the level of the LDZ system interruptible capacity charge as a proportion of the firm capacity charge.

3. *Should this change be made with effect from 1st April 2011?*

If put in effect from 1st April 2011, the same time as the new LDZ System charges proposed in DNPC02 are planned to be implemented, it will represent a significant simplification of the charging methodology. As implementing them together would mean that the new structure of the LDZ system Charges needs to consist only of LDZ Capacity charge functions.

If you would like to discuss any of the above points please do not hesitate to contact me.

Yours sincerely

Jeff Chandler
Head of Gas Strategy
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