

John Bradley
UNC Modification Panel Secretary
Joint Office of Gas Transporters
Ground Floor Red
51 Homer Road
Solihull
B91 3QJ

Telephone: 01738 457909

E:mail: Jeff.Chandler@
scottish-southern.co.uk

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Dear John,

Modification Proposal 0229 – Mechanism for Correct Apportionment of Unidentified Gas

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the above Modification Proposal.

SSE does not support proposal 0229.

It is apparent that there are errors inherent within the Gas Industry that ultimately lead to an under recovery of energy from non daily metered supply points in aggregate, and that this leads to RbD constantly being a charge on the SSP market. However, the errors and inaccuracies are apparent in both the SSP and LSP markets, but the SSP market is picking up all of the associated risks and costs. At present, we believe that there is discrimination of the SSP market sector and an unfair cross subsidisation of the LSP market by the SSP market, and also that it is very difficult to accurately determine the quantities of unaccounted for gas.

In our response to proposals 228 & 228A SSE stated that it believes that proposal 0228 will better facilitate the relevant objectives, as it is based on gas throughput and actual differences, rather than the 0228A concept of a fixed volume of gas. Modification 0229 also proposes that there is a fixed amount of gas allocated to the LSP sector rather than a percentage. In addition, proposal 0228 proposes that no market sector should be excluded from the re-apportionment mechanism.

Proposal 0229 proposes a lengthy tender and information gathering process which is not likely to lead to any RbD costs being allocated to the LSP sector prior to April 2012, which is seen by SSE as being too lengthy a delay in allocating some of the costs to the LSP sector, when other modifications could allow an almost immediate allocation if implemented. This April 2012 date could be potentially extended further as proposal 0229 allows an appeal process.

The proposal 0229 process would also introduce increased costs into the industry and there is a risk that a suitable party may not be found in order to become the AUGÉ.

SSE does not believe that proposal 0229 would lead to equitable re-apportionment of the RbD error against the LSP market sector on the basis of a fixed allocation method. If this proposal were to be implemented, it would continue the current discrimination of applying RbD error on differing principles for the market sectors for which there is no justification.

Within proposal 0228 there is a method of allocating the percentage of RbD to the LSP sector and to recalculate it annually using independent analysis, or sooner if new evidence becomes available. This provides both an accurate and logical method of reallocating RbD costs and will be much quicker to see RbD costs being allocated to the LSP sector.

Modification proposal 0228 would also be a relatively easy and low cost solution to implement in comparison to proposal 0229.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

Jeff Chandler
Gas Strategy Manager
Energy Strategy