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Date : 24 Aug 2009

Dear John,

### **Modification Proposal 0260**

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

SSE is not supportive of Proposal 0260.

The purpose of this Proposal is to provide Users with an ability to recover any financial losses that they might have incurred as a result of providing additional supply or firm demand-side reduction. The OCM will act as a bulletin board for posting surplus gas volumes and prices. Subsequent claims will only be paid where the User has a long position and if they are less than 80 % of the weighted average. Whilst we welcome the additional clarity on the processes that will be followed in the post-emergency claims arrangements we think the proposal is flawed for the following reasons:

1. SSE do not support the smearing of costs to those industry participants who happen to be short, possibly through no direct fault of their own. We believe that the costs should be smeared across all Shippers. This will dilute the impact of concentrating financial loss that might have unforeseen consequences; in the worst case of cascade collapse as first one and then others default. The recent banking crisis has shown that the Government will intervene in emergencies when necessary and socialise those costs.
2. Nor do we believe that the improved clarity of price will help to attract additional gas supplies to the UK market as shippers will already have maximised supply

provision as required under their Licences and the GSMR. In fact there is a risk that this Proposal might provide an incentive for shippers to hold back some gas in the belief that they can obtain a higher price at some later point in the emergency. As a consequence this might actually accelerate an emergency situation being declared.

3. In an emergency Shippers will not know their position with certainty. Therefore, even if they had access to more gas, they would not know how much to sell to the market because they might go from a balanced/long to a short imbalanced position and as a result of this Proposal incur additional costs.

If this proposal were to be implemented it will further increase the level of complexity during an emergency. Operational staff have no experience of emergencies other than the emergency exercises which are notified and prepared for in advance. This proposal will require physical market quantity offers to be placed on the OCM once plant has been self interrupted or further gas supplies made available. This is not a routine procedure for operational staff in an emergency and consequently the further workshops offered by NG NTS are welcomed.

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

Yours sincerely

Jeff Chandler  
Gas Strategy Manager  
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