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Date 1 February 2011

Dear Tim,

Modification Proposal 0333 & 0333A- Update of the default System Marginal Buy Price and System Marginal Sell Price

Thank you for providing SSE with the opportunity to comment on the above Modification Proposal.

SSE is not supportive of Proposal 0333.

SSE is supportive of Proposal 0333 A.

National Grid (NG) raised modification proposal 0333 "Update of the default System Marginal Buy Price and System Marginal Sell Price" as a direct result of the Licence Condition placed on NG by Ofgem.

Modification 0333 proposes to update the methodology used to calculate the default system marginal price cashout differentials. SSE is supportive of this methodology because it is more cost reflective to incorporate the costs of linepack rather than using the cost of storage of Hornsea from 10 years ago. SSE believe this should result in an improvement in the economic and efficient operation of the system. This change in methodology will be updated annually to reflect compressor costs and the average entry and exit costs of the network.

However, SSE does not agree that the proposed cost allocation in Modification 0333 ,under the User Pays arrangements, are appropriate and as a result we cannot support the Modification Proposal. Our concerns regarding User Pays are detailed below:

1. Rough Order of Magnitude cost estimates from Xoserve are likely to be at least £205k but probably not more than £227k. SSE believe that these costs are excessive for a simple data fix within a system and a more appropriate solution should be implemented. NG NTS have proposed that all these costs should be paid by Shippers on the first day of use, pro-rated on throughput.
2. SSE note that NG NTS would not have raised this proposal if they had not had Licence Condition 27 placed on them. Therefore, if we were to accept NG's argument that User Pays should focus on targeting costs at the financial beneficiaries; then implementation of this proposal ensures NG comply with their Licence conditions.
3. EdF propose that the implementation costs of proposal 333A are recovered 75% from Transporters and 25% from Shipper Users. The proposed split is based on the Industry Cost Allocation Matrix contained within the User Pays Guidelines document. This document was produced by the Transporters, including NG and was designed to ensure that User Pays charges were targeted at the appropriate Users based on the relevant objectives that the proposal facilitated. For clarity it appears that proposals 0333 & 0333A predominantly facilitate Standard Licence Conditions A11.1 (a) and (c) and to a lesser extent A11.1(d), suggesting a 75/25 split is appropriate.

EdF's proposal 0333A is identical to NG's proposal other than that the User Pays arrangements are, in our opinion, more appropriate and as a result SSE is supportive of 0333A.

Please do not hesitate to contact me if you wish to discuss this further.

Yours sincerely

Jeff Chandler
Head of Fuel Strategy
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