

Scottish & Southern Energy
Grampian House
200 Dunkeld Road
Perth
PH1 3GH
Direct Tel: 01738 457909
Direct Fax: 01738 456194
Email: Jeff.chandler@scottish-southern.co.uk
14 May 2007

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

Dear Julian

Modification Proposal 0115/ 0115A

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

Scottish and Southern Energy is supportive of both Modification Proposals 0115 and 0115A, but has a strong preference for Modification Proposal 0115.

Since the introduction of Reconciliation by Difference (RbD) in 1998, a significant charge has fallen on the Small Supply Point (SSP) market in each year as a result of the process. At the time of its introduction it was believed that as meters were read in the Large Supply Point (LSP) market then the RbD amounts would decline and that any unread meters were as likely to lead to an over allocation as they were to an under allocation of energy, resulting in the RbD process potentially giving a small net credit to the SSP market in some years. However, 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.

These errors and misallocations include theft, unrecorded sites, unregistered sites and leakage, all of which lead to an under recovery of energy. There are other errors which could under or over allocate energy, but which appear, in aggregate, to be leading to an under recovery of energy, and these include metering inaccuracies from LDZ down to customer level, correction factors, user suppressed reconciliation values, deeming calculations and IGT issues.

All of the errors and inaccuracies referred to above are apparent in both the SSP and LSP market. At present, we believe that there is an unfair cross subsidisation of the LSP market by the SSP market.

Both Modification Proposals 0115 and 0115A recognise this. However, we are unable to agree with the argument that monthly read meters are significantly less affected by the above factors than those that are read quarterly. Modification

Proposal 0115 would also align the gas arrangements with those of electricity, where all non half hourly meters are subject to the GSP group correction factor.

The charging proposal put forward in Modification Proposal 0115 is also more appropriate than that proposed under 0115A. The RbD charge is effectively a charge on all shippers for industry losses and inaccuracies, and so to charge the LSP market a lower price for its allocation would be effectively agreeing with the viewpoint that the misallocations have a smaller effect in the LSP market, and so would be a form of cross subsidisation.

There have been arguments put forward for both modifications 0115 and 0115A that the SSP market should bear a greater burden of RbD than the LSP market and vice-versa. No solution can be employed which will be perfect and an element of cross subsidisation may still exist from one market to another.

However, we believe that modification 0115 would significantly reduce the inequalities and cross subsidisation which currently exist between the two markets, and given the very limited information available about the effects and sizes of the various errors and inaccuracies, is undoubtedly the more equitable and appropriate solution.

Yours sincerely

Jeff Chandler
Gas Strategy Manager
Energy Strategy