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Date : 10 Sep 10

Dear Bob,

### **Modification Proposals 0317, 0317a 0327**

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

SSE is not supportive of Modification Proposal 0317, but is supportive of both 0317a and 0327 and has a strong preference for 0327.

It has been recognised that the LSP market sector contributes to unidentified gas and the implementation of modification 0229 confirms this. SSE agrees with the proposer of modification 0327 that modification proposal 0317 significantly underestimates the true volume of unidentified gas which should be attributable to the LSP sector.

The intention of modification proposal 0229 was that the first AUG year starts from 1<sup>st</sup> April 2011 and that the reallocation of costs between the SSP and LSP sectors will be attributable back to this date. Only modifications 0317a and 0327 will achieve this via a reconciliation mechanism back to this date.

SSE has a strong preference for 0327 as we believe that the allocation of unidentified gas that the AUG will reallocate back to the LSP sector will be significant and much closer to the amount identified in modification 0327. Furthermore, we strongly challenge some of the assumptions made in the figures arrived at in modification 0317, whereas the figures arrived at in modification 0327 are actual figures for the whole of the NDM gas sector with the mechanism used to allocate unidentified gas back to the LSP sector based on the fact that the LSP sector should pick up unidentified gas equally based on its market share. This is a sound judgement on which to propose the initial allocation, with the reconciliation taking account of any adjustments that the AUG makes to these figures.

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

Yours sincerely,

Mark Jones