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Our Reference:

Your Reference:

Date: 2 May 2004

Dear Nick

Notice Under Section 23(3) of the Gas Act 1986 to modify the GT licence in respect of Standard Condition 14. The Supply Point Administration Agreement.

Thank you for Ofgem's guidance sent this afternoon by Jonathan Dixon in respect of SSE Pipeline Ltd's concerns with the above proposed licence condition.

We understand from that guidance that accession to the SPAA will not in itself mean that an iGT will be exposed to a risk of bearing a significant cost associated with being RGMA compliant.

Based on the above understanding therefore, I can confirm that we now formally remove the statutory objection to the proposed licence modification on behalf of SSE Pipelines Ltd.

Yours sincerely

Rob McDonald
Director of Regulation

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Date: 31 May 2004

Dear Nick

Notice Under Section 23(3) of the Gas Act 1986 to amend the GT licence in respect of Standard Licence Condition 14. The Supply Point Administration Agreement

Thank you for your letter dated 30 April 2004 addressed to me in respect of SSE Pipelines Limited and the above notice to amend Standard Licence Condition 14 of the Gas Transporter (GT) licence.

As I am sure you will be aware from our correspondence with Ofgem over the past two years, we strongly support Ofgem's proposal to introduce a Supply Point Administration Agreement (SPAA) in gas which would be similar to the Master Registration Agreement (MRA) in electricity. Based on the above therefore, we support the development of a supplier/Transco agreement that identifies and governs, through a formal change control mechanism, the core registration processes and the new competitive gas metering arrangements (the RGMA baseline).

Notwithstanding the above, we are unable to support the proposed amendment to the gas transporter (GT) licence on the grounds that it would apply to all GTs and not just Transco in the first instance. In particular, we are concerned that to date the SPAA is purely a framework agreement the scope of which has yet to be defined and will be dependent upon the outcome of an industry voting mechanism. Therefore, if we were to accept the proposed licence condition we would, in effect, be agreeing to comply with, potentially, an unlimited suit of obligations.

For example, over the next few weeks we expect that the RGMA baseline will become a schedule to the SPAA that parties to the SPAA will have to comply with. Although we support compliance with the RGMA baseline by *relevant* parties, the RGMA baseline does not apply to iGTs and we are concerned that, if we were to be a party to the SPAA on day one, there is a risk that we could be placed in a position whereby we would have to comply with that baseline. We are particularly concerned that accepting the SPAA licence condition could result in an immediate obligation to automate all change of

supply and change of agent flows which would result in substantial system development costs.

We therefore believe that the proposed SPAA licence condition should be a special licence obligation that would only apply to Transco on day one. However, we do believe that at some time in the future it may be desirable for iGTs to comply with the RGMA baseline and other processes that are to be governed by the SPAA, and, at that time, following an appropriate regulatory impact assessment, it may be appropriate for a similar licence obligation to apply all GTs, (although we believe that de-minimis limits should be applied before iGTs have to comply with the full weight of the provisions of the SPAA).

Therefore, based on the above, we regret that SSE Pipelines Ltd objects to the proposed amendment to Standard Licence Condition 14. The completed form is attached.

I would be grateful if you could confirm receipt of this objection to the proposed licence modification. In the meantime, if you would like to discuss any of the above, please give me a call.

Yours sincerely

Rob McDonald
Director of Regulation