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14th January 2005

Dear Indra,

Calculation of the CSEP Charge under the Relative Price Control

Thank you for your letter of 16th December 2004 on the proposals for an alternative approach to calculating the Connected System Exit Point (CSEP) charge under the Relative Price Control (RPC) charging arrangements for Independent Gas Transporters (IGT).

As an IGT, SSE Pipelines Ltd is concerned about the proposal to open up the charging mechanism agreed under the RPC so soon after its implementation. We would prefer to see a period of stability whilst the RPC 'beds in'. Whilst the current methodology does not follow exactly Transco's approach in charging shippers up to the CSEP, there is no indication that it is materially wrong. Indeed, as you have noted, the difference in charges between the two approaches tends to be significant for only a very small percentage of sites. As such, our preference would be to maintain the *status quo* i.e. your Option 1. However, if any change were to be implemented we believe that it would be better to introduce the change for all sites, your Option 3, rather than implementing a hybrid approach.

From a cost point of view, whilst our overall income would not be affected by either of the two new charging options being proposed, we would incur costs in modifying our billing processes. The cost of amending such processes is hard to quantify but is unlikely to be less than £4,000. We would be concerned how this additional cost could be recovered under the RPC.

If you have any queries on the above please do not hesitate to contact either Malcolm Burns on 01738 456571 or Paul Clark on 0118 953 4679.

Yours sincerely,

Rob McDonald
Director of Regulation