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Dear Paul,

Gas Shipper Entry Credit Arrangements

Thank you for providing SSE with the opportunity to provide comment on the above open letter dated 4th August 2010.

SSE believe that a system which allows National Grid Gas (NGG) to make a legitimate recovery of £44 million, in relation to an investment made of only around £10 million, is fundamentally flawed and deeply unsatisfactory.

In general, we would recommend that Ofgem should be strongly averse to reopening price controls as use of such retrospective regulation can undermine investor confidence in the market. However, in this unique situation, we believe that this over recovery must be rectified.

This rectification should occur via one of the two following methods:

- (i) Ofgem could deem the over recovery to be inefficient at TPCR5, forcing NGG to redistribute the excessive recovery back to customers; or
- (ii) Ofgem could raise an Income Adjusting Event (IAE).

In principal, these could be NPV neutral, but on balance we think that the IAE process was not really designed for eventualities such as this. Therefore, an adjustment to the next price control might be the best way forward in these circumstances.

We do not believe it is appropriate for shippers to raise an IAE as they are not in a position where they are capable of acquiring the level of information required to do so. This would also introduce additional regulatory uncertainty into the price control settlements.

I hope that our comments are helpful. If you would like to discuss any of the points raised in more detail, please do not hesitate to get in contact.

Yours sincerely,

Claire Rathey
Regulation Analyst