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Dear Hannah

**Consultation Letter: Income Adjusting Event claim for Canatxx incremental entry capacity signal at Fleetwood**

Thank you for providing SSE with the opportunity to provide comment on the above open letter dated 7<sup>th</sup> March 2011.

We 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. While we agree that NGG should recover the revenue associated with the costs it has incurred to date to deliver new capacity at the Fleetwood entry point, we believe it would be wholly inappropriate to allow NGG to recover the full £44 million.

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.

We believe this rectification should occur via one of the two following methods:

- (i) Ofgem could deem the over recovery to be inefficient at RIIO-T1, forcing NGG to redistribute the excessive recovery back to customers; or
- (ii) through 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, we believe that an adjustment to the next price control may be more appropriate than the use of an IAE in these circumstances.

As rightly pointed out by Ofgem in the consultation letter, a key feature of Canatxx's situation was that it did not hold any capacity rights at other entry points prior to the bid at Fleetwood and it was making a large bid for capacity. This has clearly identified a deficiency in NGG's credit arrangements as set out in the Uniform Network Code (UNC). In addition to the rectification detailed above, we support the introduction of the Proposed Modification O350 as we believe it would act to prevent this situation from ever occurring again.

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**