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24 August 2006

Dear Mr Gomez-Elvira,

ERGEG Report on Gas Transmission Pricing

Scottish and Southern Energy (SSE) is one of the largest energy companies in the UK. It is involved in the generation, transmission, distribution and supply of electricity; energy trading; the storage, distribution and supply of gas; electrical environmental and utility contracting; domestic appliance retailing; and telecoms.

I am therefore writing with SSE's comments on the ERGEG report on gas transmission pricing (for transit) and how it interacts with Entry-Exit systems.

The report gives a useful overview of some of the issues with gas transmission pricing. In particular it is noted that directive 2003/55 removes the distinction between transit and transportation in gas transmission – now it is all classed as transmission. However, in many instances the contracts for transit specifically are on a long term basis and could be different to those that would be compatible with the new regulations. We therefore agree that these transit contracts should be reviewed wherever possible and prices made consistent with regulated tariffs.

We also agree that new infrastructure should not imply a different treatment as regards transmission tariffs. The principles and methodologies used to produce the tariffs and prices should be consistent with those in the same region. It is particularly important to avoid "pancaking" of charges where there are flows across boundaries such as member states. It is also important to ensure a pro-investment climate so that investment in efficient gas infrastructure can be facilitated in support of the security of supply principles.

In general we are opposed to "distance related" tariffs, and these have been specifically excluded from the principles of tariffication in electricity transmission. However, where there is point to point transmission such as an interconnector, the charges for using that would be related to the costs of providing the link, which in turn would vary with the distance of the link. It is therefore clear that cost reflective tariffs would take into account the amount of infrastructure involved, but that need not necessarily involve distance related tariffs, since the distance is implicit rather than explicit in the calculation of the relevant costs. It is also clear that "one size fits all" is not appropriate in the context of tariffs.

I hope the above comments are helpful, but if you need any further information please give me a call.

Yours sincerely,

Rob McDonald
Director of Regulation