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Dear Joanna

Proposal to modify Standard Special licence condition A4, A5, and D11 of the Gas Transporters licence

We welcome Ofgem's proposals to modify the GDNs' transportation charging licence conditions as described in your open letter dated 20 July.

As you will be aware from previous discussions and correspondence with SGN, we agree with Ofgem that the current licence conditions that essentially restrict GDNs' ability to change transportation charges once a year on 1 October can be a contributing factor to the variability in GDNs' transportation charges. As Ofgem has described, adjusting charges mid-way through a formula year is likely to result in a larger change than would otherwise be necessary if charges were set at the start of a formula year. In addition, these changes can magnify over time and seesaw between being positive and negative changes. This is particularly evident when changes are made to transportation charges to implement new price controls.

We therefore believe that Ofgem's proposal to allow the GDNs to change their charges in both October and April will enable the GDNs to better tailor their transportation charges to match their allowed revenue and avoid the large and fluctuating charge variations associated with the current restrictions. However, we also believe that Ofgem's proposals recognise Shippers' concerns that multiple and uncoordinated changes (in terms of timing) by each of the eight GDNs would be undesirable. Accordingly, it is reasonable for any change beyond the proposed biannual restriction to require Ofgem's approval.

We also agree that the existing 150 day notice period results in the publication of indicative charges that are likely to vary when compared to the actual charge that is then implemented. We therefore believe that the proposal to shorten the notice period to three months will help to minimise the variance between the indicative charges and those that are subsequently implemented.

To conclude therefore, we support Ofgem's proposals to allow GDNs to change their charges in both October and April and to reduce the indicative charge notification period from 150 days to three months. Should Ofgem decide not to progress with these proposed licence modifications it will, at the very least, be necessary to move to a 95:5 capacity:commodity split in order to reduce future and ongoing charge variations.

We hope that you find these comments useful.

Yours sincerely

Rob McDonald
Director of Regulation