Comments from Tory Hunter - SSE

Dear Sonia/Tim

Sorry not to have got back to you before now following DISG last week. However, I've set out below a few fairly high level comments on the proposed Offtake arrangements and the proposed flexibility product.

Offtake - allocation of NTS exit capacity and UNC/Offtake code composite framework

While we understand the aim of introducing the NTS connectee concept so that all connectees to the NTS, (ie direct connect customers, DNs, storage facilities and interconnectors) would become parties to the Offtake Code, we are concerned that it will be very challenging to develop and deliver this arrangement, the associated allocation of mechanism for primary NTS exit capacity rights and the associated buyback/interruption arrangements in time for implementation on day one of a DN sale. We believe that this is a very challenging workload and would therefore urge Ofgem to consider whether it might be possible to implement some elements of the reforms after completion of the DN sales. This would allow the benefits of the sales to be achieved earlier, without undermining Ofgem's reforms.

Notwithstanding the above, and in the interests of minimising complexity, we believe that option 2A would be the best way forward for charging arrangements. Under this mechanism, we understand that in effect the DNs allowed revenue would reflect the usual Distribution network costs, plus the NTS exit capacity charges incurred +/- an NTS exit incentive amount. Clearly, the mechanism by which the NTS allocates NTS exit capacity to a DN must not compromise a DN's ability to meet its statutory 1:20 obligations.

We believe that it would be simpler to adopt a nodal rather than zonal approach to the bidding/allocation of NTS exit capacity in order to reflect the physical characteristics of the network and therefore to maximise use of capacity at any single location. That is, a nodal approach will give clearer investment signals at each exit point.

A nodal approach is particularly important for DNs who have to meet their 1:20 obligation. We are unsure how a zonal exit regime would fit with a regulated entity competing with a commercial entity within the same zone if it is to meet its statutory 1:20 obligation. In either case, we believe that the allocation should be on a volume based mechanism rather than price for both the constrained and unconstrained timefames.

It would be important to ensure that only NTS connectees (or a shipper as their agent) would be able to participate in the allocation process to avoid speculative booking and hoarding.
We agree that it would seem unduly complex to "merge" the proposed Offtake Code with the UNC and therefore, NGT's proposals for a composite framework seems appropriate although clearly, the Offtake Code governance arrangements will not be able to mirror the UNC arrangements since very different parties are involved. In concept though, we agree that the Joint Office could provide the administrative process necessary to facilitate the relevant modification rules.
It is clear that by adopting the connectee approach the offtake code will need to be reconsidered since at present it only relates to the NTS/DN interfaces.

Diurnal Storage or Flexibility Product

We welcome the overview that was presented at the DISG. We now understand that the product is a generic flexibility product rather than a specific NTS diurnal storage product. However, we are concerned by the additional complexity the flexibility arrangements introduce and the impact it will have on the already challenging timetable to introduce the above NTS offtake arrangements (described above) for day one of a DN sale.
We are particularly concerned that Ofgem's proposal would suggest that the flexibility product is an hourly product which would suggest an extremely complex process. We therefore believe that we should aim to introduce as simple a flexibility product as possible.
We are unsure how the NTS will determine how much of the existing NTS exit capacity is the primary product and how much is a flexibility product. In other words, how the NTS exit baseline capacity will be unbundled. We also are unsure whether it will be necessary to unbundle the associated revenue stream so that there is one for the primary capacity with an associated incentive and one for the flexibility product with its own incentive.
As above, we believe that a nodal rather than zonal approach should be adopted for the allocation of the NTS flexibility capability.
We are unsure how a NTS connectee will forecast its flexibility requirements in the longer term and therefore we wonder whether any long term signals would be meaningful. It would also be very important to ensure that any future flexibility arrangements are compatible with the electricity trading arrangements for example that they do not jeopardise a gas fired generator's ability to participate in the short term balancing market for security of supply reasons.
It will be critical to ensure that the timing of the sale of both the

primary and secondary offtake products dovetail so that a connectee can make efficient decisions in securing all of its capacity requirements across both products.

Kind regards

Tory