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Dear Andy,

**Consultation on changes needed to implement new arrangements for incremental gas transmission capacity (PARCAs)**

Thank you for providing SSE with the opportunity to respond to the PARCA implementation consultation. The PARCA will primarily be relied upon to ensure the development of new gas fired generation plant. Any uncertainty in the PARCA process will deter investment by placing unacceptable risk on the PARCA applicant through the electricity Capacity Market penalty regime and could impact security of electricity supply in GB.

Key to ensuring the PARCA works is to remove regulatory uncertainty and risk. When capacity is to be provided by substitution, it would be vastly preferable for Ofgem to approve substitution at the time of reservation of capacity by the PARCA applicant at the end of phase one of the PARCA process. Ofgem's current proposal does not approve the release of capacity through substitution until the end of phase three. However, before this decision the applicant will need to compete in the Electricity Capacity Auction. This means the applicant runs the risk of Ofgem not approving capacity allocation by substitution. In the event that gas capacity substitution was not approved, the PARCA applicant would need to re-apply and wait whilst National Grid obtained planning permission and built new capacity. This could take seven years, ensuring that any capacity market contract start date would be missed and potentially expose the applicant to excessive losses through the Capacity Mechanism. Clearly, Boards making investment decisions will be reluctant to take on an exposure to such regulatory risk.

It would be better if substitution were approved at the time of reservation with a mechanism by which it is amended should the project planning be rejected.

Please find responses to the individual questions below:

*Question 1:*

*Do you agree with the intended drafting of each new licence definition?*

SSE agrees with the lead time starting from the month following allocation rather than from the following October, this would allow projects to follow customer timescales rather than an arbitrary delivery for October. This also better reflects gas fired generation projects timescales



since developers would prefer to commission during the summer months in preparation for winter operation.

*Question 2:*

*Do you agree with the proposals to adjust collected revenues to include PARCA termination amounts, but not in all circumstances ?*

Development of the PARCA contract has been protracted with a lack of clarity and agreement over the circumstances termination fees are payable by PARCA applicants. In particular, if National Grid (NG) fails to secure planning permission. Clauses 5.2 through to 5.4 in the PARCA Contract and the term "Satisfactory terms" need to be clarified and defined. It is not clear either how it will be proved whether NG has used Best or Reasonable Endeavours or acted as a Responsible and Prudent Operator (RPO). Nor which of these tests is the most appropriate. Ultimately, if the contract cannot be agreed on a bi-lateral basis a modification proposal may need to be raised to place the whole PARCA contract in the UNC to provide Customers with influence and protection.

The Termination Amount the PARCA applicant is responsible for will determine if it is worth pursuing a legal case to determine whether Best or Reasonable Endeavours were used or if NG acted as an RPO. If the Termination Amount is low they may simply pay. The implication is that costs incurred by NG in excess of the Termination Amount would be passed through to allowed revenues and hence paid by all consumers. We do not think this is appropriate. We believe Ofgem should assess on a case-by-case basis whether these costs should be passed to customers. This will be more consistent with Ofgem's wider statutory duties to protect the interests of consumers.

*Question 3:*

*Do you agree with the text which adds a new 'Part A' to Special Condition 5F?*

Our understanding is that Ofgem only intends to approve allocation or substitution of capacity once a user is ready to take on a firm User Commitment. This fails to recognise the planning process, project development process and interactions with the Electricity Capacity Mechanism.

The PARCA arrangements were designed to ensure that physical investment only occurred when it is certain that projects will proceed. In the ideal PARCA process, capacity would be reserved for a new gas-fired generation project prior to the Electricity Capacity Auction (ECA) auction with the User Commitment only being made if the project was successful in the ECA. However if the capacity is to be delivered by substitution then there remains a risk that it could be vetoed by Ofgem after the PARCA applicant has committed to the ECA. This means the applicant will be potentially exposed to capacity market penalties and will prove an unnecessary and unacceptable risk. Ultimately, it is in the interests of customers to have in place arrangements which do not deter investment, risk stranding capacity nor increase project development costs.

Yours sincerely

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