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Dear Alena,

Gas Transmission Charging Review: Part 2 – Assessment of potential Impact

Thank you for the opportunity to comment on Ofgem's Gas Transmission Charging Review: Part 2 – Assessment of potential Impact.

SSE have some comments that are detailed below before providing responses to the detailed questions.

1. SSE welcomes the proposed treatment of storage that will ensure that storage does not pay the floating capacity top up charge. This will maintain the existing treatment of storage users such that they are not exposed to commodity/capacity charges twice. We believe this is appropriate as storage users already pay to enter /exit the network when using storage. Therefore the proposal maintains the relative existing treatment of users of storage.
2. We welcome the decision not to apply indexation to historic QSEC bookings, we believe any benefits are outweighed by the complexity introduced and as such indexation does not merit further development.
3. We note that the EU network Code on Tariff Harmonisation (TAR NC) is likely to introduce a new binding arrangement for storage. Implementation could result in network charges for storage that are reduced to zero and only the additional costs of connection could apply. Once we have clarity on the TAR NC we would expect the charging arrangements for storage in GB to be amended accordingly.
4. There are other areas of the TAR NC that are currently undecided and could have an impact on any GB charging regime. Issues such as a single regulatory "pot" for revenue recovery; treatment of SO commodity charges and passing the ratio test for the chosen charging methodology. It is likely that further amendments to the GB charging regime and UNC may be required to be compliant with the final TAR NC. Given this background, this review may have been premature to take the necessary



holistic overview of the GB charging regime and subsequent changes that are required and their interactions.

There are a number of claims in the review, listed below, that have not been substantiated with evidence, it would be helpful to consider these areas in more detail, along with the final TAR NC to ensure that GB have a consistent charging methodology that complies with EU requirements.

1. Ofgem have stated that if short term bookings were closer to flows then this would assist NG's operational decisions and that this would contribute to efficiency. Ofgem also notes that the cost to NG of a shift to short term bookings is insignificant. It would be helpful to demonstrate how NG uses short term capacity bookings to inform operational decisions. SSE understand that operational decisions are informed by nominations, OPN and DFN submissions.

2. Ofgem suggests that the historical cost of existing assets is increasingly being socialised through commodity charges. This has occurred because the network is over sized, NG's allowed revenue is increasing each year and prompt capacity can be purchased at zero price. The resulting under recovery in revenue is collected via a TO entry commodity charge. Ofgem consider this to be an issue because users who do not flow do not make a contribution. However, this assertion has not been backed with evidence of any detrimental impact. In an unconstrained system, we do not see a particular problem with commoditisation of historic costs as these are cost reflective in that the User pays for direct use.

3. It may be helpful to consider which locations / pipelines still have asset value that is yet to be depreciated. If the geographic distribution of assets with remaining value is evenly distributed then the idea of locational recovery of historical costs may not be cost reflective. However, even if the distribution of assets with remaining value is in discrete locations then it may still be appropriate to socialise these costs since a shallow connection policy exists and as Ofgem states all users benefit from the existence of the network.

CHAPTER 2: Explanation of our proposed changes to the charging regime

Question 1: What are your views on our proposed changes?

We welcome the exemption of storage to the top up capacity charge and the decision not to apply indexation to historic QSEC bookings.

SSE welcomes the continued recognition of short-run marginal costing, this has been a long established principle in the GB regime and one supported by SSE. Any move away from this would require justification. We believe there are benefits in continuing with discounts for short term capacity to facilitate short term trading and support liquidity at the NBP and increase in the costs of this optionality may have a detrimental impact on liquidity.

It would be helpful to consider these proposals along with the final TAR NC to ensure that GB has a consistent charging methodology that complies with EU requirements.

Question 2: Do you agree with our rationale for rejecting the alternatives? If not, please explain why.

SSE agrees with Ofgem's rationale for rejecting the alternatives.

CHAPTER 3: Impact assessment of these proposals

Question 1: Do you think we have identified the relevant quantitative impacts?

Ofgem identifies the quantitative impacts to be the level of entry transmission charges and their distributional impact on users. We agree that these are relevant.

Question 2: Do you think we have modelled the impacts appropriately?

Modelling the potential changes to the charging regime is a challenging and complex task and Ofgem is to be commended in this respect. However whilst this can provide some insight into the potential impact of charging policy decisions it cannot be expected to reproduce shipper responses to these changes. Therefore, caution should be used before concluding that charges give rise to benefits or otherwise.

Question 3: Do you think we have identified the relevant qualitative impacts?

We agree that entry charges can affect cross border trade but it is not self-evident that charges will be lower under the new regime, particularly since the cost of holding capacity for optionality will increase and the impact on the shorthaul tariff has not been explored.

Question 4: Do you have any further evidence of the potential impacts of our proposed changes not covered by our analysis?

Consistency with the TAR NC is a key issue.

CHAPTER 4: Assessment against our objectives

Question 1: Do you agree with our assessment of how our changes would align with our principal objective and statutory duties?

SSE believes that the current proposal to exempt storage users from the top up capacity charge should preserve the existing arrangements, where storage users don't pay the commodity charge. We agree with Ofgem that this means that the role of storage is maintained in the supply mix.

Question 2: Can you provide any evidence that supports or would contradict our assessment against one or more of them?

SSE has concerns that increasing the cost of holding short term capacity by a combination of reduced discounts and a floating charge could impact on NBP liquidity which could have a greater impact on the areas below:

Consumer bill impacts: we consider this to be neutral, it is not relevant to argue NG investment will be affected by the charging regime.

Security of supply: we agree that the changes may be neutral for storage. We are not convinced that transaction costs at cross border points will be lower they may be higher. The



charges will be higher for short term capacity which is used for managing daily fluctuations and for marginal supplies so there could be a detrimental impact on supply security.

Promoting competition: these proposals shift revenue recovery from one set of uses to another, so it is difficult to see how competition will be affected. This would seem to imply that competition is currently suboptimal, but the CMA report noted the gas wholesale market is performing well.

In addition we do not understand how shippers are expected to respond to locational signals for short term capacity users. The physical commodity cannot readily be transferred between entry points. Also the addition of the same floating charge at all points, except storage, reduces the difference in locational charges between points on a percentage basis.

Question 3: Do you think there are other duties or aims that we should assess these changes against? If so, what are your views on how our changes might affect them?

There are other areas of the TAR NC that are currently undecided and could have an impact on any GB charging regime. It is likely that further amendments to the GB charging regime and UNC may be required to be compliant with the final TAR NC. We need to ensure that the proposed changes in this policy decision are consistent.

Yours sincerely

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