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Dear David,

**SSE Response to Amendments to Gas Transmission Charging Regime: minded to decision and draft impact assessment**

SSE raised a Postage Stamp RPM in its modification 678C, this is because it is better suited to the GB network than the Capacity Weighted Distance (CWD) RPM and will result in less distortion to wholesale market prices.

We disagree with Ofgem on its interpretation of Article 35 and the exclusion of an application of the RRC to existing price contracts. Combined with other conclusions from the Minded to Decision this means that no modifications further the relevant objectives and all should be rejected. A new compliant modification should be raised based on 621A but with RRC applied to existing bookings. Additionally, the opportunity to develop further amendments to include a larger discount for storage and a new shorthaul product to avoid bypass of the NTS should be included.

*Question 1: What is your view of our assessment that Postage Stamp is a more appropriate Revenue Price Methodology RPM in light of the circumstances of the GB network?*

SSE raised a Postage Stamp (PS) RPM in its modification 678C, this is because it is better suited to the GB network than the Capacity Weighted Distance (CWD) RPM:

In a meshed network with spare capacity and declining usage, a fair approach to cost recovery would be based on the level of access to the system irrespective of individual location.

We believe the Capacity Weighted Distance (CWD) RPM would introduce signals for use of the network which discourage flows at more distant entry and exit points, without improving network efficiency and distort wholesale market prices for both gas and electricity.

SSE undertook analysis to show the potential distortions caused by a CWD RPM and this was included in page 75 to 79 of our modification response to 678. The link is included below for ease of reference. The CWD RPM causes combined distortions to the wholesale power and gas markets compared with the PS RPM of up to £310 Million/year.

https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-04/Part%20II%20Draft%20Modification%20Report%200678C%20%28Mod%200678C%20v5.0%29.pdf

*Question 2: Do you agree with our assessment that maintaining the FCC methodology in the UNC improves the transparency and consistency of governance compared to maintaining the FCC Methodology outside of the UNC?*

SSE's modification 678C included placing the Forecasted Contracted Capacity (FCC) methodology in the UNC to aid transparency and fair governance. Charging was placed in the UNC as part of the first Code Governance Review, it is logical that the FCC which is key to determining the level of charges that Shippers pay avails itself to change by all interested industry parties. The alternative of including the FCC in a separate methodology only permits National Grid to raise changes, which is unfair. Additionally, the creation of separate methodologies that sit outside the UNC is inefficient and poor governance practice.

*Question 3: What is your view on our assessment that the PS RPM would be preferable to the CWD for future green gas market entrants?*

The PS RPM is preferable for all future gas entry and exit types not just green gas as it removes price distortion created by the CWD RPM.

*Question 4: What are your views on our assessment of the quantitative analysis?*

The quantitative analysis is determined by the assumptions made for inputs and modelling methodology. We do not have complete transparency of these assumptions. We do not believe an accurate assessment has been made between the status quo and the new RPM for gas fired generation plant. In particular, by not including short-haul or interruptible capacity costs in the assessment of current costs the cost increase on gas fired generation will be larger than the calculated £530 million NPV.

*Question 5: What are your views on our assessment of the modification options presented to us against the applicable UNC objectives?*

We generally agree with Ofgem's conclusions but disagree on the compliance assessment of Article 35. SSE shared legal advice regarding Article 35 and exposure of existing contracts to Revenue Recovery Charges (RRC). The advice is that the Reserve price of existing contracts should be protected but that they should pay the variable RRC because it was expected at the time of booking that they would be exposed to this variable charge. The legal advice link is included below for ease of reference.

https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-03/Article%2035%20Legal%20Advice%20%28provided%20by%20SSE%29.pdf

*Question 6: What are your views on our conclusion that only two modifications - UNC678 and UNC678A - are compliant with the relevant legislation? If you disagree, please provide a fully reasoned explanation.*

SSE shared legal advice regarding Article 35 and exposure of existing contracts to Revenue Recovery Charges. Taking this advice in combination with Ofgem's other conclusions means that none of the modifications are compliant and none should be implemented, as was the result from the panel vote.

*Question 7 a) Given our conclusion that only two modifications are compliant with the relevant legislation, what are your views on our minded-to decision to approve UNC678A rather than UNC678? b) Do you consider our minded-to decision to appropriately reflect the principles based assessment and quantitative analysis presented in this report? c) Do you agree it best facilitates the relevant objectives? Please fully justify your response.*

In a simple consideration between 621 and 621A, we agree that a modification that implements a Postage Stamp charge is preferable to a CWD based charge. However, as stated above we do not agree that these modifications are complaint with Article 35. As such, arguably no modifications should be implemented and a new compliant modification raised based on 621A but with RRC applied to existing bookings.

A storage discount of greater than 50% is required to minimise the large cost increase that storage assets will be exposed to under the new charging regime.  We welcome Ofgem's acknowledgment that a larger discount will be considered where justified and SSE will work with industry to develop a modification with a higher discount effective from 1st October. Failure to implement a larger discount may result in storage assets closing prematurely as highlighted in the Frontier Economics report, commissioned by EUK for 621 and the Baringa (621) and CEPA (678) reports for Ofgem. Hornsea Storage has been loss making in the last 3 years. For gas storage operators it is a question of how long assets can be maintained without the prospect of making economic returns.

The loss of further GB storage through closure, would have a detrimental impact on supply competition and increase costs to customers through increased NBP gas costs and price volatility feeding into supplier risk premiums. There would be less security of supply and other users would have to pay higher charges to compensate for the missing revenue no longer paid by storage operators using entry and exit capacity.

A form of "shorthaul" will be required to avoid inefficient bypass of the network. We welcome Ofgem's acknowledgment that a justified product that avoids excessive distance will be considered and we will work with industry to develop a modification. Failure to implement a new form of "shorthaul" will result in the construction of private pipelines and the forgone revenue will result in higher charges for remaining customers.

*Question 8: What are your views on our assessment that the proposed RPM (PS under UNC678A) achieves?*

We agree with Ofgem's assessment that a modification that implements a Postage Stamp charge is preferable to the CWD because of the following factors: 1. enables network users to reproduce the calculation of reference prices and their accurate forecast; 2. presents a better option than CWD for the recovery of the costs of the gas transmission system in the presence of a meshed network characterised by spare capacity and declining usage, and where cost-reflectivity is less relevant; 3. ensures non-discrimination and prevents undue cross-subsidisation; 4. ensures that significant volume risk related particularly to transports across an entry-exit system is not assigned to final customers within that entry-exit system; 5. ensures that the resulting reference prices do not distort cross-border trade.

*Question 9: What are your views on our minded-to decision that implementation should take place from 1 October 2020 to coincide with the start of that gas year?*

SSE's modification 678C stipulated that gas charges should be implemented from 1$^{st}$ October of a gas year. Legal advice was shared on the notice periods that would be required to be compliant with European laws on TAR and CAM such that the same RPM was used to set charges for all points. Effectively a decision on what charges will apply will need to made such that charges are published before 6th June 2020 for a gas year starting 1st October 2020. If charges were to be published later that 6th June 2020, then it would not be legally compliant with an effective date of 1st October 2020. In this situation, October 2021 would be a better implementation date to allow for the storage discount and optional charge to be addressed, to better take account of the new price control period and to provide adequate notice to allow customer tariffs to be updated. The link to the legal advice is attached below.

https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-04/SSE%20Effective%20Date%20Legal%20Advice.pdf

Yours sincerely

Jeff Chandler