

Representation - Draft Modification Report UNC 0686

Removal of the NTS Optional Commodity Rate with adequate notice

Responses invited by: **5pm on 07 June 2019**

To: enquiries@gasgovernance.co.uk

Representative:	Jeff Chandler
Organisation:	SSE
Date of Representation:	7 June 2019
Support or oppose implementation?	Oppose
Relevant Objective:	<p>c) None</p> <p>d) Negative</p> <p>g) None</p>
Relevant Charging Methodology Objective:	<p>a) Negative</p> <p>b) None</p> <p>c) Negative</p> <p>e) None</p>

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

SSE considers that Ofgem should undertake a regulatory impact assessment to more fully consider the wide ranging impacts of implementing this proposal, including; customer contracts from October 2019, the impact on domestic customers, cross border trade and wholesale gas and electricity prices.

Ofgem should also carefully consider the merits of implementing this proposal if it plans to approve any of the 678 proposals. Some 678 proposals may need to be amended, analysis re-run and justification re-written if 686 is implemented because the reference point to assess if furthering the relevant objectives has been achieved will have changed. This may create a governance issue because there is no provision for changing a modification once the Final Modification Report for 678 has been submitted to Ofgem.

SSE does not support a piecemeal approach to reform of the transmission charging arrangements. The charging arrangements are complex and since National Grid's allowed revenue is fixed, any changes lead to a re-distribution of revenue recovery which can have unforeseen consequences from changes in behaviour to contracting for

capacity and wholesale gas and power prices. A detailed impact assessment with a balanced judgement of the merits, if any, is required supported by evidence.

Ofgem seems to concur with this view in refusing urgency for this proposal on 10 April¹ noting that the proposal does not enable a fully compliant solution and in its decision letter for UNC proposals 0636² “*we think that the OCC should not be looked at in isolation, but should be considered holistically in the context of the wider charging landscape*”.

SSE consider it would be more useful to consider a review of ‘shorthaul’ arrangements under the ongoing 670R modification, consequently, SSE recommends suspending consideration of 686.

Commentary on Relevant Objectives:

c) Efficient discharge of the licensee’s obligations usually relates to undue preference. It is not apparent that the removal of the optional charge furthers this since its intention is to provide more cost-reflective charges for exit points close to entry points, which may not be undue preference. The issue of other charges having impacted the applicability of the charge does not seem sufficient reason to simply remove it absent wider consideration.

d) If charges are not cost reflective, see (a) below, then competition is not facilitated.

g) Legal opinion³ provided in response to UNC 0678 mods suggests that an optional charge is compliant so there may be no basis for this proposal in respect of this relevant objective.

Also in respect of Relevant objective (a) the impact on efficient and economic operation of the pipeline system would be negative if parties built private pipelines to bypass the NTS. There are strong commercial incentives to do so as highlighted in SSE’s response to 678. In such circumstances as allowed revenue remains the same the charges at other points would rise.

Commentary on Charging methodology objectives:

a) A regime absent an optional charge or some mechanism recognising gas transportation over particularly short distances that reflects costs less than average charges is not cost reflective.

¹ <https://www.ofgem.gov.uk/publications-and-updates/uniform-network-code-unc-686-removal-nts-optional-commodity-rate-adequate-notice-urgency-application>

² <https://www.ofgem.gov.uk/publications-and-updates/unc636-b-c-d-updating-parameters-national-transmission-system>

³ <http://www.gasgovernance.co.uk/0678/Reps>

- b) SSE accepts that a review of the optional charge regime is appropriate as evidenced in modification 670R, but a piecemeal approach, considering it in isolation of other aspects of the charging regime, including other developments, is not appropriate.
- c) If charges are not cost reflective, see (a) above, then competition is not facilitated.
- e) Legal opinion⁴ provided in response to UNC 0678 mods suggests that an optional charge is compliant so there may be no basis for this proposal in respect of this relevant objective

Implementation: *What lead-time do you wish to see prior to implementation and why?*

Do not support implementation

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

SSE and others who utilise the optional commodity charge will face significant cost increases at certain sites if the current arrangements were to be curtailed at short notice. We note this may be as short as two months, which is inadequate when contracts and trading positions are already in place. This will have a distortive impact on the gas and electricity markets.

Ofgem recognised this in its decision for UNC proposals 0636⁵. Therefore, if Ofgem were to decide to implement 0686 it must explain why its views expressed in respect of mod 0636 have now changed. We would recommend that Ofgem seeks information from affected parties as it did for UNC mod 0636 and conduct an impact assessment.

⁴ <http://www.gasgovernance.co.uk/0678/Reps>

⁵ https://www.ofgem.gov.uk/system/files/docs/2018/07/unc0636_d.pdf - page 5