

Outstanding Action 0203 – SSE to articulate the scope of the modification and the rationale why.

Case for change

Volatility is a concern for shippers, suppliers and end customers. The volatility in charges shown in appendix 1 gives examples of changes of up to 8000%. This highlights the sensitivity of the charges to changes to input modelling assumptions. This makes budgeting; choosing when to give a User Commitment signal for exit capacity and contracting with end customers all more challenging than could be the case. Such volatile charges ultimately have a negative impact on competition because they discourage investment and create uncertainty.

This mod has been raised to introduce stability to charges by applying a three year rolling average to the prices shippers and ultimately customers are charged. This will reduce the impact of the large step change introduced by the change in the supply merit order as proposed in the original 517 mod highlighted above. In addition, because the proposal is for a permanent change, it has the benefit of reducing volatility of charges on an on-going basis.

Mods 517 and 517 A impact charges for both entry and exit capacity. It is proposed that 517 B applies to both entry and exit capacity too. It might be unduly discriminatory to apply 517B to only exit or entry charges, although there is a precedent of different calculation methodologies for entry and exit prices in the Transportation model. For clarity, the averaging process is to apply to capacity charges only and not to commodity charges

It has not been defined in the UNC or other industry documents what cost reflective means with respect to charges. This makes assessment on this basis subjective. For example, the existing Transportation model is arguably not cost reflective because an adjustment is made to recover allowed revenue that distorts the locational LRMC prices calculated by the Transport model. Looking to the future, Ofgem's Gas Transmission Charging Review is likely to impact on cost reflectivity further because of the application of a uniform floating top up element to recover allowed revenue that dilutes the locational element of LRMCs.

Jeff Chandler

Head of Gas Strategy

SSE | Grampian House, 200 Dunkeld Road, Perth, PH1 3GH, UK

T: +44 (0) 1738 516755 Internal: 68755