

Comments from SSE

Questions for Informal Consultation

National Grid would welcome responses to the following questions in preparation for the Formal Consultation expected to take place upon resubmission of the proposals:

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

SSE considers it to be essential that a new shorthaul arrangement is re-introduced at the same time as the charging reforms of UNC 0678A. Without a shorthaul product of some kind approximately 25 entry/exit combinations will be required to pay charges disproportionate to their use of the transmission system. These parties are likely to build bypass pipelines which would lead to a material (over 10%) loss of transmission and non-transmission revenue which will need to be recovered from customers who remain connected to the transmission system. This would represent an inefficient outcome for customers and society.

The key determinant for SSE and other customers on whether to bypass the NTS will be a commercial NPV assessment of the cost of building and operating a private pipeline versus the proposed shorthaul transmission and non-transmission costs. If the avoided costs of building our own pipeline and bypassing the NTS are less than NTS charges then bypass will occur. SSE has built private pipelines at four CCGT sites and will if necessary extend pipelines at Peterhead and Medway to nearby entry points if economic to do so.

We consider the economic assessment of bypass described above and not the amount of socialisation of revenue to be the determining factor in the shorthaul solution. Focus on the latter will not reflect customer costs and choice and may encourage inefficient bypass. The degree of socialisation should be an output of the arrangements rather than an input or constraining factor.

We offer the following comments on the Modification proposals as outlined in 0718, A,B,C:

1. We support all the modifications as it is essential to have a shorthaul solution in place.
2. We have a preference for 0718C because it is a capacity based shorthaul product and the other flow based shorthaul modifications may not be compliant with Article 4 of the TAR Code given Ofgem's previous decision on Modification 621.
3. Some proposals include discounts to the non-transmission services charges which seems reasonable given the avoided cost based comparison described above. However, the capacity based solution does not. Given the lack of time until 1st October 2020 it might be necessary to implement one of the existing solutions at the same point as 678A and then propose another finessing modification at a later time.
4. The eligibility criteria based on distance is potentially arbitrary, but SSE does not have a more pragmatic solution other than an NPV avoided cost model which would be more complicated for Ofgem/NG to administer.

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

NG has a reasonable endeavours licence condition to publish tariffs at least 5-6 months ahead of time. This would allow the indicative charges published by National Grid to be an accurate reflection of the actual charges that will apply. The time will also allow for updating: customer contracts, capacity booking strategies, operating procedures, staff training and system changes. This is why SSE has requested a delay in implementation of 678A until October 2021.

Clearly if Ofgem decided to implement 0678A from October 2020 this will be even more challenging, due to social distancing and remote working however we would still consider it important to progress shorthaul arrangements in the same timescale.

Indicative charges and 'final' charges for exit capacity have already been published. Although if Ofgem issues its decision on 0678A during May then further, very different values will be published before the beginning of June. As there is insufficient time for any shorthaul proposal to be raised and implemented before the end of May the entry and exit capacity charges will not take account of any shorthaul arrangements.

Consequently, if shorthaul arrangements are implemented before the end of July, we understand the revenues required to support shorthaul will be included in the capacity-based revenue recovery charge. The analysis included in the proposals reflects a maximum uptake scenario and hence overstates the revenue for shorthaul due to the impacts of the eligible capacity rules. Setting charges on this basis will lead to an over recovery. To set charges on a more realistic basis National Grid will need to undertake a detailed assessment of each route, with a range of assumptions in order to determine the revenue recovery charge. Whilst we accept that this should be opaque to industry, it is essential to include this analysis in the proposals at an aggregate level when they are issued, to provide a more realistic assessment.

Our preference, would be for implementation of 0678A and shorthaul arrangements to be effective from October 2021, as requested by SSE to Ofgem due to the current COVID 19 working arrangements. The additional time would give more time to understand and refine the options and be more likely to deliver a robust enduring solution that does not prompt further incremental development whilst also providing a reasonable lead time for implementation.

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

The potential costs of inefficient bypass of the NTS are orders of magnitude more than the cost categories above. It is better to have Shorthaul users paying a contribution to the NTS than say an additional 10 % of revenue or £100 million/yr being levied on remaining customers, once private pipelines are constructed.

Legal Text: Are you satisfied that the legal text will deliver the intent of the Solution?

We have not reviewed the legal text as the modifications have been withdrawn.

The closing date for submission of your responses is **Friday 15th May**. Responses will be published as part of this discussion unless marked as confidential. Your response should be emailed to:

box.gsoconsultations@nationalgrid.com