National Grid Gas Transmission Stakeholder ENGGagement Consultation

There are a number of areas where our stakeholders have asked us for further explanation, or we would like to discuss a topic in more depth with stakeholders in order to be able to develop our business plans. We would welcome your thoughts on the questions listed below.

We request that you provide your answers by **5pm on Friday 18th November**. Responses received by this time will be taken account of in our business plan development. When responding can you please provide us with your name, contact details, the name of the organisation you represent and whether your response is confidential.

We have scheduled a workshop for 10th and 11th November, where we will be discussing the topics surrounding the questions below. We would be pleased to welcome you at this workshop where you will have the opportunity to discuss the topics below with National Grid staff, in order to aid your responses to these questions.

If you have any queries please email talkiNGGnetworkstransmission@uk.NGGrid.com or call Graham Frankland on 01926 653667 or Claire Spedding on 01926 655915.

Responder's Details

Name: Jeff Chandler

Organisation: SSE

Contact details: Jeff.Chandler@sse.com

Is your response confidential? /No

Business Plans

Q1. Did you find our business plan documentation easy to navigate?

No, I would expect it to be a subset of the National Grid Gas website. The emails with links were very helpful.

Q2. Did you find the content contained within our documentation easy to understand?

The documents are well written and explained detailed issues well. However, the detailed business plan is 180 pages long. This is excessive. This made filtering information from data too time consuming. I would expect a much shorter document which details & explains 1) What investments are forecast, listed individually. 2) The cost of these investments. 3) Uncertainty around the investment. 4) How uncertainty would be managed. All other supporting data should be in an appendix.

Q3. What did you particularly like/dislike about the presentation of our plans?

The detailed plan that is too long on and does not actually inform me in detail of what is being invested in and at what cost.

Q4. What improvements could be made in terms of content, structure or format?

See answer to Q2.

Q5. In terms of the business plans themselves did we represent your views and previous feedback correctly? And do you think we have incorporated it into our plans correctly?

This is the first presentation attended and feedback SSE has given.

Managing risk and uncertainty

Q6. Do you agree that uncertainty mechanisms should be employed to adjust allowed revenues where the associated costs are uncertain and outside

of our control? If not, what other mechanisms do you consider could be appropriate?

NGG claim that of the £ 6.2 bn investment plan they only have confidence in £1.6 bn. The remaining £4.6 bn is driven by external uncertainties. SSE has no transparency from the Business Plan of how these costs are derived and what they will be spent on. As a result we are not well placed to comment in detail and only on general principles, SSE are surprised that NGG use a price control re-opener as a risk management mechanism. The purpose of the longer price control period was to provide greater stability for investment. Price control reopeners may not support this stability but could themselves add uncertainty. However, faced with the alternative of a higher risk premium we are supportive of some of the proposed price control re-openers.

NGGs' key areas of uncertainty, proposed uncertainty management mechanism and SSEs' comments on those mechanisms are listed below:

1. incremental Entry & Exit

   SSE do not agree that this should be subject to a specific price control re-opener. Revenue drivers are costed and approved by NGG and Ofgem prior to the User giving NGG a User commitment. Using this process, the User is taking the risk and exposure for NGG should be minimal. Where costs are incurred by NGG that are in excess of the revenue driver they should be subject to an economically incurred efficiency test before becoming part of the RAV.

   However, where specific planning issues have delayed or incurred extra costs then this could be subject to a price control re-opener. This would be conditional on NGG demonstrating that they have worked co-operatively from the start of any planning process with the developer/User.

2. Network flexibility

   SSE agree that this should be subject to a specific price control re-opener. The case for investment for non load and flexibility investment is still to be demonstrated.

3. Buybacks & constraints

   SSE agree that caps & collars are appropriate tools to be used. However, it is important that SO incentives are aligned with price controls such that rewards are not given twice for the same behaviour/actions.

Also, it is not clear whether the Income Adjustment Event mechanism has been considered to be rolled-over in the RIIO control period. If it has, it would be useful to understand how this process will fit within the proposed incremental capacity re-opener and capacity buyback incentives, such that another Canatxx type occurrence can be avoided.

Asset health

SSE do not agree that this should be subject to a specific price control re-opener. One would expect NGG, as a reasonable and prudent operator, to be able to monitor, select and optimise the assets that comprise the network. NGG are the expert monopoly provider who should know better than anyone else what is achievable. It would seem reasonable for NGG to take some risk in managing their core business,

IED

SSE agrees that the IED has to be complied with.

4. Real Price effects

SSE agrees that a steel price tracker with dead band and time lag is appropriate.

5. Critical National Infrastructure.

SSE agrees that this should be subject to a specific price control re-opener.

Q7. Do you believe that the range of the uncertainty mechanisms proposed is appropriate?

See response to the previous question.

Charging

Q8. Are predictability and transparency your key concerns in relation to charging? Why?

They are important but so is stability. Charges are important to SSE for two reasons:

1. to form part of charges for end customers. When SSE competes for new supplies charging costs are passed through in the contract rates . In this case predictability & transparency are important so that appropriate costs in the

short term can be estimated and passed through to end customers to maintain competitiveness.

2. when deciding where to build new infrastructure such as power stations or storage, In this case, stability of TO capacity charges are more important. Volatile charges mean that a site that was once competitive might not be competitive in the future. I understand from the stakeholder workshop that the potential change to NGG earning "fast cash" and "slow cash" for incremental investment will create even greater changes in annual revenues and therefore create greater charge instability.

Q9. Changes to tariffs can be caused through changes to the methodology that dictates how tariffs are calculated, changes to the inputs to that methodology and new products being offered. Which of these factors are of most concern to you?

Changes to the above factors should be minimised such that stability, predictability and transparency are maintained.

Q10. Charges are made up of a residual element, changes to which alter the charges all customers pay, and a locational element, changes to which change the relative signals between customers. The predictability of which of these elements is most important to you and why?

The locational element is more important as this alters relative competition.

Q11. Can we do more to help you understand and predict NTS charges?

Keep the methodology stable and state supply and demand assumptions in detail.

Q12. Do you have any suggestions as to how we can improve predictability/transparency?

Stability is more important for long life assets investment decisions than predictability and transparency.

Q13. Changes to the SO related costs can be caused by the cost of services required by the system operator or the number of those services required. How well are the SO related costs communicated to you?

SO incentives are now well monitored and reported. But SO costs are currently at historically high levels because of the effects of meter errors and UAG levels. This needs to be improved.

SSE understands that a number of different elements affect the neutrality pot and, therefore, final invoice items, we believe that a better explanation of the interaction between SO costs and invoiced charges would help SSE to understand the costs of SO services. A charging guideline/tutorial to the industry made jointly by National Grid and Xoserve may fit this purpose.

Q14. Our current understanding is that funding for the provision of incremental capacity will be provided via the TO control and therefore will be subject to the RIIO principles relating to fast/slow money. What impact does this have on you?

SSE understand that this will create greater price instability for annual TO charges because incremental investment will create varying annual revenues. This will lead to greater uncertainty and risk when making capital investment in the UK. Inaddition the front loading of costs , through, “fast cash” will be charged to existing customers. In the event that another Canataxx occurs, how will existing customers be protected?

SSE would also appreciate an NPV comparison of costs for the same investment under RIIO and TPCR to compare the impact of the proposed fast/slow money.

Network Flexibility

Q15. Do you agree or disagree that we should retain the investments in our plan that relate to supplies in Scotland?

The modelling assumptions and data are not sufficiently transparent. Therefore, SSE are unable to comment on the investment cost. Inaddition, SSE has no transparency or knowledge of the model used to reflect the capabilities of the network. In the past NGG have refused to share detailed findings of system modelling least they disclose constraints to the industry and expose themselves to buybacks Only Ofgem with its

understanding of NGGs network model and constraints will be able to comment in an informed way.

Q16. Do you agree or disagree with our proposal that for all other network flexibility investments we continue to do the initial low cost development work, to keep the investment option open. However, with a strong recognition that actual significant investment would only take place if our analysis/ further stakeholder discussion demonstrated that it was the right option (given the range of other rules and tools that might be considered?)

The modelling assumptions and data are not sufficiently transparent. Inaddition, SSE has no transparency or knowledge of the model used to reflect the capabilities of the network, Only Ofgem with its understanding of NGGs network model and constraints will be able to comment in an informed way. In light of this costs should be minimised and investment only made once Ofgem have granted approval.

Q17. Do you agree or disagree that our uncertainty mechanisms should provide the industry with sufficient comfort that investment will only go ahead if it has truly been shown to be the best option for UK plc., whilst also enabling options to be kept open at this time?

The uncertainty mechanism for managing system flexibility investment is a price control re-opener. This is appropriate because Ofgem will have the detailed understanding of proposals & authority to sanction the investment. NGG should ensure that shippers do not face inefficient network constraints. The level of investment in network assets needed to address such issue should ensure that the NTS has the flexibility required to reliably deliver gas under agreed scenarios. Financial allowances will have to be set accordingly to ensure that NGG will be fairly remunerated for the capital employed for the given level of risk.

Q18. How should we take the topics of wind intermittency and developing the 1 in 20 planning obligation forward as an industry?

SSE would propose the detailed reporting of assumptions and levels of spare capacity to be approved by Ofgem. This would then form a baseline model. Next, sensitivities of variable demand and variable supply sources would be tested.

Analysis of the impact this has for operation of the network would then be detailed. Plans to mitigate operational difficulties would need to be detailed. In the past NGG have refused to share detailed findings of system modelling least they disclose constraints to the industry and expose themselves to buybacks. Consequently, it must be up to Ofgem to approve the model, assumptions used and the output.

There should be the maximum possible coordination (subject to constraints of commercial confidentiality) between the gas and electricity control centres to ensure that NGG has as much advance warning as possible of anticipated significant changes in gas demand.

The 1:20 planning obligation should consider the views of the HSE.

Connections and Capacity Processes

Q19. What is most important to you – having capacity available in defined timescales or having a physically firm product?

Having firm capacity on an agreed future date is essential for the commissioning and cash flows for asset investment. This 38 month lead time is a condition of the existing licence in TPCR 4. Without a reduction in the rate of return under RIIO NGG should have the same obligations.

Q20. Do you agree that the development of a suitable connections process (such as UNC Modification 373) should be prioritised ahead of address the capacity process?

Yes. The capacity process although complex is codified and Users know what they have to do and what the obligations are on NGG. By comparison the connections process is ungoverned which means there is no clarity of process or timescale. This is a significant risk to UK security if supply. This lack of process compares badly with power where the connections process provides certainty. In power a User knows they will get a response from NGG within 3 months of a connections request.

Q21. What is your preference for taking these discussions forward for future development? Through a transmission workstream group, an alternative or new industry group, or via another route?

The Transmission workstream group 373 is nearly finished and should be allowed to complete its current remit. The Transmission workstream is the appropriate group for similar discussions to be raised. Other future changes can be made by industry participants at any time by raising a mod.

System Operator (SO) and Transmission Operator (TO) Interaction

Q22. Do you believe there is sufficient depth and long term certainty in the provision of commercial services to negate the need for large-scale physical reinforcements of the network?

SSE does not have a comprehensive view of the needs of the system, in terms of the type or amount of commercial services. Nor is SSE able to anticipate the level of market response to requests of commercial services.

However, we would expect commercial services to reduce the amount of investment that could be required. Comparison of offered long term commercial services and the alternative cost of investment will need to be carefully scrutinised by Ofgem to ensure the optimal outcome for customers.

Q23. Commercial solutions have the potential to create volatility charges, whereas investment solutions allow greater certainty. To what extent should this be taken into account in deciding on the optimal solution?

SSE does not agree that long term commercial services should prove to be less stable than investment. We would ask for evidence that long term contracts will not be suitable for providing certainty. Also, commercial services might prove to be more cost effective rather than network investment. Future load factors of CCGTs will be lower than current levels, building a network to manage peak demand will be expensive for an event that has low probability.

Q24. Should we consider investment to mitigate environmental impacts beyond that which is required by legislation?

No. NGG costs should be optimised to meet legal requirements and no more.

Q25. Should network security (including 1 in 20 obligations) be met through physical/asset solutions only, or should we consider greater risk through SO/commercial solutions?

We do not agree that physical delivery is less risky than commercial services. This is demonstrated in the way that NGG can use financial tools to manage the obligations of incremental entry capacity rather than just relying on physical investment, Applying this logic, then the use of long term commercial solutions should be considered for security obligations, where the costs are less than physical investment.

SO Incentives

Electricity procurement for compressors

Q26. Would in-house trading of the electricity Shrinkage requirement be appropriate for National Grid Gas, as Gas System Operator, to consider as a means to procuring Shrinkage electricity for the RIIO-T1 period?

If “in house “ trading refers to the ability of NGG to trade direct in the market then we are supportive. The market should be used as the source for meeting electricity needs as this will assist with maintaining liquidity in the power market.

Gas Balancing

Q27. What is driving these increasing levels of imbalance?

Unknown. It would be inappropriate to assume it is linked to the change in cashout prices in April 2011 as the changes were small in absolute terms.

Maintenance

Q28. Do you consider that a maintenance incentive would have value? If so, what behaviours should any incentive drive?

SSE has been raising the requirement for a Maintenance incentive for over 2 years. The incentive should discourage short term changes to the agreed annual maintenance plan unless the changes are mutually agreed by both parties.

The potential for bilateral contracts should be considered where incremental costs of moving to off-peak / weekend working may be shared with the consumer.

Future Engagement

Q29. What have you liked about our Talking Networks engagement?

That SSE has been offered the opportunity to be engaged with the price control at an early stage. We believe that useful suggestions have been made by the industry and captured by NGG Business Plan. We suggest NGG continues to engage with its stakeholders in this usefulway..

Q30. What could we have done better?

The business plan needs to be more succinct with more focus on the details of expenditure. The section on risk needs to be more explicit about what risk is already included in the TCPR 4 bench mark. For example it was not clear where the £0.5 bn of risk associated with user commitment for load growth is included.