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Dear Colin,

### **NTS GCD11 – Updating the Cost Inputs to the NTS Optional Commodity Charge Function**

Thank you for the opportunity to respond to the above discussion document. We have offered the high level comments below in addition to responding to the individual questions posed.

In summary we have concerns over the lack of formal governance, resultant level of industry engagement - albeit we recognise and appreciate National Grid's intent and efforts in that regard – and the timeliness of such a review in the context of other looming and potentially significant structural changes to the charging regime.

#### **Lack of governance**

We appreciate National Grid's intent to engage with industry to communicate the options being considered, their rationale and potential implementation timelines, particularly in light of the apparent lack of formal governance around this aspect of charging.

We recognise the prevailing current governance arrangements, such that a formal consultation process may not be necessary simply to update the cost inputs to the Optional Commodity Charge Function but we firmly believe that that is a governance failing that must be resolved. We also consider that the proposals in this document go further and are looking to determine an enduring methodology whereby such inputs may be varied in the future. Section 5.9 "Enduring Arrangements" references that the conclusions of this exercise will "provide a foundation upon which to adjust cost inputs to update future year's NTS Optional Commodity charges through amending the formula" and to that extent this would establish a fairly fundamental precedent going forward.

In turn this further highlights that lack of robust governance around these proposals. Had these arrangements been appropriately incorporated within the UNC then they would have been subject to those UNC modification processes. They would have undergone rigorous appraisal and review by industry that may have facilitated the identification of further potential impacts and implications, the opportunity would have been there for industry to raise and develop possible alternatives, and ultimately the proposals would have required formal approval by Ofgem – this regulatory oversight being an important safeguard allowing for the potentially significant implications for some users.

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## **Industry Engagement**

The UNC modification governance processes would also have better facilitated wider industry engagement. Albeit these proposals have been discussed and debated at the Transmission Charging Methodology Forum, and to that extent we have had the opportunity to follow their development, not all impacted parties may have been as closely involved. Attendance at the TCMF is often not that wide ranging and so that does not necessarily represent the widest industry engagement or exposure. Certainly Interconnector operators and industrial users, who are identified particularly as being impacted parties, do not appear to have featured at these meetings and so have not been party to those discussions.

We would have been more comfortable if the proposals and their possible implications had been more widely canvassed, perhaps via the Transmission Workgroup or some other bespoke stakeholder workshop.

## **Approach and Timing**

However, that having been said we also have serious misgivings over the piecemeal development and implementation of changes of this nature at a time when the future shape of the wider transmission charging regime remains hugely uncertain.

Ofgem's Transmission Charging Review is yet to conclude and the outcome of the development of the EU Tariffs Network Code remains far from clear in a number of significant areas, but with both still having significant potential to redefine the capacity/commodity charge balance. To a greater or lesser extent both currently envisage a far greater emphasis on capacity charging and a much diminished role for commodity charges, which may have resultant impacts on methodologies, charging functions and scale of charges.

Albeit neither of those has yet crystallised, the final outcome of both appears sufficiently imminent - if current timetables are adhered to - such that any immediate review of this nature should be deferred to allow those outcomes to be taken into account fully to develop a more holistic approach, recognising that changes in one charging area inevitably have consequential impacts elsewhere. Otherwise adopting a more disjointed approach runs the risk of further reviews being required to address consequential impacts or other unintended consequences, only creating the potential for further regulatory uncertainty and price volatility. Stability and predictability of charging continue to be of great significance to users.

The structure of the charging regime already faces the potential for major upheaval without adding another additional element such that now does not appear an opportune time to be undertaking such a review. As a result it would be premature to be implementing such changes now, particularly allowing for the scale of increased charges that some parties may face and the potential impact that that may have on some CCGT plants that may already be operating at the margins of viability.

Our responses to the detailed questions in the Discussion Document are provided in the Annex to this letter.

If you wish to discuss our concerns further then please do not hesitate to contact me.

Yours sincerely,

**Gerry Hoggan**  
**Commercial & Trading Arrangements Manager**

## ANNEX

### NTS GCD11 – Updating the Cost Inputs to the NTS Optional Commodity Charge Function

#### SCOTTISHPOWER RESPONSE

**Question 1: Do respondents prefer Option One or Option Two as the most reasonable approach, and most consistent with facilitating the relevant objectives, to update the underlying costs of the formula in an effort to bring the NTS Optional Commodity charge formula more up to date?**

As stated in the body of our response we would not favour implementation of this review at this time, so do not have a preference for either of these options. However, we would have thought that the simple RPI indexation that is quoted only for comparison purposes should have been given more substantive consideration as this also aligns more with National Grid Price Control arrangements over the majority of the period that the charge has existed.

**Question 2: Do you agree with the proposal to delay reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until EU TAR / GTCR is more certain?**

We agree with the proposal to defer reviewing the methodology / access and flexibility of the NTS Optional Commodity charge until the EU TAR and Ofgem's GTCR are more certain. However, we would extend that deferral to these current proposals to allow a more holistic approach. This would allow due account to be taken of the overall charging context and the place that the Optional Commodity charge may have in that, if any. To do otherwise would be premature and risk unintended and potentially significant consequences for some parties who may be adversely impacted arising from changes in a charge whose future may be limited.

**Question 3: Do respondents agree with our proposed approach on timescales for notifying a change to NTS Optional Commodity charges, following the same notice periods as for other NTS charges? If not what do you believe these should be?**

In the event that the proposed changes were to proceed we would agree with this proposed approach. We cannot see any rationale or justification for adopting a distinct or different methodology for notifications or notice periods in relation to this particular charge.

**Question 4: Do respondents believe 1 April 2016 is an appropriate implementation date? If not what do you believe the implementation date should be and why?**

Implementation that was aligned with others that may be introduced via the EU Tariffs Network Code and/or Ofgem's Gas Transmission Charging Review would appear appropriate, with October being the preference to align with the Gas Year.

**Question 5: Are there any elements that you feel we should take into consideration, or that you believe we have missed and should take into account, in the two options being considered for reviewing the NTS Optional Commodity Charge?**

In particular it would have been preferable for this proposal to have been taken forward within a UNC governance framework that we believe would have facilitated a fuller identification, consideration and analysis of further implications and impacts.