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Dear Colin,

NTS GCD11 - Updating the Cost Inputs to the NTS Optional Commodity Charge (OCC) Function

We have general comments to make before responding to the individual questions.

SSE is very concerned by the lack of Governance in this process that effectively gives National Grid the right to make material unilateral changes to charges without taking account of the impact on customers and the market. Changes to charges that affect customers should be subject to Ofgem approval before being enacted.

SSE are prepared to raise a modification proposal so that the OCC formula in the Transportation Charges Statement and the methodology for determining the parameters of the formula are moved into the UNC. This will improve Governance and fulfill our understanding of the intention of the Code Governance Review when Charging was moved into the scope of UNC. Shippers have long asked that all gas related Methodologies and Statements are included in the UNC to allow adequate governance. We believe that the formula in the Transportation Charges Statement should be moved into the UNC **before** the changes to the formula parameters are considered.

SSE thinks cost escalation options such as publicly available steel, labour and PPI/RPI indices need to be examined and an explanation given if they are to be rejected.

We require an explanation of how the parameters in National Grids' preferred options 1 and 2 formulae are derived because they are opaque and currently incalculable by Shippers.

It is likely that further amendments to the GB charging regime and UNC will be required to be compliant with the final EU TAR NC. We need to ensure that the proposed changes in this policy decision are consistent. If not we risk further un-necessary volatility as changes are imposed and then need to be changed a short while later. This uncertainty is not helpful to a competitive market and ultimately leads to higher risk premiums to give certainty of contract offerings, that ultimately impact on customers.

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?

SSE do not support implementation of either option.

There has been no description or explanation of how the inputs have been transposed into the parameters of the proposed formulae. This opaque process and incalculable model lacks transparency and is wholly inadequate given the impact on charges to customers. This will have an impact on customer costs in Ireland; further damage CCGT economic viability and make future E&P investment more difficult due to the negative impact on Beach /NBP Swaps.

It is unclear why steel costs have been used up to 2009 but not in the period to 2015, we think this needs to be explained. In addition, the pipeline sizes available under option 1 are too large for pipeline bypass applications to CCGTs and as such the inputs and methodology is not relevant.

To update prices we consider indexing the cost of steel and labour since 1998 would be more appropriate. As this is the cost that a shipper building an independent pipeline would be exposed to.

Notwithstanding this, The RPI cost escalation example included in the Discussion Document GCD11 may provide a more cost reflective assessment of the costs shippers will be exposed to than Options 1 and 2. We ask why the RPI cost escalation example has not been included as a formal option for consultation, as no explanation has been given in the Discussion Document.

Timeliness of investments; if the Shorthaul rate were now to be changed by going back over 18 years this could be considered a retrospective change and would devalue any historic investment decision not to build a private pipeline and to make use of Shorthaul. To avoid this type of retrospective risk in the future, building independent pipelines will be preferred, this means that costs for existing users of the NTS will increase as less throughput will make use of the NTS. To avoid this issue, any new updated Shorthaul formula should only be applied to new Shorthaul routes and not existing ones.

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?

Yes, this is clearly the right thing to do as a policy change driven by EU TAR NC or Ofgem's GTCR to remove commodity charges or materially reduce them will impact the usage of Shorthaul. Frequent and unnecessary changes to charges are unhelpful in offering stable prices to customers and as such we would prefer for only one change to the Shorthaul formula and principles once the EU TAR NC has been determined through Comitology and implementation into the UNC.

In addition, this will allow time for the methodology and charge function to be incorporated into the UNC.



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?

Considering this case and the impact it will have on existing bi-lateral contracts and the consequential impact on customers, it will be more appropriate to commence any changes in October 2016, at the start of the gas contracting year, rather than mid contract year in April.

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?

As stated above, to avoid adverse impacts on existing bilateral contractual agreements a 1st October implementation date would be preferred.

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?

As mentioned above, indexing the Shorthaul formula to the cost of steel for pipe and labour from 1998 to 2015 should be investigated as this is the cost shippers will be exposed to if they decide to build their own bypass network. Our experience at Peterhead and Marchwood CCGTs is that it is cheaper for developers to build pipes than it is for National Grid.

SSE advocate minimising changes to charges to ensure stability of charges, without stability customers are charged risk premiums. Therefore, we think there should only be one change to Shorthaul charges once the EU TAR NC has been implemented and transposed into the UNC.

Yours sincerely

Jeff Chandler
Head of Gas Strategy

Copy to: Rob Mills, David Reilly, Ofgem.