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Date : 11 December, 2009

Dear Debra,

### **NTS GCD 07: Optional NTS Commodity Tariff**

Thank you for providing Scottish and Southern Energy plc (SSE) with the opportunity to comment on the above Discussion document.

The Optional NTS Commodity Tariff (Shorthaul) is a mechanism that incentivises National Grid's (NG) customers to continue to use the NTS when it would otherwise be more economical for those customers to build their own pipeline. The financial contribution from the Shorthaul charges helps the wider industry by paying a component of the SO commodity cost thereby lowering the SO commodity charge to all Users.

It is important that the charge is cost reflective and does not disincentivise the continued use of Shorthaul which would have a detrimental impact on the cost efficiency of the network and on all Users.

NG has started to develop two options. We believe that these two options should be fully developed before one is chosen and the other rejected. In summary, the two options provide the choice between a historic method which has the cost of steel, as a key determinant of the charge. The second method apportions a percentage of the total SO costs.

At a high level, we think elements of the second option are more cost reflective; however, this view comes with important caveats. This is why all the options must be developed in detail before the final consultation is issued. Our concerns and preferences are explained below:

1. We cannot accept under option 2 that 'Shrinkage: Unaccounted for Gas' is included in the Shorthaul cost. The exit points that use Shorthaul are in close proximity to entry points and in no way make use of the whole network. By including all unaccounted for gas this is not cost reflective and consequently it is inappropriate to burden Shorthaul Users with this disproportionate charge.

2. The load factor of the exit point has a bearing on the cost of both options. In option 1, a 75% load factor has been proposed. This is a simplification as using the more cost reflective actual load factors will be difficult to administer. In option 2 a 40% load factor has been proposed for the individual exit points. We believe this unequal treatment does not allow a fair comparison of options 1 and 2. A 75 % load factor should be used in option 2 as this will be equally as reflective of the gas throughput at the individual exit point as in option 1. This will have the benefit of incentivising the continued use of Shorthaul and an efficient network, which the 40% load factor will not.
3. Provided the above changes are made, we believe option 2 a, b and c would be more cost reflective as they incorporate SO costs for an SO charge. The cost of steel in option 1 is not cost reflective of SO costs. However, it is an opportunity cost when a User decides whether or not to make use of the NTS or invest in their own pipeline. Therefore, it is understandable why this was derived and could continue to be used as a means of setting Shorthaul.
4. Stability and predictability of charges are important for decision making. Users will only commit to Shorthaul charges if future excess volatility can be avoided. If this cannot be managed then Users will invest in their own bypass pipeline. The charges under option 2 will be subject indirectly to regulatory oversight, whereas the charges under option 1 will be exposed to international steel prices which by their nature will be more volatile. However, it has not been made clear what the base price for steel is assumed to be and without this we cannot forecast charges for option 1.
5. In the event that the interpretation of EU legislation Article 13.1 Regulation 715/2009 prohibits network charging from being based on contract paths, would NG NTS consider the use of capacity charges for reflecting Shorthaul benefit? In the event that capacity charges are at a minimum level, SSE believe it would be necessary to implement negative capacity charges, as in Electricity, to give the correct locational incentives.
6. In option 2d the charges are arbitrarily split between the SO costs and the number of exit points. The number of exit points is irrelevant and makes this option the least cost reflective option in the discussion document. Unless a robust explanation for its inclusion can be given this option should be discontinued.

### **Consultation Questions**

**Q1. Do respondents consider the cost assignment under methodology option one or option two, to be most consistent with the relevant objectives? Do the methodologies;**  
**o Reflect the costs incurred by the licensee?**  
**o Take account of developments in the transportation business?**  
**o Facilitate effective competition**

Please see the points 1 to 6 above.

**Q2. Do respondents have any views on the appropriateness of the costs and parameters used in the derivation of the tariff under option one? Specifically;**  
**o The connection cost approach?**

**o The annuitisation period; 10 years, 45 years or other?**  
**o The load factor?**

SSE support the 75% load factor and an annuitisation period of 45 years, which will be consistent with other NTS pipelines. We do not support the connection cost approach for a minimum charge as this is not cost reflective.

**Q3. Do respondents have any views on the appropriateness of the costs and parameters used in the derivation of the tariff under option two? Specifically;**

**o Whether the minimum cost should be based on a connection cost approach or a proportion of the SO costs related to short-haul?**

**o Whether the SO costs associated with short-haul (34% for the indicative charges) should be set on an annual basis or fixed, based on a long term trend?**

We cannot accept under option 2 that Shrinkage: Unaccounted for gas is included in the Shorthaul cost. Nor do we support a 40% load factor. A 75% load factor should be used in option 2. This will then treat option 1 and 2 in an equal, way, the charge being based on the gas throughput at the individual exit point. We do not support the connection cost approach for a minimum charge as this is not cost reflective.

**Q4: Do respondents have any views on the application of the methodology?**

**Specific comments on the following are requested:**

**o Distance from the exit point to the ASEP – in the case of ASEPs with more than one SEP is it appropriate to measure the distance to the nearest SEP?**

Yes.

**o Load factor – is it appropriate to use a system load factor or an exit point load factor?**

In option 1, a 75% loadfactor has been proposed, we support this. This is a simplification as using the actual load factors which would be difficult to administer. In option 2, a 40 % load factor has been proposed for the individual exit points. We believe this unequal treatment does not allow a fair comparison of options 1 and 2. A 75% load factor should be used in option 2 as this will be equally as reflective of the gas throughput at the individual exit point as in option 1. This will have the benefit of incentivising the continued use of Shorthaul and an efficient network, which the 40% load factor will not.

**o Minimum charge – should there remain a minimum charge? If so, what level should this be set at? Should this be related to the exit point capacity (EPC)?**

A minimum charge is not necessary. The cost reflectivity of the charge should be a higher priority. We do not support the use of the connection charge for setting a minimum charge as this bears no relation to the cost of shorthaul charges and is not cost reflective.

**o Annual updating of charge – should the charge be updated in parallel with other transportation tariffs?**

There is an obligation to review the charge every year, this should be undertaken.

**o Application to multiple exit points from a single entry point – do respondents agree that the present default allocation rule should apply when the input allocations are below the output allocations?**

Yes, prorating allocations is an equitable solution.

**o Application at storage exit points – do respondents agree that the 'short-haul' tariff should not be applicable at storage exit points?**

Whilst storage sites are exempt from SO and TO commodity charges they should be exempt from Shorthaul benefits at exit.

**o Do respondents agree that the charge should only be applicable to the exit points that are connected between an ASEP and the next downstream compressor?**

This is consistent with excluding compression costs from the Shorthaul tariff under option 2. As such we support it, particularly as NG have advised that none of the sites that currently make use of Shorthaul will become ineligible in the future should this rule be introduced.

**Q5: Do respondents support either an implementation date of 1st October 2010 or an alternate implementation date?**

Early implementation should be sought where practicable.

Please do not hesitate to give me a call if you wish to discuss this further.

Yours sincerely

Jeff Chandler  
Fuel Strategy Manager  
Energy Strategy