

20 June 2023

**SSE plc**  
Grampian house  
200 Dunkeld Rd  
Perth  
PH1 3GH

## Charging Discussion Document GCD13 Existing Entry Capacity Contracts

Please find answers to the specific questions in the discussion document below, in summary given the short duration left for non-storage existing contracts, its prevalence since the development of the EU TAR NC, complexity of considerations and potential for unforeseen consequences our recommendation is for no action to be taken.

### When considering the impacts of ECs:

1. Do you agree that Existing Contracts are having a significant impact to Transmission Services Entry Reserve Prices?

This is not a new issue and was raised in modifications for decision by Ofgem prior to the implementation of the charging reform to implement the EU TAR NC. A higher cost for new entrant capacity may not necessarily have an impact on the price of NBP gas and therefore may not impact customers. A detailed review of the impact of existing contracts on NBP gas price should be the starting point. Until there is evidence that there is an impact then no action should be taken.

2. Do you believe there should be some remedy to limit/reduce/remove their influence?

No, we do not agree that a remedy is required until the previous point has demonstrated a requirement for change.

Existing Contract volumes are falling year on year with limited impact by 2028/29, aside from storage, which has less impact due to the 80% charging discount. Therefore, a solution that takes until 2025 to implement as indicated in discussions to-date will have limited benefit if any.

3. Should there be any treatment, different to the status quo, for ECs and how they are accommodated and charged in the Charging Methodology?

Compliance with EU TAR NC as transposed into retained law is a legal requirement, it is difficult to see how Existing Contracts can be treated differently in a way that is compliant. Compliance has been a key factor in all recent Ofgem determinations on transmission charging (modifications 621,678, 790). Given its importance compliance should be the starting point for the development of any option, early guidance here by Ofgem will avoid wasted effort by industry.

**SSE plc**

Registered Office: Inveralmond House 200 Dunkeld Road Perth PH1 3AQ Registered in Scotland No. SC117119.

Authorised and regulated by the Financial Conduct Authority for certain consumer credit activities.

[sse.com](http://sse.com)

On the options that focus on TS Entry alone:

4. Do you think any of these options provide a more suitable approach to Transmission Services Charging achieving an objective of more competitive TS Entry charges? If so, please include why this would be beneficial to competition.

We are reluctant to comment on options at such a high level until the issue of compliance has been settled. Any potential UNC modification must consider the Relevant Objectives in National Gas' licence, which include impacts on competition and compliance with EU Regulations.

5. Are there any other options or refinements / amendments / specific treatment within these options that should be considered and why? Given the complexity of charging, unforeseen outcomes are likely and refinements are likely to emerge during workgroups. It is important that the process is not rushed and that lessons are learned from previous charging modification developments where consequences were not modelled and further charging and market uncertainty was created.
6. Should there be any additional things to consider (e.g. capacity hand-backs)

If anything is introduced that fundamentally changes the arrangements for existing capacity holders then hand backs may need to be considered, but again this would add complexity and compliance questions.

On the broader approach to managing TS Entry charging as part of a bigger objective (e.g. making the UK more attractive to land Gas)

7. Are there merits in reviewing Transmission Services Charging on a broader perspective, recognising that this would encompass Entry and Exit?

EU TAR NC requires the methodology to be reviewed within 5 years of implementation. i.e. by May 2024, but the amendments contained in the EU Retained law Bill leave the requirements unclear. We await an Ofgem view on what is required.

Users can raise proposals to change the charging methodology at any time, but there does not seem to be an appetite from Users for further change to the transmission charging methodology as no modifications have been raised. What is needed is certainty and until this discussion document was raised the industry had stabilised after a period of very volatile charging arrangements. Again given the short lived nature of this issue, our preference is to do nothing.

8. What, if any, objective could this aim to achieve?

We await a view from Ofgem as to what is needed to comply with the TAR NC 5 year review, any other review should focus on the objectives related to modification proposals unless a SCR sets out a different approach.

9. Should a discussion and review of, for example, a change to the 50/50 split be a deliverable for any such review?

Absolutely not. The adverse publicity incurred by the industry of such a change would be very badly judged. At a time when media is reporting that Upstream oil and gas companies are making record profits to then exempt them from Entry charges and put the then missing money on to end customer bills at Exit, who are already struggling, should not be countenanced.

SSE does not consider that a change to the Entry / Exit split should be considered as an option to address the existing contracts impact on entry charges, due to the wider ranging consequences which would arise. The issue is a short lived one and the proposal to change entry /exit split is out of all reasonable proportion.

The split was specifically out of scope in the context of the transmission charging review and any move to increase the proportion of revenue recovered at exit would increase charges to customers, both gas and electricity, as reductions to the NBP price to compensate are not guaranteed nor can they reasonably be measured. Any change would not be quick to implement due to the wider issues that need to be considered and the risk of unforeseen consequences.

#### Overall

10. Assuming an initial conclusion that something should be done (subject to views) do Stakeholders agree that we should explore:

a) TS Entry only?

b) A wider scope i.e. Transmission Services as a whole?

SSE considers that do nothing should be considered as the first option. However, If some other route is progressed then compliance should be considered first to avoid using significant amounts of industry time on proposals which cannot be implemented.

11. Is there anything not covered in this initial review that would be beneficial to take into consideration to facilitate advancing discussions on optioneering selection / direction / development for 2024 and beyond?

No further comment at this stage

Yours sincerely,

**Jeff Chandler**

Head of Energy Economics - Fuels