

## Representation - Draft Modification Report

**UNC 0636 0636A 0636B 0636C 0636D**

### Updating the parameters for the NTS Optional Commodity Charge

Responses invited by: **5pm on 14 June 2018**

To: [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Jeff Chandler
<b>Organisation:</b>	SSE
<b>Date of Representation:</b>	11 June 2018
<b>Support or oppose implementation?</b>	0636 - Oppose 0636A - Oppose 0363B -Comment 0636C - Oppose 0636D – Oppose
<b>Expression of preference:</b>	<i>If either 0636, 0636A, 0636B, 0636C or 0636D were to be implemented, which would be your preference?</i>  None

<b>Relevant Charging Methodology Objectives:</b>	<p>0636:  <b>a)</b> Negative  <b>b)</b> Negative  <b>c)</b> Negative  <b>e)</b> comment</p> <p>0636A:  <b>a)</b>  <b>b)</b>  <b>c)</b>  <b>e)</b></p> <p>0636B:  <b>a)</b> Positive until 30 Sept 2019  <b>b)</b> Negative  <b>c)</b> Positive until 30 Sept 2019  <b>e)</b></p> <p>0636C:  <b>a)</b> Negative  <b>b)</b> Negative  <b>c)</b> Negative  <b>e)</b></p> <p>0636D:  <b>a)</b> Positive until 30 Sept 2019  <b>b)</b> Negative  <b>c)</b> Positive until 30 Sept 2019  <b>e)</b></p>
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**Reason for support/opposition/preference: Please summarise (in one paragraph) the key reason(s)**

**0636:**

The formula for determining the optional commodity charge uses an M value derived from the previous year's gas flows whilst suggesting that the formula itself would be more cost reflective. It is incorrect to suggest that the costs of building a pipeline fluctuate year-on-year subject to the previous year flow. Therefore the resulting optional charge cannot be cost reflective - hence is negative against charging RO a.

As the charge is not considered cost reflective it cannot be positive for competition and charging RO c, the impact will therefore be negative.

**0636A**

**0636B**

The use of RPI for indexation would seem to be positive for charging RO a, and as cost reflective charges are consistent with furthering competition this is also positive for charging RO c

## 0636C

See comments under 0636 in relation to M value.

As the charge is not considered cost reflective it cannot be positive for competition and charging RO c, the impact will therefore be negative.

## 0636D

The use of RPI for indexation would seem to be positive for charging RO a, and as cost reflective charges are consistent with furthering competition this is also positive for charging RO c.

**Implementation:** *What lead-time do you wish to see prior to implementation and why? Please specify which Modification any issues relate to.*

Sufficient lead time needs to be provided to enable parties to reflect revised charges in contracts from October 2018, which is when most contracts start or are renewed.

**Impacts and Costs:** *What analysis, development and ongoing costs would you face? Please specify which Modification any issues relate to.*

**Legal Text:** *Are you satisfied that the legal text will deliver the intent of the Solution? Please specify which Modification any issues relate to.*

**Are there any errors or omissions in this Modification Report that you think should be taken into account?** *Include details of any impacts/costs to your organisation that are directly related to this.*

## Please provide below any additional analysis or information to support your representation

SSE considers that Ofgem should undertake a regulatory impact assessment to more fully consider the wide ranging impacts of implementing any of these proposals, including customer contracts from October 2018, the impact on domestic customers, cross border trade, wholesale gas prices and electricity prices.

Ofgem should also consider the merits of implementing any of these proposals if it plans to approve any of the 621 proposals.

A review of the optional charge is appropriate but the timing of these proposals is unfortunate given the 621 proposals. The Joint Office outlined in its request for a 'View' that there is a governance vacuum in some scenarios as the 621 proposals would need to be amended, analysis rerun and justification re-written, and there is no provision for this once an FMR is submitted to Ofgem.

There are merits in some aspects of the proposals, but we consider it would be more useful to consider these as part of a more general review of 'shorthaul' arrangements

once 621 option has been implemented. SSE recommends suspending consideration of 636.