# Representation - Modification UNC 0790 (Urgent)

# Introduction of a Transmission Services Entry Flow Charge

**Responses invited by: 5pm on 06 December 2021**

**To:** enquiries@gasgovernance.co.uk

*Please note submission of your representation confirms your consent for publication/circulation.*

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|---|---|
| **Representative:** | Jeff Chandler |
| **Organisation:** | SSE |
| **Date of Representation:** | |
| **Support or oppose implementation?** | Oppose |
| **Relevant Objective:** | **d)** None<br>**g)** Negative |
| **Relevant Charging Methodology Objective:** | **aa)** None<br>**c)** None<br>**e)** Negative |

## Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

SSE does not support this proposal, as it is not compliant with EU TAR NC which now sits within UK retained law (Gas Tariffs Code (Amendment) (EU Exit) Regulations 2019). It is therefore assessed as negative for relevant objectives (g) and charging objective (e) for compliance.

The specific aspects of the modification that fail compliance are:

1. It does not set capacity based transmission charges to recover allowed revenue because it deliberately seeks to under-recover allowed revenue. (Art 4.3)
2. It applies a commodity charge not as an "exception" but on a deliberate permanent basis. (Art 4.3)
3. The commodity charge is not applied at interconnection points which will increase the level of cross subsidy between non-interconnection and interconnection points (IP) (Art 4.3 (b) iv)). The workgroup report shows how the revenue collected from IP will halve. The issue to be resolved is between new entrants and existing capacity but this modification will introduce other cross subsidy and distortion.

4. It applies a “commodity charge” to existing contracts which is specifically worded as not being allowed (Art 35.1), with only indexation being permitted. Ofgem previously determined against a capacity top up charge on existing contracts and we now see no difference between a capacity or commodity charge from a compliance perspective when both are specifically listed in Article 35.

**Implementation:** *What lead-time do you wish to see prior to implementation and why?*

SSE does not support implementation. If Ofgem wishes to consider approving this proposal we expect an Impact Assessment will be necessary due to the material nature of the change. This should consider the disconnect introduced between wholesale market prices that have already been hedged by prudent suppliers and shippers under the existing charging regime for the forward 2 year market period and priced into Customer contracts and tariffs.  And the change in charges and subsequent wholesale market price that will be introduced if this modification is introduced from October 2022. Indeed, to minimise wholesale market price impact and distortion to customer contracts a 2 year notice period should be given for this fundamental change, which questions the psuedo Urgent process used by NGG in progressing this modification.

**Impacts and Costs:** *What analysis, development and ongoing costs would you face?*

N/A

**Legal Text:** *Are you satisfied that the legal text will deliver the intent of the Solution?*

Not reviewed.

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

N/A

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

The different tariffs available to new entrants and existing contracts was well understood in previous modification reports for 621 and 678 and in ACER comments on Ofgem’s minded to decision for 678. The issue of existing contracts will decline over time as they expire, again this trajectory was well explored and understood prior to this modification being raised. It is unfortunate that deliberate mis-interpretation of UK retained law is being used to seek UNC change, when the correct approach would be to change the legislation and then the code.