

National Grid Gas Transmission Gas System Operator incentives Stakeholder Engagement Consultation

Responder's Details

Name: Jeff Chandler

Organisation: SSE

Contact details: Jeff.Chandler@SSE.com

Is your response confidential? / No

System Operation

Residual Balancing

Q1. Do you agree with our proposal to maintain the current Residual Balancing incentive structure of linepack and price performance measures in preference to a cost minimisation scheme?

Yes. SSE believe that the SO should continue to be financially incentivised such that any actions it takes on the day commodity market (OCM), are as close to the market price as possible and that daily linepack changes are minimised to ensure cost reflectivity and “polluter pays” principles.

We do not support the proposal to introduce an incentive based on the total cost of the SO’s balancing actions as we are concerned that it will create distortions in the OCM by encouraging the taking of actions that are not close to the market price and therefore would have an undue effect on cash out prices. We believe that the existing incentive regime has proven effective and created stability in the market, and as such, should remain.

However, we note that NGG has consistently outperformed its residual balancing incentive in each of the last 4 years and as such the incentive measures should be further tightened.

Q2. Do you support the proposed change to link price and linepack targets to market volatility and imbalance? If not, how do you consider a performance measure should be set?

SSE believe that the existing incentive regime has proven effective and created stability in the market, and as such, unless there is very compelling evidence, change for change sake should be avoided and the existing calculation method and parameters retained.

The basis of change suggested by NGG are based on limited data or unsubstantiated assumptions that need to be further justified before SSE can accept them. In particular, NGG have:

1. assumed that a 1:1 volume relationship exists between NGG trades & Shipper imbalances;
2. used a data set of only one incentive year to calculate the average shipper imbalance of 4.7 mcm/day and thus calculate a maximum daily value of £9240;
3. used an annual volatility rather than a percentage of on the day SAP price, which SSE believes will be less cost reflective.

Q3. Does our proposal of a daily maximum value (£9,240) represent a suitable potential reward for our residual balancing performance? If not, what value do you attribute to the Residual Balancing role?

A data set of only one incentive year has been used to calculate the average shipper imbalance period and thus calculate a maximum daily value of £9240. This period is statistically inadequate to then use in an 8 year price control. Also, it has been assumed that a 1:1 volume relationship exists between NGG trades & Shipper imbalances. SSE would need to see further evidence to confirm this assumption before supporting it. SSE therefore considers the value of £9240 to be excessive compared to the current combined maximum daily value of £4500 from the LPM and PPM incentives. It is unusual that an incentive payment should be doubled when no action is taken. In addition the daily sums will need to be subject to an annual collar to ensure an appropriate level of risk and reward. SSE consider the existing collar (-3.5 m to £2 m) should be continued into the new RIIO period.

NTS Shrinkage & Unaccounted for Gas

Q4. Do you feel it is appropriate to separate the baseline procurement of shrinkage from prompt purchases for changes to forecast levels?

SSE believe that utilising a fixed baseline volume at a forward reference price and ,once closer to the period of physical delivery, trading variable volume at a variable reference price could minimise volume forecast risk and associated windfall gains and losses. However, it must be recognised that any prompt price risk created by spot purchases will be passed through to customers. This reduced risk and cost that NGG will be exposed to should be reflected in lower SO incentive rewards. The proposed future incentive sharing, collar and magnitude of incentive payment have not been included in this consultation, and we need to see this detail. However, we would comment that NGG have consistently maximised their recent incentive payments for shrinkage at £5m/year which would suggest they are not sufficiently stretching.

Q5. Do you consider a rolling 9 month price reference period to month ahead of the delivery quarter sets a fair benchmark price for shrinkage energy procurement performance assessment?

SSE believe that a rolling 9 month reference price ahead of the delivery quarter sets a reasonable benchmark price for the procurement of shrinkage energy.

Q6. Do you consider the Traded Price of Carbon Adjustment alone provides an appropriate mechanism to incentivise the proper consideration of environmental impacts of compressor use?

SSE agree that the carbon price alone should be sufficient to incentivise an optimal use of compressors.

Q7. Are there suitable incentives to reduce UAG on all the appropriate industry parties?

No. The industry has incurred shrinkage and UAG costs of between £110 m & £150 m in each of the last 3 years. However, due to the single financial reporting method SSE are unable to tell how much is from UAG and how much is from own use gas & CV shrinkage. Therefore, SSE propose that the costs for Shrinkage should be reported separately from UAG.

SSE are disappointed that the industry and ultimately customers pay over £100m /yr for UAG and that NGG still maximise rewards through their shrinkage incentive payment structure. SSE do not consider this to be fair and in addition to the proposed licence condition we would want to see a further financial incentive placed on NGG where they incur a cost when UAG gas is above a certain level.

Operating Margins (OM)

Q8. Do you agree with our proposal to reconsider OM incentivisation following the OM services review?

SSE do not agree that that OM services and incentivisation need to be reconsidered and delayed. The industry has now operated the OM services tender for 2 years during which time a volume target and cost incentive have been in place. Up until now the costs have been on a pass through basis and we believe the time is right for the existing incentive mechanism to be implemented with a cost incentive of £16.5m and a volume target of 78.1 GWh. The cost collar incentive on NGG is fair in that it protects and rewards cost minimisation within a band of +/-£1m.

Greenhouse Gas Emissions (Venting)

Q9. Do you support our approach for the greenhouse gas emissions incentive and what value would you place on a greenhouse gas emissions scheme?

SSE do not agree that venting should be subject to a financial incentive but should be managed by a reputational incentive. NGG have a stated public objective to reduce greenhouse gases by 2050 as part of the de-carbonisation agenda. The venting

undertaken by NGG is ultimately driven by operational requirements even if required to meet an obligation such as safe operation of the NTS.

Timely Connections

Connection Offers

Q10. Do you agree or disagree that we should be incentivised to find new and innovative ways of delivering connection offers quicker than the timescales stated in the UNC?

SSE do not agree that connections should be subject to a financial incentive. The connections process developed in modification 373 codifies in the UNC the time required by NGG to offer a connection and where this is not possible a referral to Ofgem to determine extended timescales.

In time, experience will be gained of the new planning process and the speed with which new connections can be offered. SSE therefore believes a reporting and reputational incentive would be more appropriate. Depending on the results a future modification could then be raised by an interested party.

Capacity Delivery

Q11. Do you agree or disagree that a reputational incentive is appropriate to encourage National Grid to optimise the activities from signature of a bi-lateral contract to capacity application readiness, where applicable?

Detail on the capacity delivery process has not been developed and communicated. Until that time SSE offer these high level comments:

- SSE are supportive of a reputational and reporting licence requirement but are not supportive of a financial incentive due to the uncertainty around the process.
- On a broader note SSE are strongly opposed to any proposal to exempt incremental capacity release from Substitution as this may lead to stranded capacity and inefficient investment in the network.
- SSE have concerns about bilateral discussions that might not be transparent and as such would welcome details of the generic process that will apply to the industry. This concern applies to projects that are “transitional” in status.

Q12. Do you agree or disagree that a financial incentive should be introduced to provide flexibility to adjust obligated lead times where there is a user requirement?

The proposed process will have a lead time of 24 months provided a user commitment is given prior to October. However, this does not take account of non-October starts as requested in modification 376 nor flexibility as to when customers can signal a User Commitment. The proposed methodology curtails customer choice and will present a barrier to entry for new CCGT investment. SSE are not supportive of a financial incentive due to the developmental nature and lack of certainty around the capacity allocation process. At this time a reporting and reputational incentive would be better served.

Constraint Management

Q13. Do you support the principle that SO incentive targets will need to change to reflect the application of the TO uncertainty mechanisms?

At a high level we are supportive of the principle of TO uncertainty mechanisms having an impact on SO incentive targets. This is because NGG can build to manage incremental capacity or take commercial actions. However, there is insufficient detail to be able to comment on the proposals.

SSE are not supportive of the proposal to combine exit and entry capacity management actions to a single incentive. The act of combining will lead to the loss of targeted incentives on exit and entry which affect different customer groups and interests. In addition, more incremental exit capacity sites are expected in the future than entry and combination will lead to a lower level of risk for NGG than currently is the case because NGG are now exposed to operational exit buy-backs.

Q14. Do you have a view about what the relevant constraint management action price assumed within our modelling?

It has not been explained over what time period the proposed data: 1p/kWh for buyback options; 0.7p/kWh for locational sells and 1.6 p/kWh for locational buys was observed and calculated or how they will be varied in incentives over the 8 year RIIO period. SSE are therefore unable to comment on the suitability of the data and NGG will need to provide more clarification.

Market Facilitation

Demand Forecasting

Q15. What aspects of demand forecasting do you use in your decision making and value the most (e.g. forecast times, components of demand etc) and how do you expect your requirements to change over the RIIO-T1 period?

SSE note that NGG have consistently beaten their demand forecasting incentive target and consideration should be given to further tightening of the incentive.

The day ahead forecast is the most important because this is used to measure the imbalance cashout positions of Shippers by NGG. Forecasts from D-7 to D-1 may be of interest but they must not detract from the accuracy of the D-1 forecast.

Q16. Do you agree or disagree that the absolute forecast error is a more appropriate way to measure forecasting performance than the error as a percentage of demand?

SSE support the proposal that an absolute forecast error is a more appropriate way of measuring forecast error rather than as a percentage of demand. We are also supportive of combining this with seasonal targets. This will reflect the financial costs that larger forecast errors will have in the Winter when gas is typically more expensive.

Q17. Do you agree or disagree that the incentive target should reflect the level of demand volatility in the market?

Overall levels of demand volatility should stabilise as demand alternates between CCGT and Storage injections as wind generation alternates between no wind and windy conditions. However, SSE supports the continued monitoring of demand volatility and the source of the volatility by demand type. If there is a consistent pattern then an uncertainty mechanism to reopen the demand forecast incentive or an adjuster mechanism could be considered. However, at this time we remain unconvinced of the need for a retrospective adjustment to the incentive.

Information Provision

Q18. Do you agree that it is appropriate to replace the current financial incentive scheme with a reputational incentive? Yes. Focus should be given to

data being updated quickly and systems being available at times of system stress. i.e. during times of GBAs.

Q19. Are there areas where we could provide more information that would contribute to the efficient operation of the market, bring benefits to stakeholders' businesses and the value they provide to their customers?

Provision of central reporting systems to support REMIT and other EU driven requirements would be useful.

Q20. Do you agree with our current approach to review information provision requirements with industry before seeking appropriate funding if necessary?

Yes. Although we are broadly happy with this incentive and resources should be focused on other areas where improvements are required.

Other New Incentives

Maintenance

Q21. Do you agree or disagree that the concept of maintenance days should apply at entry points?

SSE agree that maintenance days for entry points should be developed further.

Q22. How much notice do you require of maintenance scheduling changes?

Changes to the originally agreed annual maintenance plan can be forced by NGG by giving 30 days notice. This creates problems for customers because it is not possible to reschedule planned maintenance subcontracted to third parties within this timescale. SSE's request for a maintenance incentive is driven by the need to stick with the original maintenance plan unless it is mutually acceptable to change. We have found agreeing the original maintenance plan to work well, but changes by NGG have occurred for relatively trivial reasons: 9 to 5 working and no overtime which has resulted in loss of generation profits. We would structure an incentive that encouraged flexible working on both parties. i.e. 24 * 7 working and payment of compensation when maintenance was changed without mutual consent.

Q23. Do you support the introduction of a financial incentive scheme relating to the scheduling of maintenance? What value would you place on such an incentive?

SSE agree a financial incentive should be implemented that penalises a party when maintenance days are changed without mutual consent. The Incentive payment to customers cannot compensate for lost generation revenue as this will be too high but it should be higher than the cost of NGG working over time. This will ensure flexible 24 * 7 working is optimised, NGG are best placed to comment on a suitable value for overtime and thus the incentive payments.

Capacity Scaleback

Q24. Do you agree or disagree that an incentive relating to the restoration of scaled back capacity would maximise the level of non-firm capacity made available to the market?

SSE is not supportive of such an incentive. Maximising available capacity should be incumbent on the monopoly provider through the licence and a UNC code change can be raised to implement new policy.

Q25. Do you agree or disagree that linking the financial parameters to buyback cost assumptions is appropriate?

SSE is not supportive of such an incentive. Buyback relates to firm capacity and this relates to non-firm capacity.

Provision of enhanced services for NTS users

Q26. Do you agree or disagree that an incentive relating to the development of new services such as shorter notice periods or higher ramp rates may be appropriate in future?

SSE is not supportive of such an incentive. At this time it is too early to second guess what may or may not be required and no case has been made. The existing modification governance process should be used by Users to develop new services that might be required in the future.

Q27. What are your views on the potential interactions between an incentive and the network flexibility uncertainty mechanism?

The case for investment to manage network flexibility has yet to be demonstrated and will be managed with an uncertainty mechanism. At such time any possible relationship between the two could be investigated.