



Joint Office of Gas Transporters

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

12 March 2020

Dear Madam or Sir,

**UNC0716 - Revision of Overrun Charge Multiplier**

ESB Generation & Trading (ESB GT) welcomes the opportunity to provide our initial views on the **UNC 0716 - Revision of Overrun Charge Multiplier** modification.

We are supportive of National Grid Gas's (NGG) initiative to minimise impacts of the capacity reserve prices increases as a consequence of minded-to UNC 0678A implementation on overrun charges. However, we do not agree with the basis of the proposal, specifically, we do not see sufficient justification for using historical booking and overrun data as the baseline for setting the proposed multiplier. Overall, we do not see sufficient evidence to support the proposer's preferred level of overrun charges and multiplier values. Below we outline our key concerns with the approach:

- Historical data for capacity bookings against flows shows that most of the overruns were unintended and were within a reasonably tolerable level. It can be assumed that those overruns occurred due to administrative errors. In this case the level of the overrun multiplier will not affect Shipper actions, unless set at such a high level as to justify extreme measures to ensure errors never take place.
- More importantly, historical data was based on a completely different capacity charging regime with weaker incentives for shippers to book sufficiently adequate capacity in advance. Going forward, the charging regime changes significantly and the basis for behavioural assumptions should reflect this accordingly. We acknowledge that it is difficult to forecast exact shipper behaviour under the new regime. However, it is safe to assume that higher capacity charges will lead to a stronger incentive for users to book accurately.
- The modification and its proposed multiplier are aligned to the previous level of revenue collected from overrun charges. It is our view that it is an invalid reference point and needs proper justification. There is no evidence to suggest that the

current level of the multiplier influences Shipper behaviours or that today's position is somehow optimal and should be replicated.

- Furthermore, we note that when the original multiplier of 8x was set and used by Transco, it was based on Transco's allowed revenue, which was linked to the buy-back incentive calculation as well as capacity investment incentive. This was set at the peak of gas usage in both power and gas markets. It was reasonable to assume at the time that overrun capacity would signal an additional need for capacity, i.e. capital investment costs incurred by Transco for investment and reinforcement of the network. This assumption does not apply in the current market, where the gas network is expected to be increasingly under-used, with growing spare capacity and no investment requirements into further capacity are expected (as outlined by Ofgem in its minded-to position on 0678/A).
- In evidence of the foundations of the multiplier, Transco's National Transmission System Review of System Operator incentives 2002-7 ,consultation document notes the following:

*"3.23. Ofgem considers that it is important to include the potential revenue from overruns within the target level for the entry capacity buy-back incentive calculation. This is because a shipper over-running could be putting Transco in a position where it buys back entry capacity (as it is increasing flow at the entry point). As such, the charge that the shipper pays for overrunning should be used to offset the liability that it has caused Transco to incur."*

We acknowledge NGG's position that primary objective of overrun charges is to act as an incentive on Shippers to book accurately rather than a cost-reflective mechanism. Nevertheless, we believe that some kind of quantifiable justification for a level of revenue or a multiplier that is used as a basis for the calculation methodology is required. We would expect NGG to provide more evidence around actions, investments or impacts on its allowed revenue caused by capacity overruns.

- We are of the view that it is important to take into account gas-to-power interactions and the changing electricity capacity mix. As such, a high overrun multiplier can be penal to gas users that provide flexibility and security of supply to the power system and facilitate decarbonisation by providing reserve that can be flexibly dispatched in response to fluctuations in RES. We expect the overrun charge methodology to be reflective of wider system conditions and both gas and power requirements, and to facilitate development of new capacity products or seasonal adjustments to multipliers. For example, generators providing electricity flexibility may have far lower load factors and limited visibility of demand for their



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services. Instead of extending the current regime for multipliers, work is required to understand how the best outcome for consumers can be derived, in terms of cost and future energy system resilience, through development of capacity product duration, availability and pricing.