

Representation - Draft Modification Report UNC 0619 0619A 0619B Application of proportionate ratchet charges to daily read sites

Responses invited by: **5pm on 01 March 2018**

To: enquiries@gasgovernance.co.uk

Representative:	Hilary Chapman
Organisation:	Southern Gas Networks & Scotland Gas Networks
Date of Representation:	01/03/2018
Support or oppose implementation?	0619 Opposed 0619A - Support 0619B - Oppose
Alternate preference:	<i>If either 0619 or 0619A or 0619B were to be implemented, which would be your preference?</i> 0619A
Relevant Objective:	a) 0619A Positive b) 0619A Positive c) 0619A Positive d) 0619 0619B Negative

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

The current ratchet regime comprises a fundamental element of network management activities, upon which SGN has based its current approach and methodology. However, SGN recognises that the new settlement arrangements implemented by Project Nexus may result in domestic consumers becoming liable under the regime, and as such has raised 0619A as a pragmatic solution to maintain the existing arrangements where required whilst providing smaller consumers with the appropriate protections

The analysis undertaken by SGN during the course of the 619 series development, as provided within our modification, indicates that in the majority of cases the existing regime drives the correct behaviours in relation to SOQ management and as such should

¹ Ofgem, *Decision Letter 0551*,

<http://www.gasgovernance.co.uk/sites/default/files/Ofgem%20Decision%20Letter%200551.pdf> [Retrieved: 19/01/16].

not be diminished as proposed by 619 and 619B. However, we note that there is also evidence of repeated ratchets being incurred by the same parties or at the same sites and as such this suggests that there are certain circumstances in which the existing regime is not sufficiently strong to encourage the correct behaviours in every case. SGN has engaged with Ofgem and the Health and Safety Executive (HSE) to discuss this challenge and following our discussion with the HSE we are very clear that the current regime forms a key part of the arrangements set out in our safety case to operate the network safely and efficiently. Furthermore, the evidence we have presented concerning repeat breaches of the current arrangements by a small number of Shippers suggests that such behavior will need to be considered separately to investigate means of strengthening the incentive in such circumstances

In Ofgem's Decision Letter published 21st March 2016 rejecting a very similar proposal to 0619 -UNC Modification 0551¹ - OFGEM stated that an exemption from ratchet charges "*would not incentivise shippers to set their SOQ to their use when demand is at its highest and could result in network operators not making sufficient capacity available to meet demand in peak flow conditions.*" The latter point "*making sufficient capacity available to meet demand in peak flow conditions*", is a requirement under Standard Condition A16 of the Gas Transporters Licence – commonly referred to as the '1 in 20 test'. This test was formulated in consultation with the Health and Safety Executive and represents the standard to which we construct, maintain and operate our network with regard to the security of the system and the reliability of supplies therein connected.

As above it should be noted that the existing methodology for satisfying this licence condition has been developed and applied on the basis of the ratchets regime being in place to its full extent. The restriction of the ratchet regime is likely to result in a significant change in network management methodology being taken going forwards.

Furthermore, the above reference demonstrates the intrinsic link between SOQs and network capacity; the former providing effective market signals to inform the latter. This market signal is especially important on single-fed lines such as those commonly seen on the Scottish distribution networks.

UNC Modification 0619a acknowledges the need to exclude sites below 73,200kWh from the ratchet regime. SGN believes this is possible because due to the reliable weather algorithms that we have which allow us to predict domestic demand on the network with a high degree of accuracy. We note that some parties had previously indicated that applying ratchet charges to domestic supply points could become a barrier to moving these supply points from Class 4 into Class 2 hence why we believe this modification provides the mechanism needed to encourage the use of Class 2 that will result in the use of more granular data.

SGN is unable to support modification 0619 as the removal of ratchets will remove commercial incentives for Shippers to proactively manage their SOQ demands and to provide the networks with the correct demand data used in network modelling. SGN is able to cite the lack of engagement that we receive from Shippers during the annual Supply Point Offtake Review and Monitoring Process (Modification 0390) as the basis of

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<http://www.gasgovernance.co.uk/sites/default/files/Ofgem%20Decision%20Letter%200551.pdf> [Retrieved:

19/01/16].

our concern should Modification 619 be implemented. The implementation of 0619 has the potential to put at risk the security of supply of customers downstream of large users therefore we would encourage the authority to take this into consideration when giving their direction on this modification.

Similarly, we are unable to provide our support to modification 0619B due to the lack of supporting analysis provided within the modification. An assumption has been articulated in the modification that Shippers over-book capacity to avoid ratchet charges, however currently this has not been supported with any quantifiable evidence to help the authority to make an informed decision. An additional concern that arises from 619B is that the incentive to set SOQ's to the correct level will be reduced to a level whereby the parties experiencing a ratchet will only endure a corrective invoice for the capacity costs it avoided by setting the SOQ low. Lastly, SGN is concerned at the repeated statement of networks being 'unconstrained' throughout workgroup development - this has not been substantiated by the Shippers and we are able to demonstrate evidence to the contrary held on our network models.

Self-Governance Statement: *Please provide your views on the self-governance statement.*

SGN does not believe that 0619, 0619a or 0619b meet the criteria for self-governance as they will impact the commercial arrangements between Transporters, Shippers and end consumers if implemented.

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

Implementation should be as soon as practicable following an authority decision.

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

The Implementation of these modifications will incur development costs to the central systems in the region of £70k - £140k these costs have been estimated by the CDSP.

Implementation of 619 is likely to cause SGN to incur increased costs in respect of network analysis and monitoring, as well as potential reinforcement on sensitive parts of the network. The implementation of 619b is also likely to have a cost impact to SGN as it will allow Shippers to avoid the site works referral process and specific reinforcement for taking increased volumes of gas from the network.

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

SGN believes that the legal text provided would deliver the intent of the solution.

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.*

None identified.

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<http://www.gasgovernance.co.uk/sites/default/files/Ofgem%20Decision%20Letter%200551.pdf> [Retrieved: 19/01/16].

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

None to add.

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19/01/16].