

## Gazprom Energy Representation

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

1. **Consultation close out date:** 1<sup>st</sup> March 2018
2. **Respond to:** [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)
3. **Organisation:**  
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4. **Representative:**  
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5. **Date of Representation:** 1<sup>st</sup> March 2018
6. **Do you support or oppose Implementation:**  
We **Support** implementation of **Modification 0619**  
We **Oppose** implementation of **Modification 0619A**  
We give Qualified **Support** implementation of **Modification 0619B**
7. **Alternative preference:**  
Our **Preference** is for **Modification 0619**
8. **Please summarise (in 1 paragraph) the key reason(s) for your position:**  
We first raised the issue of penal Ratchet charges in our Modification 0571 0571A - Application of Ratchet Charges to Class 1 Supply Points (and Class 2 with an AQ above 73,200kWhs) which was withdrawn in May 2017 and replaced with Modification 0619. Our concern related to the continued operation of a penal regime in an unconstrained market which was evolving with the removal of Code services such as Interruptible and Network Sensitive sites and rollout of new technologies including Advanced and Smart Metering and the introduction of new Customer Classes as a result of Project Nexus going live on the 1<sup>st</sup> June 2017.

**Please summarise (in 1 paragraph) the key reason(s) for your position:**

UNC Modifications 0619 and 0619B both seek to remove the current penal ratchet regime, reflecting the fact that the gas distribution networks are now unconstrained after the drop in peak gas demand in recent years. Removal of this unnecessary penal barrier to sites transitioning to daily metered status will allow the market to take advantage of the rollout of advanced and smart meters into the market. The subsequent increase in the number of sites settled daily will significantly improve settlement accuracy, reducing Unidentified Gas.

It will also minimise the level of sterilised capacity in the networks caused by the prudent purchasing of capacity to avoid penal ratchet charges, likely reducing the level of unwanted investment in additional capacity at a time when the Networks are unconstrained.

We do not agree with the statement by the transporters at the workgroups that either UNC Modification 0619 or UNC Modification 0619B will result in an under-booking of capacity by shippers. Though its materiality will be less, there will still be a ratchet charge levied on shippers, who will then need to recover this cost from non-domestic customers. This will at the least result in a negative customer experience and in many cases the customer will challenge or refuse to pay the invoice. In our mind this places a clear incentive on shippers to ensure peak capacity bookings are and remain accurate.

When comparing the two modifications, our preference is for UNC Modification 0619 as it aligns the ratchet charge with the costs the customer should reasonably pay. Whilst UNC Modification 0619B reduces the level of the penalty there is still a penal 10% uplift applied which does not seem to have any form of evidence base to justify it.

In addition the treatment of sites that breach the provisional maximum SOQ (which can be increased by the transporters) is more appropriate in UNC Modification 0619, namely that Customers are not continually penalised for breaching a limit they cannot control and be adjusted by their Shipper.

We do not support UNC Modification 0619A. The proposal seeks to treat customers differently simply based on the sites consumption. By affirming the status quo for those sites most likely to move to daily read status (i.e. with consumption above 73,200 kWh), this will sharply disincentives Customers to move to a more granular settlement class and so prevent the major benefits of daily read status from being realised. In addition it removes any form of control over the peak gas demands of most sites. We believe this goes against relevant objectives a),b) and c).

**9. Are there any new or additional Issues for the Modification Report:**

No

**10. Self-Governance Statement Do you agree with the status?**

All three of these modifications will have a material impact on shipper and customers and so should be sent to Ofgem for decision.

**11. Relevant Objectives:**

*How would implementation of this modification impact the relevant objectives?*

0619A Negative

0619A Negative

0619A Negative

**0619 0619B Positive**

**12. Impacts & Costs:**

*What analysis, development and on-going costs would you face if this modification was implemented?*

UNC Modifications 0619 & 0619B will remove a barrier to our Customers utilising the existing daily read service and so no additional costs will be imposed.

**13. Implementation:**

*What lead times would you wish to see prior to this modification being implemented, and why?*

The penal ratchet charges that Customers incur if they exceed their peak capacity is inhibiting the growth of the daily read regime and preventing the benefits of more accurate settlement from these sites being realised. This barrier needs to be removed as soon as possible.

**14. Legal Text:**

*Are you satisfied that the legal text will deliver the intent of the modification?*

We have **no** comments on the Legal Text provided.

**15. Is there anything further you wish to be taken into account?**

*Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or you wish to emphasise.*

No

**Q1: Please provide clear views and supporting evidence on the self-governance status of this modification focusing, in particular, on whether this proposal is likely to have a material impact upon competition in the shipping, transportation or supply of gas**

These modifications will reduce UIG error by improving the granularity of settlement for many sites. UIG was recently estimated in UNC Modification 0642 as around £13.5m a month. In addition it will also reduce the level of sterilised capacity that customers have to book to avoid penal ratchet charges.

**Q2: Respondents to provide a view as to whether or not this modification should be re-designated as self-governance**

See above, our view is that these modifications have a material impact and so should be sent for authority decision.

**Q3: Please provide your views on the self-governance status.**

We agree with the current position that these modifications do not have self-governance status.