

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

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

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

<b>Representative:</b>	Mark Rixon
<b>Organisation:</b>	ENGIE
<b>Date of Representation:</b>	01 March 2018
<b>Support or oppose implementation?</b>	Support 0619A - Comments 0619B - Support
<b>Alternate preference:</b>	0619B
<b>Relevant Objective:</b>	<b>d) 0619 0619B</b> Positive

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

OFGEM opined, in its letter in response to modification 0551<sup>1</sup>, that it supports the principle of ratchet charges. OFGEM stated: “Exempting shippers 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.”

However, in anticipation of the continued significant growth in smart meter technology and the expectation that overall gas demand will continue to fall, the current ratchet mechanism is increasingly seen as a barrier to market evolution, rather than an appropriate incentive mechanism for sufficient capacity levels at peak demand.

The ratchet charge should be set at a level which incentivises sufficient category 1 and 2 sites to book appropriate SOQ quantities and no higher. There doesn't seem to be any recent analysis on the appropriate level for this incentive charge. SGN did some analysis for its network, which was included in the draft modification report.<sup>2</sup> (Table 3) The frequency of ratchet events appears to be relatively static and many sites appear to ratchet more than once, which implies the current ratchet charge isn't the primary

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<sup>1</sup> <http://www.gasgovernance.co.uk/sites/default/files/ggf/Ofgem%20Decision%20Letter%200551.pdf>

<sup>2</sup> [http://www.gasgovernance.co.uk/sites/default/files/ggf/page/2018-01/Draft%20Modification%20Report%200619%200619A%200619B%20v2.0\\_1.pdf](http://www.gasgovernance.co.uk/sites/default/files/ggf/page/2018-01/Draft%20Modification%20Report%200619%200619A%200619B%20v2.0_1.pdf)

motivation for these sites offtake behaviour. As such this analysis doesn't provide compelling evidence that the current ratchet charge is set at the appropriate level.

We support modification 0619, which applies the principle of cost reflectivity, which we note was the primary motivation for Ofgem approving modification DCP 161 in the power market<sup>3</sup>. (DCP 161 has parallels with mod 0619.) We would suggest an annual review of the level of ratchets thereafter, increasing the level of the incentive if the current rate of ratchets deteriorated. However, if a more conservative initial approach is desired then our alternative preference is 0619b, again with an annual review of ratchets.

We support the motivation of modification 0619a, to put in place an appropriate level of incentive for smaller sites to provide accurate SOQ's, but we feel this should be extended to cover all class 1 and class 2 sites to provide a level playing field for all daily metered sites.

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

No comments.

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

As soon as practically possible to maximise market innovation.

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

No comments

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

No comments.

**Modification Panel Members have requested that the following questions are addressed:**

*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.*

No comments

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

No comments

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

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<sup>3</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2014/10/dcp161\\_d\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/10/dcp161_d_0.pdf)

No comments

**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.*

No comments

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

No comments