

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:	Lorna Lewin
Organisation:	Ørsted
Date of Representation:	01 March 2018
Support or oppose implementation?	0619 – Oppose 0619A – Oppose 0619B – Oppose
Alternate preference:	<i>If either 0619 or 0619A or 0619B were to be implemented, which would be your preference?</i> 0619B
Relevant Objective:	a) 0619A Negative b) 0619A None c) 0619A None d) 0619 0619B None

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

Whilst Ørsted are sympathetic to a review of the high level of ratchet penalties, we believe that significant negative knock-on effects would be generated by all three proposals in that none of them provide enough incentive on shippers to best manage their SOQ values, especially for weather sensitive sites. We therefore see potential in all three to introduce gaming, unfair practices and price volatility to the market.

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

We agree that given the potential significant negative impact of these Modification Proposals it is appropriate that they should be directed to the authority for a decision.

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

No lead time would be required

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

No upfront costs are anticipated. We believe additional costs may arise from instability in the market caused by less robust SOQ calculations if the penalty arrangement is weakened however we have not conducted any analysis to verify the impact. Such an impact analysis would also require an assumption of the level of movement to Class 2 that is difficult to quantify.

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

We are satisfied that the legal text meets the intent of each of the Modifications

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.

Mod 0619 – We do not support this Mod because there are likely to be unintended negative consequences that are difficult to quantify.

Class 3 and 4 Load Factors and therefore SOQs are set annually by the Demand Estimation Sub-Committee to reflect a 1 in 20 winter peak day demand. These SOQs in turn are used for transportation charges and fed in to setting transportation tariff dates. We believe that removing any penalty charge from the ratchet process could result in movement of weather sensitive sites to Class 2 solely to artificially reduce SOQs and therefore transportation costs because of either:

- a) Limited historical data that does not contain the rare 1 in 20 winter peak day.
- b) A view on how much less cold the coldest day is likely to be in the coming year in comparison to a 1 in 20 winter.

Secondary but important knock on impacts would be:

- i. Reduced transporter revenues and therefore added instability in the transportation charging regime as unit rates rise to recover enough revenue. This would be difficult to predict given the different SOQ setting methods that could be used by various shippers.
- ii. Misalignment of infrastructure investment which could eventually drive up costs for customers in some areas.

The combination of these impacts could ultimately reduce competition by driving the more scrupulous shippers out of the market.

Mod 0619A – We believe that excluding supply points with AQs less than 73,200 from the ratchet process risks leading to the I&C market cross subsidising the smaller supply point market and is anti-competitive. It will allow domestic shippers to have the advantages of a daily metered portfolio without facing any of the consequences for under estimating their usage. The fact that sites in this volume band represent a large percentage of demand with high weather sensitivity would tend to amplify the negative impacts of Mod 0619. An alternative might be to exempt these sites and possibly some other EUC bands from ratchets only if they accept the current formula based SOQ but we have not conducted any impact analysis on this idea.

Mod 0619B – We believe this still has the potential to influence behaviour in a similar but smaller way as 0619. This is because whilst a 10% penalty charge may be sufficient for the least weather sensitive loads, it can be smaller than the difference between a 1 in 20 year peak and a higher frequency peak for weather sensitive sites. We would support a more detailed analysis by Xoserve or an independent expert to determine:

- a) An appropriate penalty % level
- b) Examine whether different % penalty levels should apply to different End User Categories

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

The market impacts of all three modifications are too significant for self-governance to be a suitable solution.

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

As above.

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

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

None