



Your Gas Network

Cadent Gas Limited
Brick Kiln Street, Hinckley
Leicestershire LE10 0NA
cadentgas.com

Bob Fletcher
Joint Office of Gas Transporters
Pure Offices,
Room 64,
Lake View House,
Tournament Fields,
Warwick
CV34 6RG

Andy Clasper/Shiv Singh
Regulation and External Affairs
Andy.clasper@cadentgas.com
Direct tel +44 (0)7884 113385
Shiv.singh1@cadentgas.com
Direct tel: +44 (0)7580 999287

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Your Reference: UNC Modification Proposal 0619/0619A/0619B

UNC Modification Proposal 0619/0619A/0619B - Application of proportionate ratchet charges to daily read sites/ Protection from ratchet charges for daily read customers with an AQ of 73,200kWh and below

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification Proposals.

Do you support or oppose implementation?

0619 – Not in support

0619A - Support

0619B – Not in support

Relevant Objective:

0619 – d) Negative

Cadent believes that for the reasons outlined within the 'reason for support/opposition' section below, implementation of Modification 0619 would negatively impact on securing of effective competition.

0619A – a) Positive
b) Positive

c) Positive

Cadent believes that the existing Supply Point 'ratchet' arrangements for Larger Supply Points provides an appropriate incentive incumbent on Shipper Users to signal accurate demand requirements which assist Transporter Distribution Network Operators (DNOs) to operate their networks efficiently.

0619B – d) Negative

Cadent believes that for the reasons outlined within the 'reason for support/opposition' section below, implementation of Modification 0619B would negatively impact on securing of effective competition.

Reason for support/opposition:

0619/0619B - One of the tools DNOs use to manage their networks efficiently is the capacity referral process. Currently where a Daily Metered (DM) Supply Point requires additional capacity the Shipper User must submit a request to the Central Data Services Provide (CDSP), Xoserve and this is referred to the relevant DNO. The DNO will carry out the required analysis and if capacity is available it will be provided. Where requested capacity is not available, processes are in place to calculate the costs of pipeline reinforcement and, subject to the 'economic test', relevant reinforcement costs will be levied to the requesting Shipper User. This process ensures that loads which cannot be sustained are not offered and the customer pays, subject to the economic test, the specific reinforcement costs associated with their increased capacity requirement.

If the ratchet charge were to be removed Cadent believes there would be no incentive on the Shipper User to apply to the DNO for additional capacity as capacity up to the Provisional Maximum Daily Capacity (PMSQ) would be automatically provided (regardless of whether the capacity is actually available within the network). A consequence of this would be a potential cross subsidy in that 'specific' reinforcement costs which would previously have been payable by the individual customer would now be borne to all Shipper Users being 'general' reinforcement costs. Additionally, were a particular Shipper User's customer to follow the correct process and apply for and be charged for the required reinforcement for additional capacity but a second Shipper User in a similar circumstance simply 'ratcheted' their Daily Capacity thereby avoiding any such reinforcement costs, this would be detrimental to equitable competition.

We would highlight a comparison with the NTS Exit Capacity arrangements whereby if an Offtake exceeded its NTS Exit (Flat) Capacity entitlement for the day, then the Network would incur an Overrun penalty; however, importantly there is no automatic right to increased capacity holdings. In fact, UNC Modification 0381 'Removal of the NTS Exit (Flat) Capacity "deemed application" process' removed the automatic increase to capacity on the basis that it was 'inappropriate and unjustified'.

In addition, for Modification Proposal 0619 only, we note the undesirable position arises whereby a Supply Point may breach their PMSQ but the Shipper User would not be liable for the full Transportation Charge for that element of additional capacity.

DNOs have a number of mechanisms available to them to assist them in responding to potential capacity constraints, including the procuring of additional capacity or investment on the system. However, these measures are all 'reactive'.

0619A – Cadent acknowledges that it is unnecessary for Smaller Supply Points (SSPs) which are predominantly domestic properties to be captured by the current ratchets arrangements. This change therefore retains the ratchet principle for Class 1 and 2 Supply Points over 73,200 kWh, but does not create a possible disincentive for Shipper Users to utilise the Class 2 product for SSPs.

UNC TPD Section G5.3.3 sets out the obligations on the Shipper User to 'estimate the maximum offtake rate, in good faith and after all appropriate enquiries of the consumer and on the basis of reasonable skill and care'. These estimates are critical to the Transporter in their ability to accurately forecast levels of demand, forecasts which are also passed upstream and used by the NTS.

Table 1 demonstrates the consistency with which ratchets occurred during the winter period 2015/16. The data indicates that the arrangements are still required for Supply Points with an AQ above 73,200 kWh.

Table 1: Supply Point Ratchets incurred in 2015/16 Winter Period (all LDZs)

Year	Month	Number of Ratchets
2015	October	18
2015	November	29
2015	December	20
2016	January	39
2016	February	30
2016	March	23
2016	April	13
TOTAL		172

We also note that the evidence produced in support of 0619A suggests that the majority of Shipper Users provide accurate market signals in the form of reflective SOQs and that the prevalence of Ratchets can be confined to a subset of Shipper Users.

Self-Governance Statement:

We agree that these Modifications represent a material change and therefore should not be subject to self-governance.

Implementation

These modifications will require changes to central UK Link systems and therefore implementation should occur following consideration by the DSC Change Managers Committee.

Impacts and Costs

Other than the costs associated with implementation of the required changes by the CDSP, Cadent do not face any direct costs.

Legal Text

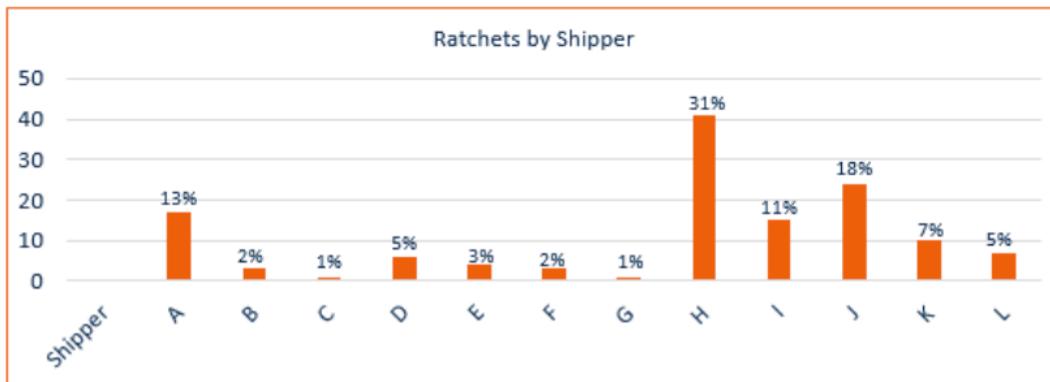
We are satisfied that the Legal Text provided meets the intent of each solution.

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.

Modifications 0619 and 0619B, if implemented, would be likely to have a material impact on competition; under current 'ratchet' arrangements there is varying ability among Shipper Users to register their accurate Supply Point SOQ requirement.

Table from Modification 0619A



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

The modifications should not be designated as self-governance

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

See above.

Are there any errors or omissions in this Modification Report that you think should be taken into account?

We have nothing further to add.

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

We have nothing further to add.

We trust that this information will assist in the compilation of the Final Modification Report. Please contact either of us on 07884 113385 (andy.clasper@cadentgas.com) or 07580 999287 (shiv.singh@cadentgas.com) should you require any further information.

Yours sincerely,

Andy Clasper/Shiv Singh
Framework Specialist, Regulation & External Affairs