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:	Andrew Margan
Organisation:	Centrica Plc
Date of Representation:	01 March 2018
Support or oppose implementation?	0619 - Oppose 0619A - Oppose 0619B - Support
Alternate preference:	*If either 0619 or 0619A or 0619B were to be implemented, which would be your preference?* 0619B
Relevant Objective:	**a) 0619** None **b) 0619A** None **c) 0619B** Positive

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

Introduction

Ratchets are a historical, non-cost reflective mechanism to incentivise large sites to book appropriate daily offtake capacity to protect the network from any under-booking risk.

Ratchet penalties are excessive and thus shippers book additional capacity headroom to protect themselves from these very expensive penalty charges. This is not good economic use of the system as it sterilises capacity and prevents it from being released into the market.

Post Nexus, ratchets are applied to Product Class 1 and Product Class 2 sites. Due to changes in metering technology daily read sites will include domestic customers, micro-business as well as medium sized industrial and commercial customers. We don't believe ratchets were envisaged to be applied to these smaller customer types.

Through the new Nexus arrangements, applying penal ratchets charges will act as an obstacle for any daily read customer, including Smart and AMR customers, being nominated into Product Class 2. Thus, the full benefits of attracting daily reads into the Nexus system will not be realised. The industry should be encouraging as many sites as possible, where commercially beneficial, to be nominated into PC2, as this results in improved data granularity.

Modifications Support/Opposition

Modification 0619 seeks to remove high penalty ratchet charges, should a daily read in Product Class 1 and 2 site breach its daily capacity offtake. The modification seeks to replace the penalty charge with cost reflective transportation charging back to the start of the gas year from the time the ratchet occurred. This is an important step to removing barriers for sites to submit more regular reads, without undue penalties being in place. Whilst we support this proposal in principle, we believe there are two unintended consequences.

Firstly, the back charge is limited under the Provisional Maximum Supply Point Capacity (PMSOQ) rules. Should an artificially low SOQ be submitted and accepted, and the site subsequently breaches its SOQ, the new charge might not reflect the offtake volume. This could allow for ‘gaming’ opportunities.

Secondly, whilst the proposal does have incentives on parties to set the SOQ to the correct level, we are concerned the incentives may be too low to encourage the booking of a reasonable level of capacity ‘head-room’ . Our concern is this could result in parties under-booking capacity. Collectively this could risk the safety of the network and may cause new network constraint issues.

Given the above concerns, we do not support the implementation of Modification 0619.

Modification 0619A, seeks to maintain the ratchet regime, but remove the charging for sites below the 73,200kWh threshold. In effect this proposal will remove ratchet charges for Small Supply Points only. It should be noted that Small Supply Points traditionally do not submit daily reads, although developments such as Smart Metering and the UK Link System Replacement Programme (Project Nexus) do enable smaller consuming sites to more easily utilise daily read services.

Given that in the near term most sites that will use Product class 2 are Large Supply Points, this modification does not address the fundamental concerns that ratchet charges are penal and by default not cost reflective.

Given the above concerns we do not support Modification 0619A.

Modification 0619B seeks to remove the unduly and unjustifiably high penalty ratchet charge and replace it with a more cost-reflective regime via a back-charge Transportation charge. Unlike Modification 0619, Modification 0619B does remove PMSOQ gaming opportunities and it ensures proportionate incentives are in place to mitigate the risk of under-booking. Modification 0619B achieves this by:

1) The solution is a simple invoicing change that applies the charge to the site specific off-taken volume regardless of the PMSOQ rules. Therefore, PMSOQ rules do not enable a 'gaming' opportunity.

2) Given that Product Class 2 sites can set their own SOQ volume, Modification 0619B ensures an incentive will apply, so sites continue to set their SOQ with some 'head-room', mitigating Transporter concerns of sites under-booking and risking the integrity of the pipeline system. In addition, the incentive will reduce the need for action by the Transporters to amend the customer SOQ/PMSOQ booking, plus it will reduce impacts on the CDSP to issue ratchet invoicing.

3) Modification 0619B introduces reporting to enable the monitoring of SOQ breaches. We believe this additional information will enable the gas industry to 'self-police' its own arrangements, which will enable any party to take subsequent action if the new ratchet charge regime is set too high or too low.

We believe Modification 0619B introduces a balance between ensuring ratchet charges are more cost reflective, but maintaining an incentive to ensure capacity is not under booked or 'gamed'. Therefore, we support Modification 0619B.

Relevant Objectives

Importantly, in addition to the above, implementation of Modification 0619B will facilitate increased nomination of sites into Product Class 2 and the resulting increased frequency of daily data provision will help customers manage their energy more effectively and help to identify unallocated gas costs more quickly.

Full utilisation of Product 2 and the use of more daily data would also help networks to manage their pipeline infrastructure more effectively. Failure to implement Modification 0619B will risk daily metered capable customers remaining in Product Class 4, which will result in more unallocated or un-reconciled gas volumes, which reduces the benefits of delivering Nexus.

Therefore, we believe Modification 0619B better aligns to Relevant Objective D, promotion of effective competition between Shippers, Suppliers and delivers the most benefits for consumers.

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

Given the likely material impact to shippers and customers, we believe an Authority decision is appropriate, so self-governance arrangements should not apply.

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

We support implementation being as early as possible.

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

None identified

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

We believe legal text aligns to the solution.

Modification Panel Members have requested that the following questions are addressed: *Remove Section if no questions*

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.

We believe the proposals are seeking to introduce charging that is more cost reflective. We believe this should have a material impact to competition.

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

We do not support the proposal being re-designated as self-governance.

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

Given the materiality of cost to shippers and some customers, we do not support self-governance arrangements for these proposals.

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

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

No