

Representation - Modification UNC 0725 (Urgent)

Ability to Reflect the Correct Customer Network Use and System Offtake Quantity (SOQ) During COVID-19

Responses invited by: **5pm on 13 May 2020**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Richard Pomroy
Organisation:	Wales & West Utilities
Date of Representation:	13 th May 2020
Support or oppose implementation?	Oppose
Relevant Objective:	a) Negative c) Negative d) Negative

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

We do not support this modification for two key reasons.

First because it does not recognise that capacity transportation charges support the provision of peak capacity in a Gas Year but are collected evenly over the course of the year so that Shippers do not experience peaks and troughs in transportation charges. This means that if implemented the modification would prevent the recovery of the revenue required to provide the capacity used earlier in the Gas Year and typically over the winter, rather than the summer.

Second because it introduces a concept of free and flexible reservation of capacity and this contravenes the existing arrangements for new connections or existing customers requesting increases in capacity.

We there believe that this modification is negative in respect of furthering relevant objective (c) Efficient discharge of the licensee's (Transporter's) obligations because we would be prevented from recovering the costs of providing capacity as set under our price control.

We also believe that it is negative in respect of further relevant objective (d) – competition between Shippers, because new customers and existing customers may be prevented from acquiring capacity that they wish to use.

For both these reasons it is also negative in respect of furthering relevant objective (a) Efficient and economic operation of the pipe-line system.

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

This modification could be implemented immediately following an Ofgem direction to do so.

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

WWU would experience a decrease in transportation revenue from those customers that made use of this modification. As the time for consultation was so short we have not been able to estimate this decrease from the data we have on Daily Metered Supply Points. The charging function is non-linear in SOQ so producing an accurate estimate is not straightforward.

Redacted information on revenue impact only provided to Ofgem.

We understand that the operations that Xoserve would have to do to make these adjustments are not straightforward and may require appreciable resource, we expect this to be a particular issue if the capacity reductions all have to be reversed for 1st October 2020.

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

The legal text was not available at the start of the consultation and was published on the second day of the three day period. We have not been able to review it.

Are there any errors or omissions in this Modification that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

We have the following comments.

Section 1 Summary

In the “why” section the modification states

“There is a precedent for short-term reductions in SOQ to reduce Daily Metered (DM) Supply Meter Point consumer demand during equivalent times of economic crisis, such as National Grid’s UNC Modification proposal 0275 - *Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage* (here) which was implemented during the credit crunch in 2009.”

Modification 0275 did two things

- 1) It removed the Bottom Stop SOQ on a temporary basis until interruption reform was implemented. The Bottom Stop SOQ meant that in some cases meant that a peak SOQ nearly two years ago meant that an SOQ reduction could not be implemented¹
- 2) It required a letter stating the reasons for the requested reduction.

Given that the Bottom Stop SOQ no longer exists as it was later permanently removed the justification of this modification 0725 on the basis that 0275 is somewhat misleading. Second if the proposer believes that 0275 is a useful precedent then we would have expected similar provisions regarding a letter of assurance.

Section 5 Solution

Business Rule 2 states that the capacity cannot be reduced to a level lower than the maximum between 1st April and 30th May or the date of application whichever is the earlier; however, it can be reduced to a level lower than reached on a date after 30th May. We realise that the intent of the proposer is to address an issue where demand has fallen but for a site where demand has risen after 30th May (the reason for mod 0724 that has recently been directed for implementation by Ofgem) it would potentially allow those sites to reduce their capacity, ratchet and then reduce it again continually. This could be rectified by removing the 30th May date from the business rule and not allow reductions below the capacity used between 1st April and the date of application.

Section 6 Impacts and other considerations

The consumer impacts section only focuses on Supply Points that wish to decrease their capacity and does not consider those that may wish to make use of the capacity released.

Section 7 Relevant Objectives

The modification asserts that relevant objective (a) is furthered and states:

“the timely and short-term relief offered by this Modification should help to avoid non-domestic sites disconnecting from the network, which would not be in the interests of the efficient and economic operation of the network, as it may lead to considerable underutilisation of the network in the longer term.”

The modification provides no evidence that there is a risk that non-domestic sites will disconnect from the network.

Our view is that the justification in the modification that this furthers relevant objective d

“as this will improve cost reflectivity between Shipper Users and their consumers by aligning capacity costs with actual system usage and hence furthering competition between Shipper Users”

¹ “As a consequence, in the worst case scenario the current process may result in the peak day winter consumption influencing the BSSOQ for up to 2 years.” Extract from page 2 of Final Modification report for modification 0275. <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/16%20December%202009%20Urgent%20Final%20Modification%20Report%200275%20v3.pdf>

is wrong as it does not align costs with system usage rather it allows system usage without full cost recovery because transporters recover the costs of peak system usage uniformly over the 12 months of the year as explain in the Additional information section of this response.

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

Capacity based transportation charges are recovered on a flat profile over the year as the feedback is that this is preferred by Shippers. Shippers are charged on for the maximum capacity used which with a very few exceptions is used in winter. If charges were levied at the time peak capacity was used or forecast to be used then charges would be much higher in winter and much lower in summer. This could be done but we expect that there would be considerable opposition to such a change. Since charges are recovered during the summer to pay for the capacity provided during the winter then allowing reductions in capacity in the summer would effectively mean that the capacity used earlier in the Gas Year was not paid for.

The modification allows capacity reductions to be automatically reversed on 1st October. Currently if a new connection or an existing customer that wishes to increase its capacity wishes to ensure that capacity is available at a future date then they can ask for an Advanced Reservation of Capacity Agreement. In return for reserving the capacity and therefore meaning that other customers cannot use it the customer agrees to guarantee to pay for the capacity for a period of time whether or not they make use of it. This proposal runs counter to that arrangement.

If the principle of free capacity reservation was allowed, customers might take the view that they could reserve capacity for free with no commitment. This could lead to hoarding of capacity leading to other customers having to pay for reinforcement that would not otherwise be required. WWU saw this sort of behaviour (in that case hoarding of entry capacity) when biomethane injection into distribution networks first started and had to take action to prevent it.

We are aware that on some networks there are customers that wish to increase their capacity but cannot without funding reinforcement. It seems unreasonable to deny these customers that may wish to increase their capacity the opportunity to use capacity released by another customer who no longer wishes to pay for it. This would mean that the capacity could not be automatically returned to the original customer on 1st October.

The modification has a provision that capacity is automatically returned to its previous level on 1st October 2020 and this applies even when there has been a change of Shipper. It is not clear how this Shipper is informed that this reversal will happen automatically, there is no mechanism for this to happen and therefore the new Shipper may suddenly see an increase in capacity that it may not have factored in to its discussions with its customer. We understand then many new Supplier contracts start on 1st October so we assume that this may not be a trivial matter.