Representation - Draft Modification Report

UNC 0716 0716A

Revision of Overrun Charge Multiplier

Responses invited by: 5pm on 09 July 2020

To: enquiries@gasgovernance.co.uk

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

Representative:	Riccardo Rossi
Organisation:	Centrica
Date of Representation:	9 July 2020
Support or oppose implementation?	0716 - Oppose 0716A - Qualified Support
Expression of preference:	0716A
Relevant Objective:	**0716** **a)** Positive **d)** Positive **0716A** **a)** Positive **d)** Positive

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

We support the need for change. With the new charging regime starting in October 2020 existing overrun penalties will be unduly onerous and would not reflect the costs incurred by the system operator to manage such errors.

The modified Overrun Multiplier regime should provide an incentive to book and manager capacity correctly over all timeframes, and at the same time strike a balance between (i) not unduly penalising clear operational errors and (ii) not providing scope for opportunistic behaviour at the expense of prudent system programming.

For this reason, we oppose to 0716 and we provide a qualified support to 0716A.

0716

We do not support the implementation of this Modification because the proposal based on historical revenues for National Grid from overrun charges is flawed: historical overruns are irrelevant to anticipate future behaviour, especially because of the shift to capacity-based charges and the removal of short-term capacity booking incentives.

We expect users to modify behaviour and attempt to minimise capacity costs by matching capacity bookings with anticipated flows. This means that compared with the current regime, we expect a greater number of overrun events in future, largely driven by operational errors.

0716A

We prefer this alternative because it would better reflect the costs incurred by National Grid to manage overruns and would be strike a better balance between point (i) and (ii) mentioned above.

However, we recognise that the Overrun Multiplier suggested at 1.1 might give scope to no regret opportunistic strategies. Given the higher cost of capacity bookings under the new charging regime, Users may choose to acquire interruptible capacity in case obligated capacity is abundant (widely expected). Interruptible capacity is priced at 0.9 of the firm capacity. In this instance, with the Overrun Multiplier set at 1.1 the risk-reward payoff for an interruptible-under-booking strategy would be symmetrical and likely insufficient to provide the correct incentive to book capacity to cover the anticipated flows.

With the objective of striking a balance with the need to avoid overly punitive charges, we believe that an Overrun Multiplier between 1.15 and 1.3 would be more appropriate.

Certainly, in case of future changes to seasonal factors and/or short-term multipliers, we believe that the Overrun Multipliers will need to be adapted.

Alternatively, an increase of the tolerance level could be also be considered as an option to manage upward variations to production late in the gas day e.g. last 3 hours. This may allow shippers with robust operations to be protected against less predictable events, however further analysis would be needed.

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

0716/0716A

The Modification should be implemented by 1st October.

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

0716/0716A

We see undue costs rising in case none of the alternatives are approved

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

No further comment

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.*

In neither the Modification there is an analysis of the interaction between the possibility to book interruptible capacity at a discounted tariff (0.9) and the overrun multiplier (1.1).

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

No further comment.