

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:	Paul Youngman	
Organisation:	Drax	
Date of Representation:	09 July 2020	
Support or oppose implementation?	0716 - Qualified support 0716A - Support	
Expression of preference:	<i>If either 0716 or 0716A were to be implemented, which would be your preference?</i> 0716A	
Relevant Objective:	<p>0716</p> <p>a) Positive</p> <p>b) None</p> <p>c) None</p> <p>d) Positive</p> <p>e) None</p> <p>f) None</p> <p>g) None</p>	<p>0716A</p> <p>a) Positive</p> <p>b) None</p> <p>c) None</p> <p>d) Positive</p> <p>e) None</p> <p>f) Positive</p> <p>g) None</p>

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

We are **supportive** of both proposals and **prefer UNC716A** as this option provides a proportionate solution that advances the relevant objectives. The workgroup agreed that altering the baseline overrun charging arrangements is a necessity due to the imminent introduction of postage stamp charges under UNC0678A.

We agree with the workgroup that maintaining the current multiplier based on eight times the prevailing capacity charge will lead to excessive overrun charges. The evidence presented to the workgroup showed that there was no pattern to overbooking or correlation to when there were either national or local constraints. The inference being that overruns were either for very small amounts of capacity, or the consequence of errors by parties that due to the absence of manifest error provisions in the UNC could not be rectified.

It is logical to conclude that without change, shippers will overbook capacity to reduce the risk of overrun charges. This would be both costly and inefficient, and would undermine the benefits of 678A. For instance, the IA for 678A assumed no overbooking and consequently assigning benefits to consumers based on the capacity being booked equalling flows on every gas day.

Moreover, given the generally higher capacity charges as a result of 678A, it is reasonable to assume that shippers will be incentivised to optimise capacity bookings and flows to minimise costs, without the need for a punitive overrun regime.

Both proposals provide some certainty for parties as to the overrun regime and below we highlight our position on each. Although there is a clear need to alter the baseline arrangements following approval of UNC0678A, we are not convinced that Overrun charges are necessary at all under the new capacity charging arrangements.

0716

We offer **qualified support** to the original proposal on the basis that it is an improvement on baseline arrangements and furthers Relevant Objectives (RO) A and D - in that it promotes more efficient and economic operation of the system through enhancing effective competition than the baseline arrangements. Without change, overrun charges would be excessive under the new postage stamp methodology. We were however unconvinced by National Grid's analysis and rationale for reducing multipliers based on the level of charges *historically* received, as it was accepted by the workgroup that there was no evidence that overruns were due to anything other than user-error / mistakes. If 0716 is approved, we believe it would only be a temporary solution and would expect proposals to come forward to reduce the multiplier further and enable a process to manage manifest errors.

0716A

We **support UNC0716A** and it is our **preferred option**. In common with the original proposal, the alternative is positive with respect to RO A and D - enhancing the operation

of the pipeline system by introducing an overrun mechanism that facilitates effective competition. 0716A compared with the original provides a more proportionate methodology that reflects the change to a postage stamp capacity regime. In our view, 0716A should drive more efficient booking behaviour than the original modification. In addition, we consider that the modification is positive against RO F - *promotion of efficiency in the implementation and administration of the Code* - in that it provides a solution that is likely to endure longer than the original solution.

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

Both proposals provide benefits for parties when compared with the baseline arrangements. If either is approved, it should be implemented in line with the introduction of UNC0678A. This is currently 1st October 2020. The overrun charge change is expected and has been clearly signalled to parties and it is understood will not require extensive changes to transporters or industry participants systems.

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

Without a change the baseline arrangements impose unnecessary risk and costs on parties, which will consequently incentivise parties to overbook capacity. 0716A provides ample incentive to ensure parties maintain the accuracy of capacity booking.

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

Yes, the legal text should deliver the respective solutions.

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.*

We do not believe there are any omissions or errors that should be considered.

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

The current multiplier, based on eight times the prevailing capacity charge, was introduced over 20 years ago and referenced against capacity charges that were (prior to modification UNC0678A) low in terms of p/kWh. The evidence presented to the workgroup showed no correlation between overbooking and system constraints, or any associated balancing costs. In our view, in a highly meshed network with reducing demand, available capacity, and no locational based capacity charges, there is no clear rationale for maintaining a punitive overrun regime.

Where an overrun mechanism is deemed necessary, it should not be excessive and should be targeted at driving efficient booking behaviour. Ideally any overrun charge should be equivalent to the greater of either the capacity charge, or any directly applicable commercial actions taken by the system operator as a direct consequence of the overrun.