

## 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](mailto:enquiries@gasgovernance.co.uk)

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

<b>Representative:</b>	Julie Cox
<b>Organisation:</b>	Energy UK
<b>Date of Representation:</b>	08 July 2020
<b>Support or oppose implementation?</b>	0716 - Support 0716A - Support
<b>Expression of preference:</b>	<i>If either 0716 or 0716A were to be implemented, which would be your preference?</i> 0716A
<b>Relevant Objective:</b>	<b>0716</b> a) Positive d) Positive <b>0716A</b> a) Positive d) Positive

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

Energy UK agrees that it is appropriate to review the overrun regime and considers that ideally this should have been carried out in parallel with the changes to the charging methodology under 0678A. However, we welcome the recognition and progress of this issue by the Capacity Access Review.

There is no known logic to the current 8x multiplier, rather it was a value chosen over 20 years ago and has not been changed since then. In this time the network has moved from a growth phase with some constraints, to being mostly unconstrained with declining demand. This rationale was used to support the Ofgem decision to implement

0678A postage stamp charging methodology. So it is appropriate to review the 8x multiplier.

The reform to transmission charging being implemented via 0678A will change the structure of charges with the vast majority of the revenue being recovered by capacity charges, leading to higher capacity charges overall particularly when the changes to charges for short term capacity products are taken into account. It is therefore reasonable to conclude that shippers will more actively manage their capacity bookings to minimise costs from October 2020.

If the overrun multipliers are not reviewed, the overrun regime may lead to inefficient capacity booking decisions. The 8x multiplier would give rise to potentially penal overrun charges and so would encourage booking a margin above intended use to reduce overrun risk.

It is also the case that an aspiration of the charging reforms is to promote bookings close to flows, as this is expected to deliver efficient outcomes overall. An overly penal overrun charge would conflict with this ambition.

Both proposals further the relevant objectives a) and d) the decision becomes which provides a better balance between ensuring the ticket to ride principle is maintained whilst avoiding a detrimental impact on competition. It is argued that most overruns are caused by human error by the proposer of 716A as there is no systematic benefit in overrunning and as such a higher over run charge will not incentivise improved performance. We agree with this view.

## **0716**

This proposal suggests entry and exit multipliers to maintain the same level of revenue from overruns under the new charging regime. We can see no logic to this as the revenue recovered from overruns will not be an influencing factor for operational decisions, particularly if most overruns arise from errors.

If this logic is thought to be robust then the multipliers should be recalculated now that the final reserve prices effective from October 2020 have been published and vary significantly from those used to derive the multipliers in the proposal. However, there is no mechanism to achieve this, so this logic fails.

## **0716A**

This proposal suggests multipliers of 1.1 consistent with the multipliers for other elements that feed into the derivation of the overrun charge in UNC TPD section B 1.12 and 3.13. This at least provides for some consistency and logic, particularly in a mostly unconstrained system, where overruns are unlikely to cause any system issues that require intervention from the system operator.

We therefore conclude that 0716A furthers the relevant objective d) better than 0716 by providing reasonable incentives to avoid overruns whilst avoiding potentially penal overrun charges which could have a detriment on competition.

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

**0716, 0716A**

If either proposal is approved, ideally the implementation date should align with that of 0678A, 1 October 2020.

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

As a Trade Association none

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

Yes

**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.*

Nothing to add

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

Nothing to add