

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:	Will Webster
Organisation:	OGUK
Date of Representation:	9 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:	0716 a) Positive d) None 0716A a) Positive d) Positive

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

0716

Modification 0716 seeks to adjust the penalty regime, recognising that the overrun multipliers had not been reviewed since their inception, over 20 years ago and acknowledges that “the historic reason for implementing x8 multiplier is unclear”. The modification seeks to maintain the aggregate level of incentive, in terms of total revenue collected, that currently exists based on the 8x methodology.

However, the level of previous overrun payments is not a good basis for an incentive system going forward since it is clear that previous overrun charges are largely the result of errors, rather than being the result of a premeditated booking strategy.

Likewise, the new charging regime will have an impact on capacity booking behaviours. There will also be a future link between the level of booking, the forward-looking FCC projections and future tariffs. This could lead to instability in charges if the current penal regime for overrun is continued or maintained at the current level. This potentially has a negative impact in terms of competition by adding to the risks and cost of market entry and leading to instability in tariffs.

More widely, overrun charges should be proportionate and cost reflective. The concept of a “penalty” is arguably no longer appropriate and furthermore shipper licences already set broad requirements on operators to “act in a reasonable and prudent manner in the use it makes of a relevant transporter’s pipe-line system for the purpose of the conveyance of gas”.

The proposal is therefore, at best, a limited improvement on current system in terms of the Code Objectives relating to system operation or securing effective competition.

0716A

Alternate 716A is a better basis going forward considering the other charges being made to the tariff regime which should:

- provide an incentive to accurately book required capacity, but to avoid being be unduly penal;
- recognise that (unlike the situation when the 8x multiplier was introduced there is generally surplus of capacity, and the provision of overruns is at no cost to NGG and does not disadvantage or undermine other market participants;
- be consistent with the cost of managing the NTS during a constraint.

The level of 1.1 for overrun Multiplier provides a good basis for the future tariffication system and can be reviewed on the basis of experience with the new system. It will avoid adding to the risks and uncertainties faced by shippers and, by extension, the costs faced by network users. Charges should, as a result, be more stable since capacity bookings will accurately reflect the use made and closely match anticipated flows.

There is a sound basis for the 1.1x multiplier as it is consistent with the multiplier already established in the UNC on the occasion that National Grid takes a Constraint Management Action.

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

0716A should be implemented by October 2020

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

Please see submissions from individual shippers and operators for additional detail.

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

No comments