

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:	Alex Nield
Organisation:	Storengy UK Limited
Date of Representation:	09/07/20
Support or oppose implementation?	0716 - Oppose 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) None d) None 0716A a) Positive d) Positive

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

0716

We welcome this modification in recognising the excessive level of overrun charges under the new charging methodology, and its attempts to re-balance the levels of charging.

However, we cannot support these proposals as they do not address either the impacts of changes in business behaviour under the new gas charging methodology, or the

effectiveness of the traditional way of charging for overruns in the current charging system.

In the current system, even with excessive charges for overruns, overruns still occur. As capacity prices are very low compared to the overrun penalties, there is no clear commercial incentive for businesses to overrun, and therefore these overruns must primarily be due to unexpected business errors.

Current processes for booking capacity, and matching against flows, require a high level of manual operational management and are inflexible, increasing the risks to businesses of more frequent overruns.

With capacity booking under the new charging methodology expected to move towards a just in time booking of capacity and matching against flows, these activities are likely to become more frequent and therefore more prone to manual errors, with excessive penalties only adding to the financial pressures on businesses trying to maintain efficient and cost-effective services.

0716A

In raising this Modification we support its proposed implementation.

As stated above in our response to MOD0716 our expectation is that shippers capacity booking habits will change, and it is likely more errors in matching flows to capacity will occur. The substantial increase in the reserve prices for capacity under the new charging methodology means the current method of penalising overruns utilising a high multiplier would see businesses charged potentially large amounts of money for what in most cases will be minor errors.

These excessive penalties for overruns will only harm the industry, by increasing financial pressures and risks on businesses, and creating a greater imbalance between businesses with differing levels of resources.

Contention for capacity on the National Transmission System is reducing as we transition to greener forms of energy, so a high overrun charge to deter the likelihood of excessive use of the network is also not indicated.

We therefore believe that a lower level of penalty (multiplier of 1.1) to that proposed in MOD716 would be more prudent and effective, in discouraging imbalances, whilst not resulting in sudden huge increases in cost levels for managing capacity and flows.

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

0716

1st October 2020 (as explained below)

0716A

We believe that with the increase in reserve prices for capacity under the new charging methodology and the expected changes in business behaviour resulting from this, that

this modification should be implemented in line with the implementation of Modification 0678A.

Therefore this should be implemented from the 1st October 2020. With this being a simple numerical change to the existing overrun charging method, we believe that this can easily be implemented at short notice.

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

0716

Although better than the current overrun charging levels, this would still see excessive levels of penalties hitting businesses for minor errors, and therefore potentially placing unnecessary strain and pressure on the financial stability and operation of industry members. This increased level of costs to businesses may result in higher costs for the end consumer.

0716A

This modification looks to bring overrun charges into proportion with other industry costs.

We believe that with these charges being proportionate they are unlikely to have a major impact on businesses costs and therefore unlikely to affect the consumer.

This will still provide a commercial incentive to avoid and minimise any overruns, whilst not excessively penalising the industry in a period of substantial change.

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

0716

Yes (as explained below)

0716A

This Modification represents a simple numerical change to the calculation of overrun penalties, and so therefore the intent of the solution should be fully supported by the legal text.

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.*

0716

This modification simply addresses the mathematical element of the charging, and does not take into account the following:

- the reasons for overruns
- the likely financial impacts of penalties on businesses

- the increased frequency and risk of overruns
- the high manual element of the capacity booking and matching processes
- the higher than expected capacity reserve prices for the coming gas year

0716A

We do not believe that there are any errors in this Modification.

This modification only alleviates some of the problems caused by the high manual nature of capacity booking and matching processes, and we would encourage further investigation into how these may be better automated and facilitated in the future.

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

0716

Please refer to the comparisons shown in the Modification 0716A proposals.

0716A

Please see the additional analysis as shown in section 11 to our Modification document, Modification 0716A (<https://www.gasgovernance.co.uk/0716>). This analysis shows the current trend for sites to over-book capacity to avoid overruns, and the reserve price increases under the new charging regime.