

## 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>	Jeff Chandler
<b>Organisation:</b>	SSE
<b>Date of Representation:</b>	08 July 2020
<b>Support or oppose implementation?</b>	0716 – Qualified 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)**

SSE agrees that it is appropriate to change the overrun regime following implementation of 0678A. Whilst we support both modifications, 716A is a better solution than 716 for the following reasons:

The current 8x multiplier is arbitrary and has been unchanged for 20 years. In this time the network has moved from growth with some constraints, to being unconstrained with declining demand. This was the key reason for Ofgem implementing the 0678A postage stamp charging methodology and therefore supports the change of the 8x multiplier.

The reform to transmission charging implemented via 0678A has led to higher capacity charges, particularly for short term capacity products. Consequently, Shippers will be more active in managing their capacity bookings to minimise costs and Ofgem recognise this in their Final Decision where they state “bookings will match flows”.

If the overrun multipliers are not reviewed, the overrun regime may lead to inefficient capacity booking. The 8x multiplier gives rise to very penal overrun charges and would encourage booking a “safety margin” above intended use to reduce overrun risk which may give misleading signals.

We agree that historical overruns are caused by human error as there is no systematic benefit in overrunning with the existence of zero priced capacity and as such a higher over run charge is unlikely to improve performance.

716 suggests entry and exit multipliers to maintain the same level of revenue from overruns under the new charging regime as the old. This is flawed logic, as the revenue recovered from overruns will not be an influencing factor for operational decisions, particularly as overruns arise from errors, given the previous availability of zero priced capacity.

716A 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 provides for consistency and logic, particularly in an 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 an incentive to avoid overruns and book capacity to match flows.

**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?*

#### **716**

Although better than the current overrun charging levels, this would still see excessively high levels of penalties and place unnecessary pressure on the financial stability and operation of industry members. This extra financial risk ultimately is passed to end customers.

#### **0716A**

This modification looks to bring penalties into proportion with other industry costs. Thus it provides a clear commercial incentive to avoid and minimise any overruns, whilst also helping the industry to match capacity booking and flows.

**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.*

N/A

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

N/A