

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:	Christiane Sykes
Organisation:	Shell Energy Europe Limited (SEEL)
Date of Representation:	9 July 2020
Support or oppose implementation?	0716 – 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) Positive 0716A a) Positive d) Positive

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

0716/ 0716A

SEEL supports the aim of both proposals to find a solution to the unintended consequence of disproportionately high penalty charges for capacity overruns, resulting from implementation of modification proposal 0678A Amendments to Gas Transmission Charging Regime.

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Moving to a primarily capacity-based charging regime, alongside fundamental changes to the gas charging methodology will lead to higher capacity tariffs and as a result, higher overrun charges for both Entry and Exit as these charges are based on a multiple of bid or application prices already accepted for parties / users acquiring capacity.

The consequential disproportionate increase in capacity overrun charges creates a perverse incentive on network users to book more capacity than they need to avoid incurring excessive overrun charges. In the worst-case scenario, this could lead to contractual congestion at some points on the network. Moreover, it jeopardises National Grid's ability to accurately calculate Forecasted Contracted Capacity (FCC).

We accept the principles behind 0716 to maintain the same level of revenue from overruns under the new charging regime but at the same time, recognise that the historic reason for implementing x8 multiplier is unclear so the rationale for keeping the same level is flawed. As identified by the proposer for 0716A and widely accepted in previous working groups, historical overruns are the result of User error rather than commercial or strategic choices.

Our preference is for proposal 0716A as we agree with the proposer that following implementation of 0678A, Users will place greater emphasis on minimising capacity costs by purchasing short term capacity products to match flows. We share their concerns that this shift in booking behaviour will reduce the "margin for error" and likely result in a greater number of overrun events in future. For this reason, we support an Overrun Multiplier of 1.1, consistent with the multiplier already established in the UNC on the occasion that National Grid takes a Constraint Management Action and better aligned with the core principles of overrun charges than those proposed under Modification 0716.

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

0716 / 0716A

To ensure shippers are not subject to penal and disproportionate overrun charges following implementation of 0678A and to ensure this does not adversely skew National Grid's ability to calculate FCC, it is vital that the proposal, preferably 0716A as the proposal that best achieves this objective, is implemented in October 2020.

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

0716 / 0716A

Should a User error occur, Network Users risk being faced with disproportionate and Penal overrun charges.

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

0716 / 0716A

Not reviewed.

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 / 0716A

We are not aware of any.

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

0716

Insert Text Here

0716A

Insert Text Here