

## Representation - Draft Modification Report UNC 0619 0619A 0619B Application of proportionate ratchet charges to daily read sites

Responses invited by: **5pm on 01 March 2018**

To: [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Emily Wells
<b>Organisation:</b>	Corona Energy
<b>Date of Representation:</b>	1 March 2018
<b>Support or oppose implementation?</b>	0691 - Support 0619A - Oppose 0619B - Qualified Support
<b>Alternate preference:</b>	0619
<b>Relevant Objective:</b>	a) <b>0619A</b> None b) <b>0619A</b> None c) <b>0619A</b> None d) <b>0619 0619B</b> Positive

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

Both UNC Modifications 0619 and 0619B address the current penal ratchet regime, which is unnecessary following the recent decline in peak gas demand resulting in excess system capacity. If implemented either of these modifications will result in increases in daily metered sites, improving settlement accuracy, and also reduce the amount of excess peak capacity that will be booked by customers to avoid penal ratchet charges. Both of these developments will improve cost targeting and so further competition. We do not believe that either modification will result in shippers ignoring their obligations to book appropriate peak capacity. A ratchet charge will still be levied and, particularly in the non-domestic market, those costs will be unrecoverable as they will be pass through costs that the customer will likely challenge.

By contrast UNC Modification 0619A will continue the penal ratchet regime for those customers most likely to move to Class 2, whilst removing any form of effective obligation to ensure appropriate peak capacity requirements are registered for the vast majority of

sites. Removing any form of ratchet charge from these sites does not further the economic and efficient operation of the pipeline (and if anything is probably slightly detrimental) and so does not further the relevant objectives a),b) or c).

**Self-Governance Statement:** *Please provide your views on the self-governance statement.*

All three of these modifications will have a material impact on the customers involved and will substantially change how the capacity bookings for some or all customers will be handled. UNC Modifications 0619 and 0619B will also reduce the level of unwarranted capacity booked by shippers in the market, so having a material impact on any new connections and level of additional capacity that may be required. These modifications should therefore be sent to Ofgem for decision.

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

The presence of a penal ratchet regime is inhibiting the adoption of Class 2 status by shippers. We believe that results in higher level of settlement error. To reduce the impact of this issue, we believe that UNC Modification 0619 should be implemented as soon as possible.

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

We do not expect that we will be required to undertake any form of significant development costs if any of these modifications are implemented, outside of taking account of revised ratchets costs when they occur. If we decided to increase the proportion of daily metered sites in our portfolio, we anticipate that we would see an increase in operating costs as we would continue to apply the same rigour to setting and monitoring SOQ values as we do for existing DM sites.

With regard to ongoing costs, Corona Energy, along with all other shippers in the market, is experiencing high levels of Unidentified Gas (UIG). A key driver to reduce the scale and volatility of UIG is to increase the use of meter reads in settlement, in particular increase the number of sites settled on a daily basis. If both UNC Modifications 0619 and 0619B are rejected then these large and unpredictable costs will continue, to the detriment of the market. Conversely if either is implemented, we would expect to see these costs diminish.

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

We have not reviewed the legal text.

**Modification Panel Members have requested that the following questions are addressed:** *Remove Section if no questions*

*Q1: Please provide clear views and supporting evidence on the self-governance status of this modification focusing, in particular, on whether this proposal is likely to have a material impact upon competition in the shipping, transportation or supply of gas.*

At present UIG error is estimated in UNC Modification to be in the order of £13.5m a month. This error is caused in large part by the preponderance of NDM sites in the

market. The major barrier to sites moving from NDM to DM is the presence of a penal ratchet regime. If removing these penal regime results in only 10% of sites (by volume) moving into the DM regime, this will reduce UIG volatility by 10% as these sites will now be settled daily on actual reads. This clearly demonstrates that these modifications have a material impact on the competitiveness of the market. We also believe there are potential cost savings for new connections as the level of sterilised capacity in the market will be reduced.

*Q2: Respondents to provide a view as to whether or not this modification should be re-designated as self-governance.*

See above, our view is that these modifications have a material impact and so should be sent for authority decision.

*Q3: Please provide your views on the self-governance status.*

We agree with the current position that these modifications do not have self-governance status.

**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*

NA

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

NA