

Representation - Draft Modification Report UNC 0806

Change to Curtailment Trade Price Compensation in Section Q

Responses invited by: 5pm on 19 August 2022

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Lauren Jauss
Organisation:	RWE Supply & Trading GmbH
Date of Representation:	18 August 2022
Support or oppose implementation?	Support
Relevant Objective:	a) Positive f) Positive
Relevant Charging Methodology Objective:	Not Applicable

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

We agree that the current compensation price for gas (30 day average SAP prior to a Gas Deficit Emergency) creates a significant disincentive for CCGT operators to buy gas and sell power in advance. The procurement of gas in advance is likely to better facilitate procurement and planning the delivery of LNG cargoes. The alternative is a higher demand for gas in the GB market arising in very short timescales before delivery which may leave insufficient lead time to be met by additional LNG deliveries.

The current arrangements have been designed to incentivise Users to provide Demand Side Response, by setting the compensation price so it is likely to be much lower than the actual value of the gas on the day of the interruption. However, this approach may not have delivered any benefits to date because DSR has not been used.

Meanwhile, if a CCGT operator has bought power and sold gas in advance, but the CCGT's gas supply is interrupted, the difference between the cost of the power that must be bought back at market price and the compensation price for gas is likely to be very high indeed. The risk of incurring the costs of being interrupted may therefore outweigh the probability of benefitting from hedging gas and power in advance, which is contingent on not being interrupted.

This risk reduces substantially if the compensation price is amended to the SAP price on the day prior to a Gas Deficit Emergency because it is likely to be more closely correlated

to the value of the gas on the day of the interruption and therefore also to the cost of buying back the power.

Whilst we support the development of suitable DSR arrangements, we believe purposefully setting the compensation price so it is likely to be much lower than the actual value of the gas on the day of the interruption is on balance detrimental rather than beneficial to competition and security of supply. Setting the compensation price to the SAP price on the day prior to a Gas Deficit Emergency would be a significant improvement to the current arrangements.

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

As soon as possible, to immediately reduce the disincentive to procure gas in advance for this winter.

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

None

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

Not reviewed

Modification Panel Members have requested that the following questions are addressed:

Q1: Do industry parties have any additional comments relating to impacts on CCGT and/or other I&C customers in respect of this Modification Proposal?

We agree with the proposer that the current arrangements that set the compensation price so it is likely to be much lower than the actual value of the gas on the day of the interruption creates a disincentive for CCGT operators to buy gas in advance, yet has not delivered any benefits in the use of DSR.

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.*

No comment

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

No comment