

Representation - Draft Modification Report 0571/0571A

Application of Ratchet Charges to Class 1 Supply Points (and Class 2 with an AQ above 73,200kWhs)

Responses invited by: **5pm 24 January 2017**

To: enquiries@gasgovernance.co.uk

Representative:	Andrew Margan
Organisation:	British Gas Trading
Date of Representation:	24 January 2017
Support or oppose implementation?	0571 - Support 0571A - Oppose
Alternate preference:	<i>If either 0571 or 0571A were to be implemented, which would be your preference?</i> 0571
Relevant Objectives:	a) Positive d) Positive f) Positive

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

Ratchets are a historic, non-cost reflective mechanism to incentivise large site capacity bookings to be accurate. In reality, to protect themselves from the very expensive penalty charges, customers book additional capacity. Failure of a customer to cushion against this penalty charge results in a windfall revenue for networks. This is not good economic use of the system and stops unused capacity being realised into the market.

Post Nexus it is planned that ratchets are applied to PC1 and PC2. Due to changes in metering technology daily read customers will include domestic customers, micro-business as well as medium sized industry and commercial customers. We don't believe ratchets were envisaged to be applied to these customer types.

Through the new Nexus arrangements and the introduction of product classes, ratchets probably should have been mapped to PC1 only. The unintended consequence of

applying ratchets to PC2 is it will act as an obstacle for any daily read customer, including Smart and AMR customers, nominating into PC2 and fully utilise the benefits of daily reads. The industry should be encouraging as many customers as possible to nominate into PC2, as this results in improved data granularity.

Modification 0571 removes the penalty ratchet charge and in doing so removes a significant barrier to the utilisation of more granular settlement classes. The removal of the penalty charge will be to drive greater utilisation of energy settled under PC2. This will result in more accurate consumption information, and allocation of cost, which in turn will reduce volatility associated with smearing factors and therefore ultimately reduce market risk premiums.

In addition the increased uptake of PC2 and the frequency of daily data will help customers manage their energy more effectively and help to identify unallocated gas cost more quickly. Full utilisation of PC1 & PC2 and the use of more daily data will also help networks to manage their pipeline infrastructure more effectively. Failure to implement Modification 0571 will risk daily metered capable customers nominating into PC4, which will result in more unallocated or un-reconciled gas volumes, which reduces the benefits of delivering Nexus.

Modification 0571A introduces a ratchet safe zone for sites below the 73,200kWh threshold only, in an attempt to protect domestic customers. Modification 0571A severely limits any settlement and allocation benefit listed above and it is also discriminatory towards domestic customers who consume more than 73,200kWh. Therefore we do not support Modification 0571A.

Some concerns have been raised that the removal of the ratchet charge will restrict a Transporter's ability to manage restraints on their network. Notwithstanding the greater use of PC2 will result in more granular daily read data, that will help Transporters manage their networks, Modification 0571 maintains the "overrun" mechanism. This will increase the customer SOQ and apply the appropriate charging to the customer should their capacity be under booked. As a result there is no gain to artificially reduce capacity, especially when considering the risk of losing the pipeline capacity. If concerns remain, the Performance Assurance Committee can monitor capacity booking activity and Modification 0445 allows for an 'incentive factor' above 1 to be introduced.

To ensure capacity does not get unnecessarily tied up by PC2 customers wanting to protect themselves from penalty ratchet charges, to ensure the full utilisation of all Nexus product classes, to ensure the industry operates with the most granular level of data to deliver settlement and allocation benefits and to stop a penal charge incorrectly being applied to small and medium sized daily read customers, we support Modification 0571 and recommend its implementation.

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

Considering the material impact to consumers, we do not support self governance and believe the modifications should be sent to the Authority for consent.

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

Confirmation as soon as possible is requested, so customers have as much notice as possible ahead of Nexus implementation to nominate into the most appropriate product class.

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

None identified

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

No issues have been identified

Modification Panel Members have requested that the following question is addressed:

Q: Respondents are asked to provide views on who they believe should fund the central implementation costs.

The modifications solution is to suppress Transporter ratchet invoicing for PC2 customers. This provision exists today, whereby Transporters may suppress the invoicing. Without a formal change to the contract and without agreement to the UNC, Transporters have taken a decision to de-scope this functionality to suppress a ratchet charge post Nexus.

As this modification only seeks to maintain an existing arrangement and the Transporters have made their decision unilaterally the cost of implementing this change must sit 100% with the Transporters.

Put simply – the Transporters have been paid by shippers to deliver Nexus. They must live with the consequence of their de-scoping decision and ensure the ability to provide a ratchet invoice suppression mechanism is maintained post Nexus.

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.*

None identified

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

None identified