

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:	Tim Hammond
Organisation:	Corona Energy
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)

Network Management Concerns

The ratchet regime is overdue for reform. When first implemented at the advent of competition, it was designed to deter shippers from underestimating peak daily offtake needs, as to do so would have potentially caused Transco (as then) issues when managing the network.

At the time when this regime was put in place, gas demand was substantially higher than it is today and so for the highest consuming sites, it was understandable to minimise system issues by incentivising the largest industrial sites to set an accurate SOQ

Since privatisation there have been two key developments that have rendered the current process obsolete. Firstly peak demand has steadily dropped so that the system is no longer as constrained as previously and so management of individual peak consumptions for sites is no longer important. Secondly, the number of daily read sites has dropped substantially from tens of thousands to a few hundred. The proportion of system demand currently subject to the ratchet regime is a fraction of what it once was. Despite this loss in visibility of peak demand, gas transporters have never indicated any concern that most large industrial sites are not daily metered and are instead happy to rely on an estimation algorithm to determine peak daily demand. In addition, at the advent of Project Nexus,

transporters will have no ability to require a site to become daily metered as the Network Sensitive Load process will be removed.

It is therefore curious that the gas transporters have raised concerns now over the fact that many sites that have no oversight of their peak gas demand would not be subject to the ratchet charges if they choose to become daily read; we would have expected some form of remedy to have been brought forward by now if these concerns had any merit. In any event both modifications leave the process for adjusting SOQ in place so ensuring that the SOQ is accurate if a site's SOQ is breached on a single day.

Considering it is proposed that the SOQ will still be increased if a site's consumption does exceed the registered capacity, far from being a threat to good network management, UNC Modification 0571 will address the current issue for daily read sites, where the SOQ is set artificially high to avoid the risk of ratchet charges. This results in an inflated view of peak demand, with higher network management costs ultimately paid by consumers. By contrast UNC Modification 0571A will not, except at the very bottom end of the market, and so this will mean it will not address this issue to any great degree.

Undue Discrimination between customers

Considering that there is no compelling need for a site to have its SOQ manually set from a network point of view (and penalised if it under-estimates it), there seems to be no reason why a site that is daily read (Class 2) should be exposed to a penal charge regime, when an identical site is not if it is non-daily read (Class 3). There is also no logic or justification for the clear discrimination introduced in the arbitrary dividing line which UNC Modification 0571A proposes; why would a customer with an AQ of 70,000 kWh not be a threat to the network's operation, but one with an AQ of 90,000kWh is?

Capture of remote meter reading benefits.

With the rollout of advanced and smart metering it is estimated that the gas and power markets will gain around £16.7bn in benefits, of which £839m is network benefits from *"better information on patterns of use across networks will aid network planning and development"*¹. A substantial portion of these benefits can only be realised if there are no penal barriers to customers becoming daily settled; the penal nature of the ratchet charge regime is the only substantial barrier that exists. UNC Modification 0571 removes this barrier, but UNC Modification 0571A, by significantly limiting the number of customers who can benefit from this change, significantly reduces the benefits of changing the current regime to the point where we believe it is negligible.

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

These modifications will have a substantial impact on the rollout of daily read functionality across the market and so require authority decision.

¹ BEIS document, SMART METER ROLLOUT COST-BENEFIT ANALYSIS, November 2016

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

UNC Modification 0571 must be delivered at the same time as Project Nexus so as to avoid delaying the rollout of daily read status to those customers who can benefit. We see no reason why the changes for UNC Modification 0571 cannot be delivered as part of Project Nexus, considering the straightforward nature of the solution.

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

The current ratchet regime will require CE to manage substantial numbers of SOQs for sites with low consumption, were we to attempt to capture the benefits of the AMR devices we have installed at a majority of our sites. The level of administration to manage such SOQs will be considerable and the level of financial risk associated with an SOQ is likely to dissuade us from reclassifying sites as Class 2, even if their consumptions levels approach the current DM threshold.

UNC Modification 0571, by removing this financial risk, will therefore result in substantial saving for customers as it will reduce the administrative burden of continually monitoring SOQs for large numbers of sites and allow large numbers of sites to move to Class 2, This will allow customers to capture the benefits of more frequent settlement. This will reduce risk in the market by improving cost apportionment.

UNC Modification 0571A, restricting its benefits to the smallest sites in the market will prevent these benefits from being delivered to those where it makes the greatest impact; SME and industrial sites with large consumptions. CE therefore sees no benefit from UNC Modification 0571A as the benefit for these smallest customers is negligible.

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

We have no concerns with the legal text.

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.

CE does not agree that either of these modification proposals will require an automated solution. Currently, a significant proportion of ratchet charges are manually suppressed by Xoserve on behalf of the transporters and these modifications simply require a change in the criteria for suppressing charges. Were the transporters to automate this process, there will be a net saving to the industry and so it will appropriate to credit shippers for the costs savings.

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

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

N/A