

## 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](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Colette Baldwin
<b>Organisation:</b>	E.ON Energy Solutions Ltd
<b>Date of Representation:</b>	24 <sup>th</sup> January 2017
<b>Support or oppose implementation?</b>	<b>0571</b> - Oppose <b>0571A</b> – Qualified Support
<b>Alternate preference:</b>	If either <b>0571</b> or <b>0571A</b> were to be implemented, which would be your preference? <b>0571A</b>
<b>Relevant Objectives:</b>	a) Positive – agreed as per workgroup report d) Positive - disagree (see response) f) Positive b) <b>Negative – see response</b>

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

I believe that relevant objective B is also impacted – negatively.

B) Negative – Exempting consumers from ratchet charges would not incentivise consumers to set their SOQ to meet their use when demand is at the highest and could result in network operator's not making sufficient capacity available to meet demand in peak flow conditions. This could result in inefficient operation of the pipeline system of one or more of the GTs.

There are really three questions here

1. If users can set their own capacity should they expect to behave more responsibly than those who can't, and;

2. Should all customers with daily reading capable meters be treated equally, and;
3. If customers can determine their own capacity, should they be subject to an incentive regime that helps drive the right behaviour and mitigate the risk to others network users.

In an ideal world all customers would be able to have as much gas as they need at whatever time they need it and there would be no detrimental impact on any other consumer in the market in providing it. However, Gas Networks are sized according to predicted demand – based on amongst other things a combination of historic usage and understanding the needs of their customers. Unreasonable and unplanned usage by individual consumers can place constraints on the ability of the DNO to continue to provide security of gas supply to all other users on their network.

Given the cost and the timescales involved in permanently increasing network capacity, ratchets are a control mechanism that are used to manage the networks' security of supply risks by exerting controls which provoke users to engage with the networks to collaboratively plan future demand requirements, ensuring that everyone's network access is protected.

UK Link Replacement together with advanced and smart meters reading capability provided an opportunity that has not existed before, access to a daily metered settlement product for even the very smallest of customers. Under the current network code rules, customer may only elect to be a DM customer in the event that their AQ exceeds 732,000 kWhs. (TPD S G1.5.6 (c).) Electing to become a DM customer today requires the customer to operate with all the existing rights and more importantly the obligations of a DM mandatory customer, including setting their capacity directly with their DNO. In future the settlement arrangements will not be determined by capacity, but by meter reading capability, however the customers at either end of the spectrum of this class can impact the networks very differently and it's appropriate to discriminate between them - the modification sets out why it is acceptable. Furthermore domestic sized customers would never expect to have the same detrimental impact on the network by exceeding their capacity that a large user may have. Domestic sized customers have no experience of determining their capacity needs, so having to set out the ratchet risk to domestic sized customers may result in customers being nervous about using heat when its particularly cold (and this may particularly impact vulnerable customers) or suppliers taking action to avoid the risk entirely by over stating capacity by a margin (which would be detrimental to the networks as it may lead to unnecessary work) and/or building in risk premia to customer contracts to provide for the ratchet risk. It's also not clear that a customer or their supplier can elect which settlement class the shipper may use and therefore the customer may not be able to avoid the risk.

Finally, in an earlier Ofgem modification decision –(Mod 551) Ofgem believed that removing the Ratchet charges incentive would not result in more accurate transportation charges, since Ratchets incentive the accurate determination of capacity, which results in more accurate transportation charges...removing the link between the booked capacity and the incentive would actually seem to be detrimental to relevant objective D.

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

Yes

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

If either modification is implemented, it should be coincide with Project Nexus Implementation.

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

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

**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.**

This is an incentive regime that benefits the network companies, by assisting them in ensuring that they are efficiently managing their network. If Ofgem believe that the continuation of the ratchet regime is not appropriate for Class 2 customers, then it would seem incongruous with that decision to penalise the customers to whom the charge no longer applies with the costs of system changes to give effect to that decision, especially given that the decisions on how the regime would operate was taken without any engagement of Users, or with regard to how it operates today.

It would appear that Xoserve and the GTs have built the system without the ability to exercise discretion on invoicing that they often applied under the current regime. It's likely that the "invoice first and query second process" will lead to more invoices being challenged, resulting in an increase in costs for all parties.

**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.*

Consideration of Relevant Objective B.

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