

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:	Shiv Singh								
Organisation:	National Grid Gas Distribution Limited (NGGDL)								
Date of Representation:	24 th January 2017								
Support or oppose implementation?	0571 – Not in Support 0571A – Not in Support								
Alternate preference:	<i>If either 0571 or 0571A were to be implemented, which would be your preference?</i> Neither Modification is preferred								
Relevant Objectives:	<table><tr><td>0571</td><td>0571A</td></tr><tr><td>a) Negative</td><td>a) Negative</td></tr><tr><td>d) None</td><td>d) None</td></tr><tr><td>f) None</td><td>f) None</td></tr></table>	0571	0571A	a) Negative	a) Negative	d) None	d) None	f) None	f) None
0571	0571A								
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d) None	d) None								
f) None	f) None								

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

Both the Modification Proposal and it's alternative have been given careful consideration by NGGDL. As a Gas Transporter, security of supply is of the utmost importance to ensure system integrity and to protect gas customers. In our opinion we do not believe either proposal better serves this interest and potentially, encourages inefficient behaviours with regards to increases in load and ultimately the effect of this on the Network.

As a Network Operator, having an integrated LDZ Exit Capacity regime in place facilitates our ability to maintain supplies to 11 million gas customers. We believe both Modifications to some extent, compromise the integrity of these arrangements.

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

We concur with the statement that, in both cases, these modifications should not be considered suitable for self-governance as they would have a material impact on the contractual arrangements between Suppliers and Consumers, and also on the commercial arrangements between Transporters and Shippers.

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

No implementation timescales are proposed.

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

We note that the proposed changes were not included in the Business Requirement Definitions (BRDs), which established the Project Nexus requirements. Consequently, our view is that as changes to these requirements, the Modification should be considered as User Pays and funded by Shipper Users, who would be the main beneficiaries.

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

NGGDL is satisfied that the legal text, as published by the Joint Office within the Draft Modification Reports, meets the requirements of the Modification Proposal and alternate.

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.

These modifications should be considered User Pays and funded by Shipper Users as they are the principal beneficiaries.

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.*

We have not identified any such errors or omissions.

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

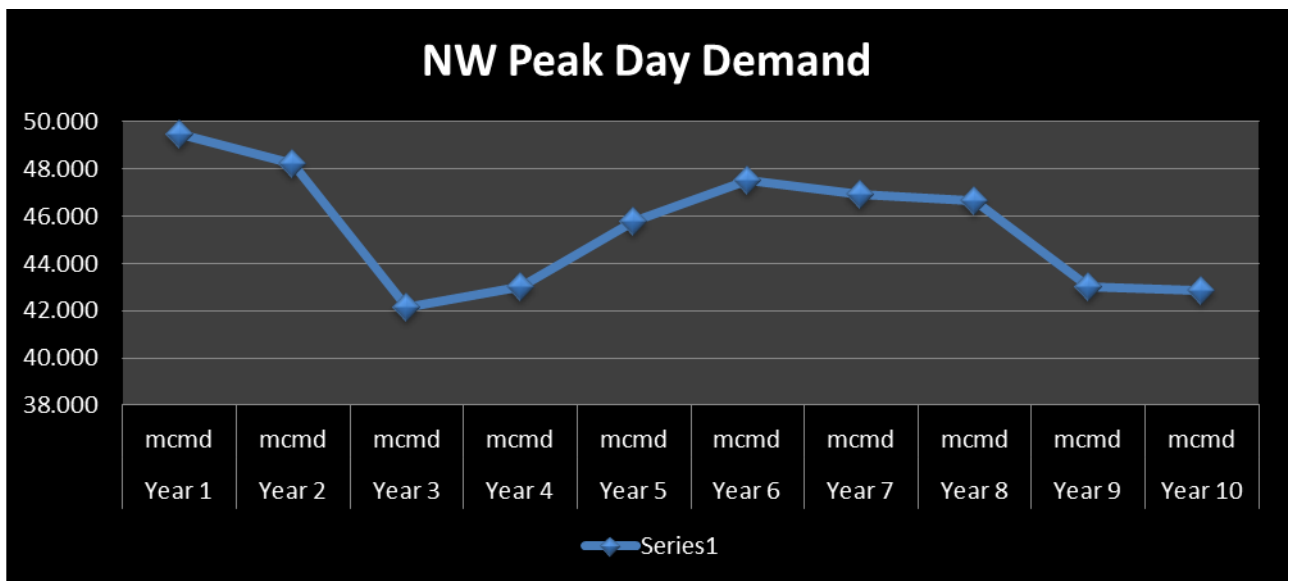
NGGDL encourages the use and development of mechanisms which support the appropriate behaviours of those customers wishing to increase their nominated loads. As a responsible Network Operator, NGGDL requires that any 'Daily Read' customer seeking additional capacity would utilise the established connections route to request Network approval.

However, we do understand that a breach cannot always be forecasted and therefore, prior approval cannot always be requested. As has been previously documented, this leads to a new, higher SOQ without any approval by the Network (which circumvents any associated investment which may be required on the gas Network). In certain circumstances this can lead to poor pressures which the cost of rectification would have to be passed on to all Shipper Users, rather than being borne by the Shipper User in question.

For these reasons, the use of a commercial incentive encouraging Shipper Users to accurately establish, monitor and remain within a nominated SOQ, is supported by NGGDL and forms a key component of the LDZ Exit Capacity Regime under the UNC.

Although the long term trend for the consumption of gas is downward, Peak Day demands can, and do increase from year to year.

Chart 1



The above chart demonstrates that Peak Day demand has increased 3 times over the last 10 years (this is representative across all NGGDL Local Distribution Zones).

The use of capacity management tools such as the Annual and Daily Exit Regimes, along with DN Interruption continue to play an important role in maintaining security of supply. These though, are part of the planning process and are forward looking.

The use of Ratchet Charges is an after-the-day event, which is designed to be a deterrent to a localised overrun. In a similar fashion to the NTS Exit (Flat) Capacity

Overrun (which incurs 8 times the Annual Exit Charge), the use of such an incentive has proved effective at encouraging the desired behaviour, so should continue to be used at MPRN level. We are concerned that removal of the charge would represent a dilution of well-established UNC arrangements and potentially undermines the effectiveness of these. Without the presence of the incentive, we believe little attention would be paid to the calculation of an accurate SOQ. We also believe that the approach taken in the alternative Modification potentially discriminates against certain categories of DM customer by selectively dis-applying the Ratchet incentive.

It should be noted that it is not only the larger Supply Points that potentially pose a risk to the Networks by overrunning. Smaller Supply Points that are situated on sensitive sections of the System can have a detrimental impact when taking higher than anticipated flows without authorisation.