

## 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>	Robert Wigginton
<b>Organisation:</b>	Wales & West Utilities 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> - Oppose
<b>Alternate preference:</b>	<i>If either 0571 or 0571A were to be implemented, which would be your preference?</i> <b>0571A</b>
<b>Relevant Objectives:</b>	a) Negative d) Negative f) Negative

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

Both Mod0571, and Mod0571a seek to exempt certain classes from the application of ratchet charges. Ratchet Charges incentivise shippers to make accurate determinations of capacity requirements. This result in more accurate transportation charges and facilitates Networks in their investment programmes and consideration of new connections. For the reasons given in the additional information.

Mod0571 is preferred as this modification retains the greater population within the scope of Ratchet Charges. Mod0571A effectively introduces a division in Class 2 which is effectively a new Class.

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

We agree that the Modification is not self- governance.

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

WWU would not require any additional time over that required to implement the required changes in UK Link.

**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 Solutions?*

Yes.

**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.**

Ratchet Charges seek to ensure that shippers accurately nominate capacity thus ensuring the most appropriate chargeable base is utilised. Therefore we are of the view that all parties benefit from these arrangements and therefore costs should be jointly met.

**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 noted.

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

In their decision letter for Modification 0551, Ofgem stated *'Exempting shippers from Ratchet charges would not incentivise shippers to set their SOQ to their use when demand is at its highest and could result in network operators not making sufficient capacity available to meet demand in peak flow conditions. This could result in the inefficient operation of the pipe-line system of one or more other relevant gas transporters.'*

We agree that there is a risk this may occur.

We have sympathy with the argument that Ratchets were designed for a constrained system and typically only included very large sites in their scope. The introduction of Class 2 is likely to significantly increase the number of sites classed as Daily Metered, and consequently subject to the risk of Ratchet Charges.

However, where a Shipper decides to move a site to Class 2 then they have to accept the responsibility to accurately predict their peak demand requirements and fulfil their obligations of using Class 2 as well as receiving the benefits. Removing any consequence to these sites from understating their needs may not facilitate effective competition between shippers. This is due to having a potential benefit from understating capacity requirements compared to those shippers who accurately nominate. This point was also reflected on by Ofgem in their decision letter for Modification 0551. Hence our view on Relevant Objective D being Negative.

The modifications in their current form provide no incentive to book an appropriate level of capacity at peak. As network charges are levied on peak requirements there is a risk that the chargeable base could decrease as sites knowingly reduce their requirements in the knowledge that should their peak capacity needs materialise to be higher there will be no additional cost. This conversely would require those customers who are not daily metered, currently including small domestic supply points, to pay a larger proportion of network costs. This appears an unintended consequence of Mod0571 and its alternate.

Whilst the removal of the Ratchet Charge leads to efficiency in billing and reconciling queries relating to these efficiencies, and potential benefits from increasing the volume of daily reads submitted for settlement, we believe the points outlined above outweigh any potential benefits and result in a negative overall against Objective F.