

# UNC 0716:

## Revision of Overrun Charge Multiplier



Proposer: National Grid  
Panel Date: 20<sup>th</sup> February

# Why change?



- Ofgem's minded to position is to implement UNC Modification 0678A. An outcome of the Charging Review is that a higher proportion of revenue will be recovered through capacity charges.
- An unintended consequence of this could result in a **significant increase** in the average Overrun Charge for both Entry and Exit. This is due to the methodology for calculation of Overrun Charges being set at a multiple (x 8) of the bid or application prices already accepted for parties / users acquiring capacity.
- Feedback from the industry in the 0705R WG suggests that the Overrun charges will become too penal and therefore a change to the multiplier used to align with the implementation of the 0678A is favourable.

# Options



- Revised Multiplier (**Preference**) - *Charging components to remain as is but a reduced multiplier, maintaining incentive for shippers to purchase capacity consistent with their flow requirement.*
- Revised Multiplier, with Manifest Error provision (**Discounted**) – *Workgroup concerns suggested that the manifest error could undermine and weaken the existing obligations, incentives and penalties that exist to support prudent industry operation and behaviour. Furthermore, potential difficulties in defining scope and independent procedures for Manifest Error were perceived as a barrier.*
- Make overrun rules at NTS Entry and Exit points consistent (**Discounted**)- *Current NTS Exit rules apply overrun charges when flow exceeds aggregate capacity holdings while at NTS Entry points each shipper is charged for the quantity of gas Overrun was incurred for.*

# Solution



- Reduce the Multiplier at Entry to x4 and at Exit to x6 – both are currently at x8
- Analysis to date shows that these multipliers would maintain the status quo in terms of revenue created by Overruns
- Analysis assumption is that historic revenue from Overruns is used as a measure of shipper's performance of booking capacity.
- Analysis has taken the actual revenue from Overrun Charges (with TO Entry and Exit Commodity fees added to reflect the potential impact of 678A) and compared it with charges updated with Reserve Prices for Daily standard Capacity in Postage Stamp Methodology.
- While we know that the behaviour could change, we don't know to what extent. We have based this proposal on quantifiable data of capacity bookings against flows rather than future uncertain predictions of behaviours.

# Recommended Steps



- The Proposer recommends that this modification should be:
  - Subject to Authority direction as the proposal has a material cost impact on the transportation arrangements
  - Workgroup assessment to further develop the modification for 3 months with a WG report being presented to the May 2020 Panel