

Representation - Draft Modification Report

UNC 0716 0716A

Revision of Overrun Charge Multiplier

Responses invited by: **5pm on 09 July 2020**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Scott Keen
Organisation:	Triton Power Ltd
Date of Representation:	03/07/2020
Support or oppose implementation?	0716 - Oppose 0716A - Support
Expression of preference:	<i>If either 0716 or 0716A were to be implemented, which would be your preference?</i> 0716A
Relevant Objective:	0716 a) None d) None 0716A a) Positive d) Positive

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

0716

The basis upon which the revised multipliers are determined is flawed. Although the Proposer recognises that the change in the Charging Methodology will result in changes to booking behaviours it makes not attempt to reflect these changes in its derivation of appropriate multipliers. The methodology for setting the multipliers preserves the historical levels of overrun revenues and “allocates” it across the new reserve prices (note the reserve prices have been changed subsequently by National Grid). There is no justification as to why historical overrun revenues are a reasonable benchmark and no

assessment as to why overruns occur. For these reasons the proposal lacks any meaningful analysis; does not attempt to account for behavioural changes; and is based on spurious observations.

Finally, the Proposer dismisses these clear limitations by suggesting that a further review could take place at a later date. This infers that the proposal requires further reflection and improvement which does not reflect well on its current standing. In any case, the proposal is not intended to be a “transitional solution” and furthermore, all aspects of the UNC can be reviewed and modified at any point, subject to the governance procedures. We find it curious as to why the Proposer deemed it necessary to make such assurances.

The lack of confidence the Proposer has in its own solution should be considered by Ofgem when making its decision.

0716A

This proposal recognises that due to the change in the Charging Methodology on 1 October 2020, there can be no doubt that Users will modify the manner in which they acquire entry and exit capacity. Where currently capacity can be acquired at zero cost, capacity has been continually overbooked (when compared to flows). As there is no incentive to limit bookings it is surprising to note that capacity overruns have been recorded, which as the proposal correctly identifies can only be due to User error. Moving forward, as Users temper their capacity acquisition strategies to more closely reflect anticipated flows, in order to manage costs, the risk of overrun will become exponentially higher. The application of a 10% penalty to what will be in many cases a significantly higher base price, is sufficient incentive to ensure Users do not “freeride” on the NTS.

In summary this proposal properly examines changes to User booking behaviour and the associated increased risk of overrunning. Any concerns that the “penalty” is insufficient to incentivise ex-ante booking of appropriate levels of capacity should note that at entry a penalty equivalent to more than 0.2 p/th and at exit 0.06 p/th are suitably substantial to ensure that Users manage their portfolios effectively, discouraging the potential for “freeriding”.

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

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0716A

1st October 2020 to coincide with the effective date of the new Charging Methodology. Any delay will expose Users to significant penalties for User errors which are wholly disproportionate to the impact overruns have on the System and other Users. This is explored further in the Proposal.

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

0716

No comment

0716A

No additional costs

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

0716

Yes

0716A

Yes

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.*

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See earlier and later comments. The level of the multipliers should be revisited post the publication of National Grid's Final Notice of Charges for Gas Year 2020/21

0716A

None

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

0716

As stated above the approach adopted in this Proposal is to "maintain the status quo". This is not the case. It assumes that overruns will occur at the same rate as they have in the past, where it is clear that overruns have been caused by User error, as there is absolutely no commercial or strategic advantage to overrun capacity. To assume that User errors, which by their very nature are unpredictable, both in terms of size and location, can be fixed for the purposes of setting the multipliers is a misleading representation and should be disregarded.

0716A

The impact analysis presented in the Proposal should be considered in the light of the increases in capacity prices set out in National Grids Final Notice of Charges for Gas Year 2020/21. The impacts presented in the Proposal and the Draft Mod report will be conservative following the significant increase in capacity charges, particularly at entry.