

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:	Anna Stankiewicz
Organisation:	National Grid
Date of Representation:	09/07/2020
Support or oppose implementation?	0716 - Support 0716A - Oppose
Expression of preference:	<i>If either 0716 or 0716A were to be implemented, which would be your preference?</i> 0716
Relevant Objective:	0716 a) Positive d) Positive 0716A a) Negative d) Positive

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

0716

As proposer of this modification we support its implementation. The proposal leads to a reduction to the applicable Overrun charge multipliers to x3 on NTS Entry and x6 on NTS Exit on the basis that it will:

- Implement a solution which seeks to safeguard Users by moderating Overrun charges caused by an unintended consequence of the implementation of UNC Modification 0678A.

- Maintain the status quo by keeping Overrun charges at the same level as they are today therefore maintaining the same level of forecast financial incentive to book capacity adequate to flows. The proposer assumes that for that reason the capacity booking behaviour will not worsen.
- A significant financial increase to Overruns could result in a barrier to entry which this proposal seeks to mitigate
- Maintain User incentive to book capacity adequate to flows which supports the 'ticket to ride' principle and, as an extension, supports efficient planning and management of the network. Despite the decline in capacity demand on NTS, efficient running of the network still requires Users to book capacity to cover their flows.
- A quantifiable method has been used to determine the sufficient level of the financial incentive to book the capacity adequate to flows

We believe that following the experience of how the revised charging regime impacts on User behaviour then a subsequent review of Overruns may be necessary.

0716A

National Grid opposes this proposal on the basis that by reducing the Overrun charge multiplier too drastically a risk of disincentivising Users to book adequate capacity is likely to increase. Consequently, we don't believe objective (a) of the proposal is met as its potential negative impact i.e. increase of number of Overruns occurring, will have a negative impact on the efficient and economic operation of the network. We agree that the proposal meets objective (d), but find the prospective benefit diminished by the risk associated by severity of the change as mentioned.

National Grid doesn't believe that the analysis presented, and specifically the comparison of average increase in reserve prices coming into effect on 1st October, gives an accurate picture of the diversity of price change throughout the network. The price increases at majority of entry and majority of exit points will not exceed x4 current reserve prices, therefore the reduction of multiplier to 1.1 would not be proportional to the increase. The entry and exit points mentioned would benefit from lower Overrun charges in comparison to those currently set.

National Grid believe that the principle is that Overrun charges should continue to encourage adequate capacity booking behaviour, regardless of whether Overruns are incurred by User errors or otherwise. The level of Overrun charges in the last 3 years persisted at around 1000 instances annually on entry and between 70-90 annually on exit, it is therefore arguable that the level of financial incentive isn't currently set too high. It is our concern that until the impacts of 0678A on User's booking behaviour is known the proposed change of the multiplier to 1.1 has the potential to diminish the objective Overrun charges are set to achieve. Furthermore, we believe that a quantifiable method of determining the multiplier should be established rather than it being based on future booking behaviours, which cannot be accurately predicted.

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

0716

System testing is required to be conducted prior implementation (approx. 1-month lead time required, we are awaiting final confirmation on timescale).

0716A

System testing is required to be conducted prior implementation (approx. 1-month lead time required, we are awaiting final confirmation on timescale).

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

0716

There are no costs associated with the system change mentioned above. No ongoing costs have been identified.

0716A

There are no costs associated with the system change mentioned above. No ongoing costs have been identified.

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

0716

We are satisfied that the Legal Text will deliver the intent of the solution.

0716A

We are satisfied that the Legal Text will deliver the intent of the solution.

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.*

0716

We have not identified any such errors or omissions.

0716A

We have not identified any such errors or omissions.

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

0716

No comments.

0716A

No comments.