





UNC Modification		At what stage is this document in the process?
<h1>UNC 0619:</h1> <h2>Application of proportionate ratchet charges to daily read sites</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>Purpose of Modification:</p> <p>This modification will set the multiplier used to determine the Supply Point Ratchet Charge for daily read sites to one will change the current ratchet regime so that the charge levied will reflect the costs avoided by the customer by understating its peak winter daily offtake. The Supply Point Ratchet Charge will also have the transportation charges the site would have incurred if it had not breached its supply point offtake netted off.</p>		
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> considered a material change and not subject to self-governance assessed by a Workgroup <p>This modification will be presented by the Proposer to the Panel on 19 October 2017. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>	
	<p>High Impact:</p> <p>Shipper Users and Transporters</p>	
	<p>Medium Impact:</p> <p>None</p>	
	<p>Low Impact:</p> <p>None</p>	

1 Summary

What

As part of the Project Nexus Solution, Product Class 1 and 2 sites will be subject to the ratchet regime. This proposal seeks to remove the 'penalty effect' of the ratchet charge regime for these customers otherwise a disproportionate penal charge would be levied on sites that breach their stated daily system offtake rate, even though they do not represent a risk to the management of the system by doing so.

Why

The industry is rolling out Smart and Advanced metering across the entire market allowing Shippers, Suppliers and Customers ready access to more granular consumption information remotely. At the same time Project Nexus is introducing new customer classes. These new classes (1 to 4) allow market participants the ability to provide more granular consumption (read) data into central systems thus driving more accurate and targeted settlement. When considering the proposed arrangements for market operation post Nexus Go Live and potential disincentives to use more granular Classes the application of Ratchet Charges seems disproportionate.

If the ratchet charge regime is not reformed so that the ratchet costs levied are proportionate then the number of sites that may elect to become daily read will be severely limited, reducing settlement accuracy and hampering the development of innovative granular market products. For those sites that do elect to become daily read, Shippers are likely to continue to have to over-estimate peak capacity needs, resulting in an inflated and distorted view of peak system requirements.

How

It is proposed that the calculation process for the Supply Point Ratchet Charge is changed so that the charge is based on the difference in transportation charges that would be derived from the new peak (ratchetted) daily offtake and the previous peak daily offtake. in three ways:

- ~~The ratchet charge multiplier is set according to a table (currently set at 1 for all End User Category (EUC) Bands).~~
- The transportation charges that a supply point would incur if had not ratcheted will be netted off the Supply Point Ratchet Charge.
 - ~~The ratchet charge will only apply for the period for when sites will be ratcheted (October to May)~~

The net impact of these changes would be to turn the Supply Point Ratchet Charge into a corrective invoice where the supply point is invoiced for the capacity costs it avoided by having a supply point offtake set too low.

No other changes to the ratchet regime are proposed, such as changing the period for which a ratchet charge can be incurred.

2 Governance

Justification for Authority Direction

This modification may have a material impact as it is expected, for the customers impacted, to have a material impact on the commercial activities connected with shipping gas, or commercial activities related to, the shipping, transportation or supply of gas. It therefore should be sent to the authority for decision.

Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance
- be assessed by a Workgroup

3 Why Change?

The market is at the threshold of major change with a number of significant projects coming into effect as well as new initiatives such as next day switching being developed. The industry is rolling out Smart and Advanced metering across the entire market allowing Shippers, Suppliers and Customers ready remote access to more granular consumption information. In the Power market the Government is proposing that all consumers should be settled on 15 minute data. ~~The industry is rolling out smart and advanced metering across the entire market allowing Shippers, Suppliers and Customers ready access to more granular consumption information remotely.~~ At the same time, Project Nexus is introducing 4 new Supply Meter Point classes or Product Classes, which will allow market participants the ability to provide more granular consumption (read) data into central systems for all sites, thus driving more accurate and targeted settlement. As Product Class 1 and 2 are daily read products, they would be subject to the ratchet regime.

The application of ratchet incentive charges (which we consider to be penal) to daily read sites seems disproportionate considering the potential future utilisation of daily read submission by a wide range of customers, including SME, Micro business and Domestic consumers in Product Class 2, who have low consumption levels and who we believe do not represent a risk to the safe operation of the network. As it currently stands therefore the current regime is likely to limit the number of sites that will seek to be daily read as the risks of incurring penal charges will outweigh the settlement benefits.

For those sites that do elect to become daily read, it is likely that Shippers will continue (as they do now) to have to overestimate likely capacity requirements to minimise the risk of these penal charges being applied, resulting in an inflated view of peak system requirements which could lead to inefficient system investment.

54 Code Specific Matters

Reference Documents

None identified.

Knowledge/Skills

No specific skills or knowledge are necessary.

65 Solution

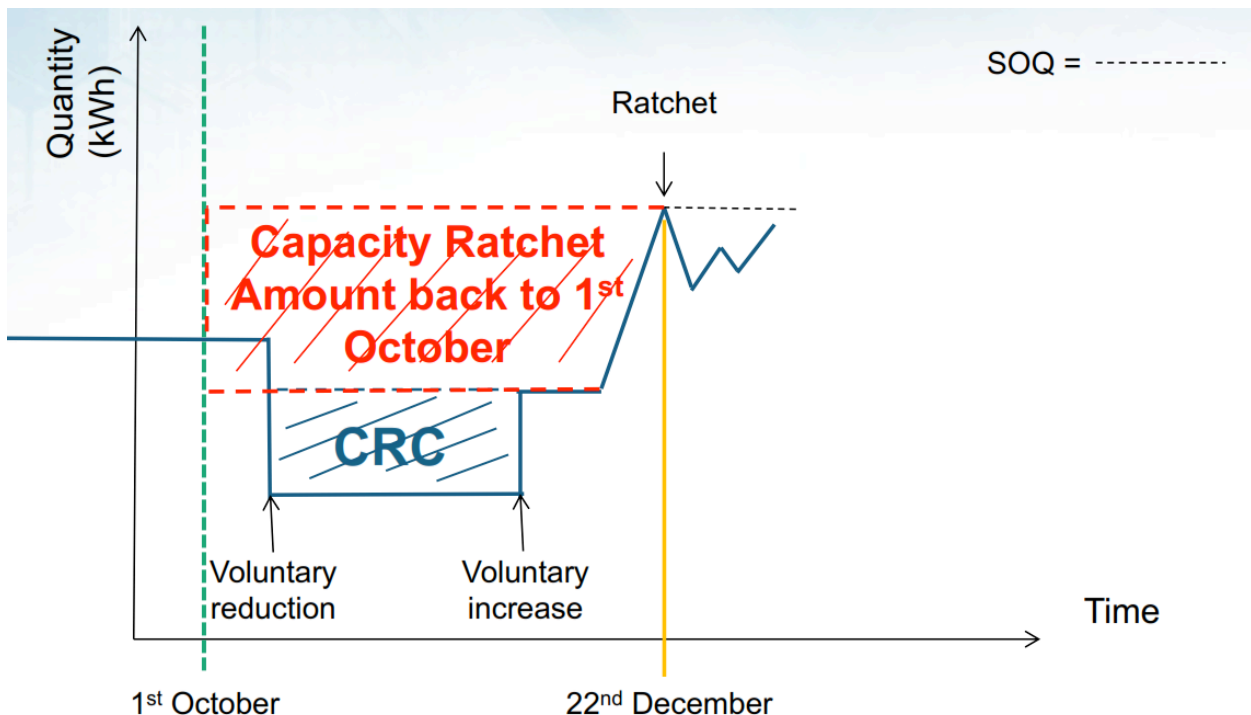
This modification proposes to change the ratchet charge calculation so that a site that does breach its supply point offtake incurs the same transportation charges for that higher capacity, without being unduly penalised. ~~The proposed solution is to change how the Supply Point Ratchet Charge is calculated in two key regards:~~

Multiplier

~~The multiplier used to inflate the Applicable Annual Rate of the LDZ Capacity Charge to derive the Supply Point Ratchet Charge will be set to 1~~

Netting off Charges paid

~~At present the Applicable Annual Rate used to calculate the Supply Point Capacity Charge does not take into account the capacity charges that a customer is already paying. As t~~The intention of the modification is to ensure that customers who ratchet do not benefit from having not set their SOQ appropriately but are not unduly penalised either. The proposed change is set out below:



Source: Xoserve.

the current ratchet charge regime needs to be changed in four ways:

- The LDZ Capacity charge that the site has paid prior to the Supply Point RatchetCapacity Charge will be netted off the Supply Ratchet Point Capacity Charge ("Capacity Ratchet Amount").
- A new charge, the Customer Capacity Ratchet Amount, will be levied to correct for the difference between the original and ratcheted LDZ Customer Charges.
- A new charge, the NTS Exit Capacity Ratchet Amount, will be levied to correct for the difference between the original and ratcheted LDZ Exit Capacity NTS (ECN) Charges.
- At present ratchet charges are not specifically linked to any settlement date, but is simply a lump sum linked is notionally linked to annual offtake. It is proposed that will only apply for the period where the Ratchet Regime is in operation (i.e October to May inclusive) and is linked to the ratchet charge to the date to ensure that the customer is charged in line with the principles set out above. The period for which the ratchet charge is applied is termed the "Ratchet Period".

It is not proposed to have a corrective charge for the LDZ Commodity Charges as any increase in SOQ caused by a ratchet will either have no effect, or slightly reduce the charge to the shipper. It is therefore not cost-efficient to reflect this minor benefit in the ratchet calculation.

Revised Ratchet Charge Calculation

The Ratchet Charge will be changed to reference three different types of transportation charges in its calculation.

Supply Point Ratchet Charge = LDZ Capacity Ratchet Amount + Customer Capacity Ratchet Amount + Exit Capacity Ratchet Amount

The components of the above calculation are calculated as follows (note that the new terms below are suggested terms and may vary in the final legal text):

- LDZ Capacity Ratchet Amount = (Annualised LDZ Capacity Charge after ratchet applied * Ratchet Charge Multiplier * Ratchet Period/365) – ~~sum of~~ LDZ Capacity Charge that would be applicable immediately prior to the charge* Ratchet Period/365 ~~prior during the Ratchet Period being applied.~~
- Customer Capacity Ratchet Amount = (Annualised LDZ Customer Charge after ratchet applied * Ratchet Charge Multiplier * Ratchet Period/365) – ~~sum~~ LDZ Customer Charge applicable that would be applicable immediately prior to the charge * Ratchet Period/365 ~~during the Ratchet Period prior to ratchet being applied.~~
- NTS Exit Capacity Ratchet Amount = (LDZ Exit Capacity NTS (ECN) Charges after ratchet applied * Ratchet Charge Multiplier * Ratchet Period/365) – ~~sum~~ LDZ Exit Capacity Charge NTS(ECN) Charge that would be applicable immediately prior to the charge* Ratchet Period/365 ~~applicable during the Ratchet Period prior to Ratchet being applied.~~
- Ratchet Period = number days between 1st October of the applicable gas year and the day before that the prospective ratchettted capacity applies on the [LDZ Capacity] invoice, which is the first calendar day of each month. This is on the basis that the ratchet regime has not historically applied to summer months when the network was more constrained, and now that peak gas demand has fallen, it does not seem warranted to do so now. Please note that there is a no different provision for Seasonal Large Supply Points.

- Als note that the SOQ, although applied on the system the following day, cannot be charged until the D+5 window closes out. As illustrated below this can result in the new SOQ applying until several weeks after the ratchet has occurred:

<u>Ratchet occurs</u>	<u>SOQ increase on the system</u>	<u>5 day closeout date</u>	<u>SOQ increase on capacity rates</u>
<u>20th October</u>	<u>21st October</u>	<u>27th October</u>	<u>1st November</u>
<u>27th October</u>	<u>28th October</u>	<u>3rd November</u>	<u>1st December</u>

The ratchet period would be calculated from the period when the SOQ increases for capacity purposes, i.e. if a ratchet happens on 27th October, then the Ratchet period will be 1st October to 1st December.

In the rare event that a site has increased its SOQ in the month in which the ratchet occurs, the calculation will use the SOQ in force for transportation purposes.

Example

Site in the East Anglia LDZ, EA1 exit zone

	Unit rate	Pre-ratchet (Annual)	Post-ratchet (Annual)	Annualised Difference
AQ (kWh)		20,000,000	20,000,000	
SOQ (kWh)		100,000	150,000	
LDZ Capacity	$0.8855 \cdot \text{SOQ}^{-0.2155}$	£ 27,046.50	£ 37,175.25	£ 10,128.75
LDZ Commodity	$0.1815 \cdot \text{SOQ}^{-0.2376}$	£ 2,360.00	£ 2,140.00	N/A
LDZ Exit Capacity	$0.0689 \cdot \text{SOQ}^{-0.2100}$	£ 2,226.50	£ 3,066.00	£ 839.50
LDZ Customer Capacity	0.0052	£ 1,898.00	£ 2,847.00	£ 949.00
		£ 33,531.00	£ 45,228.25	£ 11,917.25

Assuming that the ratchet occurs on the 20th December then the 1st January (93 days after the 1st October) then the calculation is as follows:

	Calculation	Amount
Ratchet Period	93 days	
Capacity Ratchet Amount	$10,128.75 \cdot 93/365$	£ 2,580.75
Customer Capacity Ratchet Amount	$839.50 \cdot 93/365$	£ 213.90
NTS Exit Capacity Ratchet Amount	$949 \cdot 93/365$	£ 241.80

Total	£ 3,036.45
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For the avoidance of doubt this process does not impact the current provisions of TPD B4.7.12, which governs when a supply is liable for **Supply Point Ratchet Charges** after a class change.

76 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impact

Consumer Impacts

This modification will remove a key barrier to smaller sites becoming daily read by removing the risk of a ratchet charge, which will improve cost targeting and allow the development for innovative products for these customers. The combined effect of better settlement, improved cost targeting and product innovation will benefit competition in the marketplace.

Cross Code Impacts

There is a potential UNC iGT cross code impact and a similar iGT UNC Modification may be required, which will be raised when this modification has been sufficiently developed.

EU Code Impacts

None

Central Systems Impacts

We expect there will be a minor impact on central systems to ~~incorporate the proposed table~~ [implement the new ratchet calculation](#).

87 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of <ul style="list-style-type: none"> (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. 	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: <ul style="list-style-type: none"> (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation 	Positive

arrangements with other relevant gas transporters) and relevant shippers.	
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

This modification ensures that the disproportionate impact of the Ratchet Charge regime will be removed so as to allow sites with lower levels of consumption, to benefit from being daily read. This will improve cost targeting and promote innovative products, so furthering relevant objective (d) *Securing of effective competition between Shippers*.

98 Implementation

This modification will remove a disincentive to sites becoming daily read, but there will be no obligation on Shippers to take advantage of this change, so there will be no costs imposed on parties.

No formal timescales are proposed for implementation, but we wish to see these changes implemented ~~in time for the start of the gas year 2017/18, i.e. 1st October 2017.~~ prior to the period where ratchets will start to apply for any sites that have moved from Classes 3& 4 to Class 2, which will be October 2018.

409 Legal Text

To be provided.

410 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply
- Refer this proposal to a Workgroup for assessment.