

# 0571:

## Application of Ratchets Charges to Class 1 Supply Points Only

01	Modification
02	Workgroup Report
03	Draft Modification Report
04	Final Modification Report

Recognising the introduction of 4 new classes of Supply Points under Project Nexus and the wider availability of daily read sites with lower AQs, this modification limits the application of Ratchets Charges to Class 1 Supply Points whose operation may be material to the safe operation of the Network.



The Proposer recommends that this modification should:

- not be subject to self-governance; and
- should be assessed by a Workgroup



High Impact:  
Shipper Users and Transporters



Medium Impact:  
None



Low Impact:  
None

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## About this document:

This modification will be presented by the proposer to the panel on 21 January 2016

The panel will consider the proposer's recommendation and agree whether this modification should be:

- Referred to a workgroup for assessment.

The Proposer recommends the following timetable:

Initial consideration by Workgroup	28 January 2016
Workgroup Report presented to Panel	29 April 2016
Draft Modification Report issued for consultation	19 May 2016
Consultation Close-out for representations	10 June 2016
Final Modification Report presented to Panel	13 June 2016
UNC Modification Panel decision	16 June 2016

 Any questions?

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# 1 Summary

## Is this a Self-Governance Modification?

This is not considered to be a Self-Governance modification because it is expected, for the customers impacted, to have a material impact on the commercial activities connected with shipping gas.

## Is this a Fast Track Self-Governance Modification?

Fast Track procedures do not apply because it is not a housekeeping modification.

## Why Change?

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 the application of Ratchet Charges in Class 2 seems disproportionate considering the potential utilisation of this class by a wide range of customers other than mandatory Class 1 customers. We therefore propose to limit Ratchets Charges to Class 1, which covers mandatory DM sites and Network Sensitive Loads (NSL's).

## Solution

Our proposed solution is that Ratchets Charges should be limited to Class 1 Supply Points only.

## Relevant Objectives

We believe this modification enhances competition between Shippers because it ensures that the behaviour ratchets charges incentive is targeted only at larger consumers (relevant Class 1 Supply Points), whilst removing a potential disincentive for the broader utilisation of Class 2.

## Implementation

No implementation timescales are proposed. However we would expect this modification to be implemented in line with Project Nexus Go Live

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

This modification impacts Project Nexus but only in a very limited way as it removes the applicability of Ratchets charges from Class 2 Supply Points. To avoid any form of retrospection we would like to see this modification implemented in time for Project Nexus Go Live.

## 2 Why Change?

A description of ratchet charges is included for completeness in Appendix 1.

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. At the same time Project Nexus is introducing rolling AQ and new customer classes (Class 1 to 4) which 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 the relevance of the application of Ratchet charges in Class 2 seems disproportionate considering the potential utilisation of this class by a wide range of customers other than traditional DM customer's i.e. very large industrial process customers. Such customers operation do not materially impact the operation of the Network and thus no justification exists to expose such customers to penal ratchet charges.

Recognising the potential wide scope of customers able to readily utilise Class 2 services we need to consider the relevance of the Ratchet regime in this Class. We believe the concerns which justify the argument for Ratchets for large industrial process loads does not apply to customers who may wish to elect in to Class 2 as such customers operations do not materially impact the operation of the Network to the extent that penal ratchet charges are necessary or appropriate. We therefore propose to limit Ratchets to Class 1, which covers mandatory DM sites and Network Sensitive Loads (NSL's).

## 3 Solution

Our proposed solution is that Ratchets Charges should be limited to Class 1 Supply Points only. UNC TPD B 4.7 should be amended to limit the scope to Class 1 Supply Points<sup>[1]</sup>.

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	This is a proposed amendment to an existing ratchet incentive regime as it is proposed to restrict Ratchets Charges to Class 1. No new User Pays service is being created.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	All Users with Supply Points other than Class 1 could benefit from the potential to easier access Class 2 arrangements and costs would be recharged on the basis of eligible Supply Points
Proposed charge(s) for application of User Pays charges to Shippers.	<i>To be confirmed</i>

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	<i>To be confirmed</i>
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## 4 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 (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: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
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

We believe this modification ensures that the behaviour Ratchets incentivise apply only to the largest consumers and that, as a result, Class 2 will be available without the disproportionate impact of the Ratchet regime being applied to those Supply Points, which as Advanced and Smart metering rollout continues will become available to more consumers with lower levels of consumption, therefore it is securing effective completion between Shipper Users and furthering Relevant Objective d).

## 5 Implementation

No implementation timescales are proposed. However, it is anticipated that this modification could be implemented in line with Project Nexus Go Live.

## 6 Impacts

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

This modification impacts Project Nexus but only in a very limited way as it removes the applicability of Ratchets Charges from Class 2 Supply Points[2].

## 7 Legal Text

To be provided by Transporters.

## 8 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self-governance; and
- Progress to Workgroup assessment.

## 9 Appendix 1 – Ratchet Charges

### What is a Ratchet?

Put simply a ratchet is a commercial penalty charge applied to any daily metered meter which during the Winter Period (October to May) exceeds its agreed Daily Capacity (SOQ). This commercial penalty exists to deter parties from setting their daily capacity requirements below what is actually needed during the winter when demand is at its highest.

### Current Process Overview

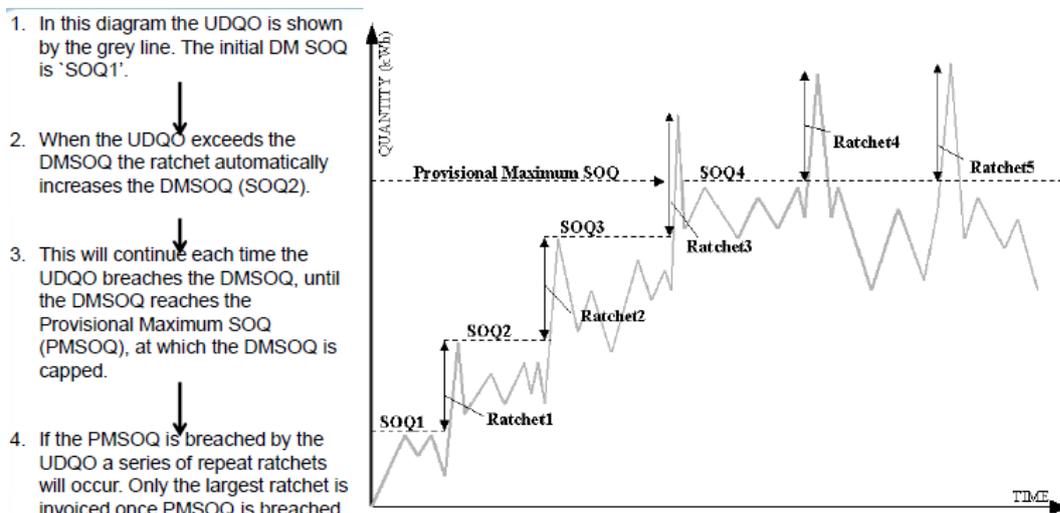
When a Shipper takes ownership of a supply point they must nominate a Daily Supply Point Offtake Quantity (SOQ), which must not be less than the Bottom Stop SOQ (BSSOQ), the maximum daily amount off-taken in the previous winter period. Should the User Daily Quantity Off-Take (UDQO) exceed the booked capacity, a ratchet will occur. The ratchet acts as both a commercial incentive as well as increasing the SOQ to the new peak off-take, subject to the provisional maximum SOQ for the Supply Point.

Ratchets are applicable to Daily Metered Supply Points, or the Daily Metered component within a mixed Supply Point.

### Ratchet Calculation

In the case where the UDQO exceeds the DM SOQ, the difference is used to calculate the ratchet charge. UNC Section B4.7.6:

- The Supply Point Ratchet Charge shall be calculated as the Capacity Ratchet Amount multiplied by the sum of:
  - (a) 2 times the Applicable Annual Rate (including where determined in accordance with paragraph 1.8.5(a)) of the LDZ Capacity Charge; and
  - (b) where applicable, 2 times the Applicable Annual Rate of the Capacity Variable Component (if any) of the Customer Charge



1. In this diagram the UDQO is shown by the grey line. The initial DM SOQ is 'SOQ1'.
2. When the UDQO exceeds the DMSOQ the ratchet automatically increases the DMSOQ (SOQ2).
3. This will continue each time the UDQO breaches the DMSOQ, until the DMSOQ reaches the Provisional Maximum SOQ (PMSOQ), at which the DMSOQ is capped.
4. If the PMSOQ is breached by the UDQO a series of repeat ratchets will occur. Only the largest ratchet is invoiced once PMSOQ is breached.

Abbreviation	Definition
DMSOQ	Registered DM Supply Point Capacity
PMSOQ	Provisional Maximum Supply Point Capacity
UDQO	User's Daily Quantity Off-taken
BSSOQ	Bottom Stop Supply Point Capacity