
UNC 0619 Workgroup Minutes
Application of proportionate ratchet charges to daily read sites
Thursday 24 August 2017
at Elexon, 350 Euston Road, London NW1 3AW

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Andy Clasper	(AC)	Cadent
Andrew Margan	(AM)	British Gas
Angela Love	(AL)	ScottishPower
Chris Warner	(CW)	Cadent
Claire Towler	(CT)	SSE
David Mitchell	(DM)	SGN
Deborah Brace*	(DB)	National Grid NTS
Gareth Evans	(GE)	Waters Wye
Gavin Anderson*	(GA)	EDF Energy
Hilary Chapman	(HC)	SGN
John Welch	(JW)	npower
Jonathan Matthews*	(JM)	Crown Gas and Power
Kathryn Turner	(KT)	Good Energy
Mark Jones	(MJ)	SSE
Nicky Rozier*	(NR)	BUUK
Richard Pomroy	(RP)	Wales & West Utilities
Robert Cameron-Higgs	(RCH)	Flow Energy
Robert Johnson	(RJ)	ES Pipelines
Sean Hayward	(SH)	Ofgem
Shardul Pandit*	(SP)	Wales & West Utilities
Steve Britton	(SB)	Cornwall Energy
Steve Mulingainie	(SM)	Gazprom
Steve Nunnington	(SN)	Xoserve

* *via teleconference*

Copies of all UNC meeting papers are available at: <https://www.gasgovernance.co.uk/0619/240817>

The UNC Workgroup Report is due to be presented at the UNC Modification Panel by 19 October 2017

1.0 Introduction and Status Review

1.1. Approval of Minutes (27 July 2017)

The minutes of the previous meeting were approved.

2.0 Review of Amended Modification

GE provided a brief overview of the recently amended modification (v3.0, as at 16 August 2017) explaining that the two main changes focus on a better reflection of the previous site history and responses to previous Workgroup feedback.

It was suggested, and GE agreed that the reference to 'peak winter daily offtake' should be changed to read as 'Daily Capacity'.

GE went on to explain that the 'Why' statement had been enhanced to provide better clarity and the 'How' statement has made it clear that this modification is NOT impacting the current ratchet regime, however it is proposing to change the multiplier. GE then went on to explain that a new leading statement extracted from UNC Modification 0571 'Application of Ratchet Charges to Class 1 Supply Points Only' has been added to the first paragraph in the 'Why Change?' section.

Attention then focused on the changes to the Solution section, whereby GE explained that the deletion of the previous text is in direct response to feedback from D Addison of Xoserve. In considering the pictorial representation on page 5, GE confirmed that in most cases, the ratchet calculation goes back to 01 October of the current year.

Discussions then centred around the last bullet point at the top of page 6, that commences '*At present ratchet charges are not specifically linked to any settlement date,.....The period for which the ratchet charge is applied is termed the "Ratchet Period".*', whereupon GE confirmed that he would be happy to reconsider the statement along with the seasonal contract start date, with a view to changing both in the next round of amendments to the modification.

When clarification was sought as to whether or not the modification caters for usage charge / price related changes, RP suggested that it would be preferable for it to reflect the charges that apply at the time.

During the course of the discussions, a general debate around how the proposed model would be expected to operate, with GE explaining that where there are instances of a previous ratchet being applied, the model would in essence be run twice. It was noted that in reality that where Provisional Maximum SOQ (PMSOQ) impacts are involved, there is a potential for parties to continue to pay ratchet charges on all values above the PMSOQ value (i.e. each and every day etc.) – this has been the subject of extensive industry debate in the past with the consensus being that we would not look to keep on ratcheting, as for the circa 474 mandatory Class 1 sites involved, there are other control mechanisms available to 'manage' the problem (i.e. some form of NExA and/or Offtake Curtailment mechanisms). GE confirmed that this modification is not looking to introduce a mandatory network management tool.

When asked, CW confirmed that not many of the 474 sites in question have a NExA in place. Furthermore, it was noted that NExA's are in fact an 'after the day' network management tool and do not have much in the way of teeth due to the incentives applied in the Ratchet process.

Some wondered whether or not there is a risk that parties would look to book unrealistically low SOQs and therefore potentially invoke a cross subsidy (ref: UNC TPD Section M 4.7.1 and 4.7.4 provisions). It was noted for clarity, that the DNs do not make any revenue off the back of ratchet charges as any monies involved are placed back into the system via the 'k' factor after a two year period. When it was suggested that this poses a question as to why the DNs do not follow the equivalent electricity model, it was suggested that this really relates to the DNs not guaranteeing operating pressures, which has again been debated in great detail in the past.

It was suggested that it would be beneficial if more clarity was included in the modification around what would be expected to happen to capacity over and above the PMSOQ level, and what subsequent charges would apply (or not as the case maybe). It was clear that the DNs and some Shippers have differing view points on this matter and that reaching a consensus would be difficult. Some parties believe that the (industry) aim should be to look to optimise network usage in a cost reflective manner.

Whilst HC reminded everyone present that Shippers do have the option to avoid incurring ratchet charges by accurately reflecting the SOQ, RP also pointed out that it is in instances where consumers do something unpredictable which then impacts upon other consumers, that they then pay for the disruption to the networks and other users.

SM reminded those present that he had previously requested the provision of aggregate versus actual (by LDZ) capacity related information from the networks in order that he (and the

industry) could better understand the 'headroom' that the networks have to play with, although this has not been forthcoming to date.

When asked, GE confirmed that the modification is proposing that where an SOQ exceeds the PMSOQ level, the user would not invoke any charges until a time whereby the network involved undertakes an action.

In recognising the differing viewpoints around the effectiveness (or not) of the use of ratchet charges as an incentive, HC advised that the networks continue to believe that these remain a valuable management tool. SM suggested that whilst there are issues around 'fast reaction' generation impacts on the wider network landscape, it is the impacts of new technologies that the industry would need to consider in due course.

In the end, it was requested that GE provides more clarity around the potential PMSOQ aspects.

Whilst HC remained concerned that Shippers who set their SOQs artificially low could reduce their costs and thereby potentially expose other users to risks that they have little or no control over as booked capacity is not reflective of the actual capacity required. BF reminded everyone present that the differing viewpoints (i.e. constraint impacts and their associated consequences) and especially any without a direct Code impact should be captured within the Workgroup Report with supporting evidence.

Discussions then moved on to a brief onscreen review of TPD Section G, paragraph 5.5.4 and 5.5.5 provisions during which GE focused attention on paragraphs 5.5.5(b)(i) & (ii) which relate to the Maximum Supply Point Capacity and a User's Registered Supply Point Capacity aspects. In trying to better communicate her concerns, HC quoted an example whereby a user who has 100 (units of capacity) and sets their SOQ to 1 which in effect sets the PMSOQ to 2, potentially obtains 98 (units of capacity) for free – in essence the problem is compounded by the fact that the networks only get to know about matters when the PMSOQ is breached. Responding, SM acknowledged that whilst the example is theoretically possible, it remains highly unlikely to occur, as there are other validation mechanisms that would come into effect.

RP then went on to suggest that the practical issue is under 'normal' instances capacity is available, but during a 1:20 constraint, the networks may not be in a position to provide the capacity (i.e. raise the PMSOQ). Whilst recognising the potential issue, GE observed that the user would already have taken the capacity on the day, which may have invoked an alternative network management mechanism anyway. SM was puzzled as to why we would think that parties would deliberately abuse the process.

New Action 0801: Waters Wye Associates (GE) to provide clarification around the PMSOQ relationship to TPD Section G, paragraph 5.5.5(b) provisions.

When DM made reference to Scotia Gas Networks SOQ reports requesting information inline with UNC Modification 0390 'Introduction of a Supply Point Offtake Rate Review and Monitoring Process, and Shipper responses, SM agreed to go away and investigate what Gazprom has provided to SGN.

New Action 0802: Gazprom (SM) to investigate what Gazprom has provided to SGN in terms of its Modification 0390 information provision.

Returning attention back to the diagram at the foot of page 5 of the amended modification, GE explained that discussions with Xoserve have revealed that how the process would actually work maybe more complex than initially thought. In explaining how the transportation charges would be calculated at both high and low levels (ref: the CRC block), GE indicated that this does potentially result in a trade off whereby there is potentially a slight increase in the charge involved, which has been explained in more detail elsewhere in the modification.

GE then went on to add that during the discussions with Xoserve the effects of the subtle differences between system and actual calculation dates, has resulted in a different approach being adopted.

When asked GE advised that whilst the ROM is being worked on, a DSC Change Proposal has not yet been raised and this would be needed at some point in the process. He also

indicated that on the grounds that a ratchet charge code already exists in the list of charge categories, he may look to utilising that code, although it may be split into two (2) components. Supporting, SN explained that this would be clarified within the supporting ROM when produced.

SH pointed out that more clarity around why the Workgroup believes that retaining the October to May timing aspects would assist Ofgem in making their decision in the long run.

3.0 Review of Data Analysis

Not considered at this meeting.

4.0 Consideration of Business Rules

BF pointed out that Business Rules would be required in order to facilitate preparation of the supporting legal text for the modification.

5.0 Review of Impacts and Costs

Not specifically considered other than during the discussions on item 2.0 above.

6.0 Review of Relevant Objectives

Not specifically considered other than during the discussions on item 2.0 above.

7.0 Consideration of Wider Industry Impacts

Not specifically considered other than during the discussions on item 2.0 above.

8.0 Consideration of Legal Text

When asked, RP indicated that he is not aware of any Wales & West Utilities legal resource constraints that could potentially impact the production (and provision) of the legal text associated with the modification.

9.0 Completion of Workgroup Report

BF advised that the (draft) Workgroup Report had already been prepared, and would be amended once the final amendments are made to the modification with a view to submitting the Workgroup Report to the October Panel.

10.0 Review of Actions Outstanding

Action 0701: Xoserve (DA) to produce a new cost estimate together with a ROM and Change Proposal.

Update: SN explained that the work is in hand and an update would be provided in due course. **Carried Forward**

11.0 AOB

None.

12.0 Next Steps

BF summarised the next steps as being:

- Final amended modification (inc. business rules) to be provided by GE;
- ROM to be provided by Xoserve;
- DSC Change Proposal to be raised by GE in conjunction with Xoserve;
- Wales & West Utilities to provide the legal text, and
- Completion of Workgroup Report at September meeting.

13.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:30 Thursday 28 September 2017	Venue to be confirmed	<ul style="list-style-type: none"> • Standard Agenda items <ul style="list-style-type: none"> ○ <i>Consideration of amended modification (inc. BRs)</i> ○ <i>Consideration of legal text</i> ○ <i>Completion of Workgroup Report</i>

Action Table (as at 24 August 2017)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0701	27/07/17	2.0	To produce a new cost estimate together with a ROM and Change Proposal.	Xoserve (DA)	Carried Forward
0801	24/08/17	2.0	To provide clarification around the PMSOQ relationship to TPD Section G, paragraph 5.5.5(b) provisions.	Waters Wye Associates (GE)	Pending
0802	24/08/17	2.0	To investigate what Gazprom has provided to SGN in terms of its Modification 0390 information provision.	Gazprom (SM)	Pending