












| UNC Modification | | At what stage is this document in the process? |
|---|--|---|
| <h1>UNC 0619A:</h1> <h2>Protection from ratchet charges for daily read customers with an AQ of 732,000kWh and below</h2> | | <div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div> |
| Purpose of Modification: This modification will protect any daily metered customer with an AQ of 732,000kWh and below from the charging elements of the existing ratchets regime. | | |
|  | The Proposer recommends that this modification should be: <ul style="list-style-type: none"> considered a material change and not subject to self-governance assessed by a Workgroup This modification will be presented by the Proposer to the Panel on 21 September 2017. The Panel will consider the Proposer's recommendation and determine the appropriate route. | |
|  | High Impact: Shipper Users and Transporters | |
|  | Medium Impact: None | |
|  | Low Impact: None | |

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| Timetable | | |  07749983418 |
| The Proposer recommends the following timetable: | | | Transporter: SGN |
| Initial consideration by Workgroup | 28 September 2017 | |  As above |
| Workgroup Report presented to Panel | 19 October 2017 | |  As above |
| Draft Modification Report issued for consultation | 19 October 2017 | | Systems Provider: Xoserve |
| Consultation Close-out for representations | 09 November 2017 | | |
| Final Modification Report available for Panel | 10 November 2017 | |  commercial.enquiries@xoserve.com |
| Modification Panel decision | 16 November 2017 | | |
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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 restrict the charging element of the regime to apply to customers with an AQ of 732,000kWh or below, therefore offering protection from the charges for customers under this threshold who opt to become daily metered.

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 has introduced new customer classes. These new classes (1 to 4) allow market participants the ability to provide more granular consumption (read) data into central systems and create the opportunity for a small consumer to be classified as a daily metered site, through the presence of a Smart meter.

Previously, such customers would not have been subject to the ratchets regime. However, as part of the post-Nexus arrangements, such a customer could now be placed into class 2 and would therefore be subject to all elements of the ratchet regime.

How

Through industry discussions it is widely agreed that it is not appropriate or the intention for the ratchets regime to apply to small consumers. These customers are not considered to pose a significant risk to network management, and would not previously have been subject to ratchets under the pre-Nexus (pre-classes) arrangements.

However, it is important that the existing regime is retained for those sites which, if capacity and consumption are not actively managed, are considered to potentially create some risk to network management procedures.

Therefore, it is proposed that application of the charging element of the ratchets regime is restricted to customers above 732,000kWh thus protecting customers below this threshold.

The justification for setting this threshold is provided below.

For the avoidance of doubt, for those sites to which the full regime still applies, no changes to the existing process or charges are proposed.

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?

Industry Developments:

The industry is currently 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 has recently introduced four new Supply Meter Point classes or Product Classes, which will allow market participants to select their preferred class and create the ability to provide more granular consumption (read) data into central systems. As Product Class 1 and 2 are daily read products, they are subject to the full extent of the ratchets regime. As above, it is widely accepted that small consumers are not considered to pose a significant risk to network management, and it is not considered appropriate that these customers be subject to the charging elements of the regime. This proposal therefore seeks to exclude these customers from the charging elements of the regime. For the avoidance of doubt, it is the intention of this proposal that the re-setting of the Supply Offtake Quantity (SOQ) is maintained for all customer, including those below the threshold.

Network Management Requirements:

Standard Condition A16 of the Transporter Licence requires Transporters to ensure that adequate arrangements are in place to satisfy “the peak aggregate daily demand...which...is likely to be exceeded ...only in 1 year out of 20 years”¹, The existing methodology for satisfying this licence condition has been developed and applied on the basis of the ratchets regime being in place.

The booking of SOQs by Shippers is a key market indicator to inform Transporters of capacity requirements at any point in the network. This is especially important on single-fed lines such as those commonly seen on the Scottish distribution network.

Occurrences of Ratchets:

¹ P95 - https://epr.ofgem.gov.uk/Content/Documents/Gas_transporter_SLCs_consolidated%20-%20Current%20Version.pdf

The following data analysis has been undertaken to demonstrate the ongoing occurrence of ratchets at sites with an AQ of 732,00kWh and below. Given that ratchets continue to occur at this level and frequency, we consider that it is appropriate to maintain the regime in relation to higher consuming sites, whilst offering protection to those smaller consuming sites which were not previously subject to the regime.

Table 1: (data on a national basis)

| Year | Month | Number of Ratchets |
|-------|----------|--------------------|
| 2015 | October | 18 |
| 2015 | November | 29 |
| 2015 | December | 20 |
| 2016 | January | 39 |
| 2016 | February | 30 |
| 2016 | March | 23 |
| 2016 | April | 13 |
| TOTAL | | 172 |

Table 1 demonstrates ratchets occurring on a national basis during the winter period 2015/2016². As ratchets are observed to occur on a regular basis, this demonstrates that the full regime is still required for the higher consuming customers.

SGN has also undertaken evaluation of ratchets within our own network as follows³. The data suggests that the ongoing occurrence of ratchets demonstrates that procedures to encourage accurate SOQ management are still required, for the following reasons:

Table 2: (data for SGN networks only winter 2012 to 16)

| Ratchets by EUC | | |
|-----------------|-------|------|
| EUC | Total | %age |
| Exx04 | 6 | 5% |
| Exx05 | 4 | 3% |
| Exx06 | 27 | 20% |
| Exx07 | 31 | 23% |
| Exx08 | 18 | 14% |
| Exx09 | 46 | 35% |
| Grand Total | 132 | 100% |

Table 2 demonstrates that ratchets occur at an increasing frequency as the AQ (and associated EUC) of a site increases. This suggests that the larger consuming sites continue to occasionally mis-estimate their SOQs.

² Data provided by Xoserve during development of UNC Modification 0571/A *Application of Ratchet Charges to Class 1 Supply Points (and Class 2 with an AQ above 73,200kWhs)*. P16 - https://www.gasgovernance.co.uk/sites/default/files/ggf/Workgroup%20Report%200571%200571A%20v2.0_0.pdf

³ Data provided by Xoserve, in relation to the winter periods 2012 - 2016

Table 3: (data for SGN networks only winter 2012 to 16)

| Winter Period | Ratchets | No of DM sites | % |
|---------------|----------|----------------|-----|
| 2012-13 | 31 | 293 | 11% |
| 2013-14 | 34 | 276 | 12% |
| 2014-15 | 34 | 277 | 12% |
| 2015-16 | 33 | 260 | 13% |

Table 3 demonstrates that the number of ratchets occurring have remained consistent, despite a diminishing population of Daily Metered sites. This means the overall proportion of ratchets occurring has increased.

Table 4: (Data for SGN networks only winter 2012 to 16)

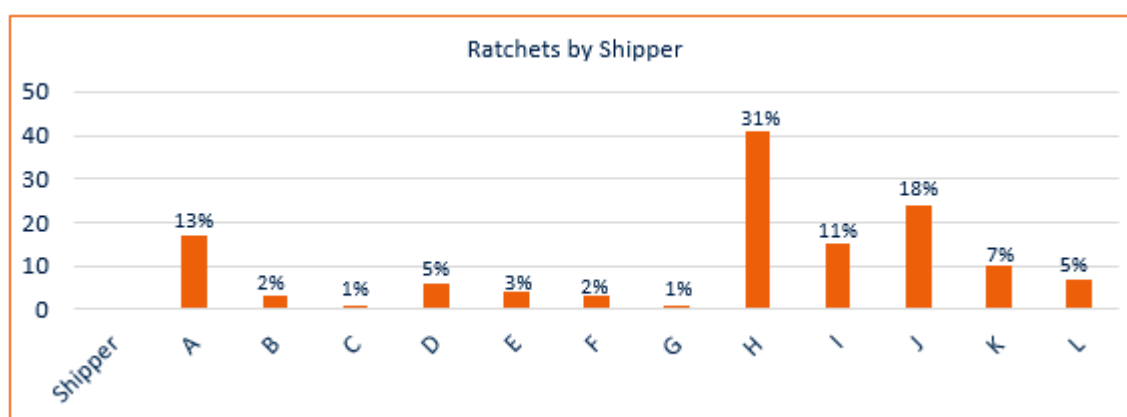


Table 4 demonstrates that ratchets are incurred more frequently by some Shipper organisations than others. Analysis suggests that the frequency and occurrence of ratchets is not proportionate to Shipper portfolio sizes. This suggests that there is variation in the processes in relation to managing SOQs.

4 Code Specific Matters

Reference Documents

None identified.

Knowledge/Skills

No specific skills or knowledge are necessary.

5 Solution

This modification seeks to restrict the current charging regime to sites with an AQ of 732,000kWh and below. Sites under this threshold would be protected from the current charging regime.

For the avoidance of doubt, all sites would continue to be subject to the automated increase of the SOQ following a ratchet.

SGN would welcome the development workgroup's input as to the most appropriate technical/process mechanism to deliver this intention.

6 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 ensure the continued application of ratchets as per the original intention of the regime – i.e. to apply to those sites which, due to larger consumption, could have a material impact upon network management procedures. By protecting smaller consumers, this neutralises the potential negative impacts they could incur as a result of becoming daily metered under the new class arrangements.

Both the roll-out of Smart and Advanced metering, plus the implementation of the new classes under Project Nexus, support the CMA's assessment that enhanced availability and use of granular data will be of benefit to the industry.

Cross Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

We expect there will be a minor impact on central systems to implement the restrictions of the regime.

7 Relevant Objectives

| Impact of the modification on the Relevant Objectives: | |
|--|-------------------|
| Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. | positive |
| 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. | positive |
| c) Efficient discharge of the licensee's obligations. | positive |
| 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. | None |
| 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 will ensure that Gas Transporters continue to receive the appropriate market signals from those large consumers whom could have an impact upon network management procedures, thus furthering relevant objectives (a), (b) and (c).

8 Implementation

No formal timescales are proposed for implementation; however we would encourage implementation as soon as reasonably practicable in order to protect any smaller consumers whom may already have elected to become daily metered.

9 Legal Text

To be provided

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

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