














UNC Modification	At what stage is this document in the process?
<h1>UNC 0619B:</h1> <h2>Application of proportionate ratchet charges to daily read sites</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">01</span> Modification         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; align-items: center; justify-content: center;"> <span style="font-weight: bold; font-size: 1.2em; margin-right: 5px;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>This modification will change the current ratchet regime so that the charge levied will reflect the costs avoided by the customer by understating its peak daily offtake.</p>	
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <li>considered a material change and not subject to self-governance</li> <li>assessed by a Workgroup</li> </ul> <p>This modification will be presented by the Proposer to the Panel on <b>16 November 2017</b>. 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>

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8	Implementation	9	 <a href="mailto:Richard.Pomroy@wutilities.co.uk">Richard.Pomroy@wutilities.co.uk</a>
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Timetable			
<b>The Proposer recommends the following timetable:</b>			
Initial consideration by Workgroup	23 November 2017		
Workgroup Report presented to Panel	21 December 2017		
Draft Modification Report issued for consultation	21 December 2017		
Consultation Close-out for representations	11 January 2017		
Final Modification Report available for Panel	15 January 2017		
Modification Panel decision	18 January 2017 ( <i>Short Notice</i> )		

# 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.

The Alternate seeks to remove the penalty Ratchet charge, but maintain a proportional incentive charge to ensure there is accurate SOQ capacity booking.

## 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. Plus it will enable more granular data to assist DNOs with their network planning.

The Alternate seeks to remove a penalty charge, to better improve Transportation cost reflectivity, whilst also seeking to ensure an incentive exists, which drives appropriate SOQ booking behaviour to ensure the network is protected, whilst not penalising end consumers.

## 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 (ratcheted) daily offtake and the previous peak daily offtake. The transportation charges that a supply point would incur if had not ratcheted will be netted off the Supply Point Ratchet Charge.

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.

In order to ensure that the costs of the change are manageable, no other changes to the ratchet regime are proposed, such as changing the period for which a ratchet charge can be incurred.

The Alternate aligns with the original proposal of back charging to the new SOQ rate, but differs by applying an additional incentive charge. To ensure the total ratchet charge reflects the true cost, the DMSOQ cap is removed.

For clarity the Alternate proposal seeks to introduce a new ratchet charge calculation methodology, but it does not seek to amend the Ratchet Regime.

## 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. 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.

## 4 Code Specific Matters

### Reference Documents

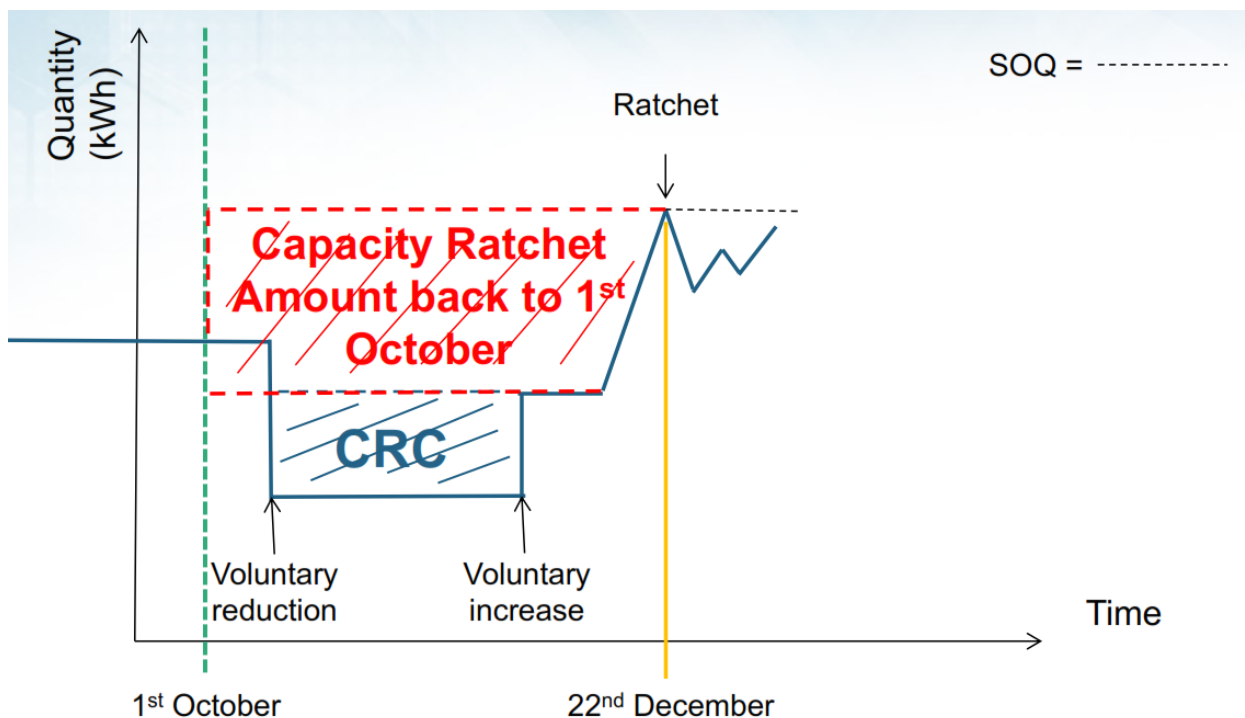
None identified.

### Knowledge/Skills

No specific skills or knowledge are necessary.

## 5 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 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 Ratchet Charge will be netted off the Supply Ratchet 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.
- A new charge, the Ratchet Incentive Charge, will be levied in addition to the above charge types
- 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. In order to ensure that the costs of the change are kept manageable, and because the network is unconstrained it is proposed that the Ratchet Regime will continue to apply for the period 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”.

Similarly, in order to keep the change manageable, 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.

### Interaction with Provisional Maximum Supply Point Capacity

UNC TPDG 5.5 limits any increase to a Supply Point's capacity to the Provisional Maximum Supply Point Capacity, which is double the Prevailing Supply Point Capacity or 16 times the supply point offtake rate, until the Transporters notify the CDSP that it can be higher, i.e. the Maximum Supply Point Capacity. Though we do not believe that the UNC needs to be changed to give effect to this principle, for the avoidance of doubt the ratchet charge calculation would utilise the Maximum Supply Point Capacity in this circumstance.

The proposer of the Alternate B believes the PMSOQ could create a charging cap or 'gaming' opportunity for sites that deliberately under book capacity. To ensure the new Ratchet charge reflects the true value of the SOQ increase, the Alternate proposal is not capped by the PMSOQ, but reflects the true off-take capacity used.

### 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) – LDZ Capacity Charge that would be applicable immediately prior to the charge \* Ratchet Period/365)
- Customer Capacity Ratchet Amount = ( Annualised LDZ Customer Charge after ratchet applied \* Ratchet Charge Multiplier \* Ratchet Period/365) – LDZ Customer Charge that would be applicable immediately prior to the charge \* Ratchet Period/365)
- NTS Exit Capacity Ratchet Amount = (Annualised LDZ Exit Capacity NTS (ECN) Charges after ratchet applied \* Ratchet Charge Multiplier \* Ratchet Period/365) – LDZ Exit Capacity NTS (ECN) Charge that would be applicable immediately prior to the charge \* Ratchet Period/365)
- Ratchet Period = For sites other than Seasonal Large Supply Points, it is either the number of days between 1st October of the applicable gas year and the day before that the prospective ratcheted capacity applies on the LDZ Capacity invoice, or for new or shipperless supply points registered after 1st October of the relevant gas year, the supply point registration date. For Seasonal Large Supply Points the start point will be taken to be the Seasonal Contract Start Date.
- The Ratchet back charge will include a ratchet incentive multiplier charge of 1.1.

**Example**

Site in the East Anglia LDZ, EA1 exit zone

	Unit rate	Pre-ratchet (Annual)	Post-ratchet (Annual)	Annualised Difference
<b>AQ (kWh)</b>		20,000,000	20,000,000	
<b>SOQ (kWh)</b>		100,000	150,000	
<b>LDZ Capacity</b>	$0.8855 * SOQ^{-0.2155}$	£ 27,046.50	£ 37,175.25	£ 10,128.75
<b>LDZ Commodity</b>	$0.1815 * SOQ^{-0.2376}$	£ 2,360.00	£ 2,140.00	N/A
<b>LDZ Exit Capacity</b>	$0.0689 * SOQ^{-0.2100}$	£ 2,226.50	£ 3,066.00	£ 839.50
<b>LDZ Customer Capacity</b>	0.0052	£ 1,898.00	£ 2,847.00	£ 949.00
		£ 33,531.00	£ 45,228.25	£ 11,917.25
<b>Ratchet Incentive Charge</b>	<b>Total charge * 1.1</b>		<b>£ 1,191.73</b>	<b>£ 13,108.98</b>

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

	Calculation	Amount
<b>Ratchet Period</b>	93 days	
Capacity Ratchet Amount	$10,128.75 * 93 / 365$	£ 2,580.75
Customer Capacity Ratchet Amount	$839.50 * 93 / 365$	£ 213.90
NTS Exit Capacity Ratchet Amount	$949 * 93 / 365$	£ 241.80
<b>Ratchet Incentive Charge</b>	$1,191.73 * 93 / 365$	£ 303.65
<b>Total</b>		£ 3,340.01

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.

**Ratchet Performance Reporting and Monitoring**

To understand if the above measures are appropriate or if the incentive charge needs to be increased or decreased, a monthly Ratchet Performance Report by shipper (anonymised), including customer count, ratchet count and cumulative ratchet volume (kWh), is to be created before the 2018 gas year. (No obligation can be placed on PAC to view this report, but it is available if they wish to view ratchet performance).

## 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 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 implement the new ratchet calculation.



## 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.	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

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*.

## 8 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 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.

## 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.