

Representation

Draft Modification Report

Modification Report UNC 0665: Changes to Ratchet Regime

1. **Consultation close out date:** 14th March 2019
2. **Respond to:** enquiries@gasgovernance.co.uk
3. **Organisation:** Gazprom Energy
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4. **Representative:** Steve Mulinganie
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5. **Date of Representation:** 11th March 2019
6. **Do you support or oppose Implementation:**
We **Support** implementation of the Modification
7. **Please summarise (in 1 paragraph) the key reason(s) for your position:**
We originally raised UNC 0571 - Application of Ratchet Charges to Class 1 Supply Points (and Class 2 with an AQ above 73,200kWhs) in January 2016 (**over 3 years ago**). This modification was replaced with UNC 0619 - Application of proportionate Ratchet Charges to daily read sites in May 2017 which, including its alternatives was rejected in July 2018. Ofgem's noted in their rejection letter:

"We encourage industry parties to identify a suitable classification of relevant Supply Points which maintains the safeguards around accurate capacity declarations, as historically provided by the ratchet regime, whilst increasing the frequency and quality of meter read data being submitted to the Central Data Services Provider"

Accordingly, we never give up, we raised UNC 0665 – Changes to Ratchet Regime to address the concerns set out in the rejection letter. The modification seeks to ensure that Supply Points in Class 2 are subject to fair and equitable charges in the event that they exceed the booked capacity.

Our modification will ensure a fair ratchet regime for Class 2 Supply Points. The Gas Distribution Networks (GDN's) are currently largely unconstrained due to the continuing decline in peak gas demand and this has led to both the removal of interruptible Supply Points and Network Sensitive Loads. In our opinion the removal of this artificial, unnecessary and penal barrier to Supply Points transitioning to daily metered (Class 2) will allow the market to fully utilise the benefits of the rollout of Smart and Advanced meters throughout the value chain. An increase in the number of Supply Points settled daily will significantly improve settlement accuracy, reducing Unidentified Gas.

It will also minimise the level of sterilised capacity in the networks that would occur if parties, in particular those whose consumption is weather sensitive e.g. heating, had to over buy capacity to avoid the risk of penal ratchet charges, reducing the level of unwanted investment.

At the same time we acknowledge that the continuation of the current penal Ratchet regime for Class 1 sites, and also for any sites identified by the GDNs as representing a significant risk to the network continues to be appropriate at this time. To ensure transparency around these new arrangements we have put in place clarity (Guidance) as to how such sites are identified by GDN's and also provided parties with the ability to dispute such a determination.

Thus we believe our proposal strikes an appropriate and fair balance between protecting the GDN's from unexpected increases in gas use whilst:

- Achieving a manageable regime that Shippers can operate and Customers understand
- Providing Guidance for Customers identified as needing to be treated as Class 1 including the ability to challenge such a decision
- Making sure capacity charges are fairly levied and recovered
- Ensuring parties are not incentivised to **over or under** book capacity
- Removing a fundamental roadblock to moving supply points from Non-Daily Metered (Class 4 & 3) to Daily Metered (Class 2)
- Supporting the full utilisation throughout the value chain of Advanced & Smart meters ability to deliver daily reads into Settlement
- Delivering a Fair and Equitable outcome for all parties

8. Are there any new or additional Issues for the Modification Report:

No

9. Self-Governance Statement Do you agree with the status?

Not Applicable

10. Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

The increased uptake of Product Class 2 will seek to maximise the amount of accurate, forward looking Supply Meter Point information that is supplied to the DNOs, furthering Relevant Objective a) the efficient and economic operation of the pipe-line system to which this licence relates;

This Modification should remove a key barrier to Supply Meter Points becoming daily read by removing the risk of a penal element to the ratchet charge. This should improve cost targeting by the removal of an inappropriate charge on customers that have no material impact on the network and allow for 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, therefore, furthering Relevant Objective (d).

11. Impacts & Costs:

What analysis, development and on-going costs would you face if this modification was implemented?

We **have not** identified any significant costs associated with this modification

12. Implementation:

What lead times would you wish to see prior to this modification being implemented, and why?

This barrier needs to be removed as soon as possible, and certainly before the commencement of the 2019/2020 winter period.

13. Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

We have **no** comments on the Legal Text provided.

14. Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or you wish to emphasise.

We would like to extend our thanks to **all** the members of the Distribution Workgroup for all the help and assistance they have provided in developing the proposals throughout its many iterations.