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| UNC Modification | At what stage is this document in the process? |
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| <h1 style="margin: 0;">UNC 0619:</h1> <h2 style="margin: 0;">Application of proportionate ratchet charges to daily read sites</h2> | <div style="border: 1px solid #00a651; background-color: #00a651; color: white; padding: 2px; margin-bottom: 2px;">01 Modification</div> <div style="border: 1px solid #00a651; background-color: #e6f2ff; padding: 2px; margin-bottom: 2px;">02 Workgroup Report</div> <div style="border: 1px solid #00a651; background-color: #e6e6ff; padding: 2px; margin-bottom: 2px;">03 Draft Modification Report</div> <div style="border: 1px solid #00a651; background-color: #fff9c4; padding: 2px;">04 Final Modification Report</div> |
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Purpose of Modification:
 This modification will set the multiplier used to determine the Supply Point Ratchet Charge for daily read sites to one. The Supply Point Ratchet Charge will also have the transportation charges the site would have incurred if it had not breached its supply point offtake netted off.

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|  | <p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> considered a material change and not subject to self-governance assessed by a Workgroup <p>This modification will be presented by the Proposer to the Panel on 18 May 2017. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p> |
|  | <p>High Impact: Shipper Users and Transporters</p> |
|  | <p>Medium Impact: None</p> |
|  | <p>Low Impact: None</p> |

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Contents

| | | |
|----|--------------------------------|---|
| 1 | Summary | 3 |
| 2 | Governance | 3 |
| 3 | Why Change? | 3 |
| 4 | Code Specific Matters | 4 |
| 5 | Solution | 4 |
| 6 | Impacts & Other Considerations | 4 |
| 7 | Relevant Objectives | 7 |
| 8 | Implementation | 8 |
| 9 | Legal Text | 8 |
| 10 | Recommendations | 8 |

Timetable

The Proposer recommends the following timetable:

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| Initial consideration by Workgroup | 25 May 2017 |
| Workgroup Report presented to Panel | 20 July 2017 |
| Draft Modification Report issued for consultation | 20 July 2017 |
| Consultation Close-out for representations | 10 August 2017 |
| Final Modification Report available for Panel | 11 August 2017 |
| Modification Panel decision | 17 August 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 remove the 'penalty effect' of the ratchet charge regime for these customers otherwise a disproportionate charge would be levied on sites that breach their stated daily system offtake rate, even though they may not represent a risk to the management of the system by doing so.

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Why

If the ratchet charge regime is not reformed so that the ratchet costs levied are proportionate then the number of sites electing to become daily read will be severely limited, reducing settlement accuracy and hampering the development of innovative market products. For those sites that do elect to become daily read, Shippers are likely to continue to over-estimate peak capacity needs, resulting in an inflated view of peak system requirements.

How

It is proposed that the calculation process for the Supply Point Ratchet Charge is changed in three ways.

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- The ratchet charge multiplier is set according to a table (currently set at 1 for all End User Category (EUC) Bands).
- The transportation charges that a supply point would incur if had not ratcheted will be netted off the Supply Point Ratchet Charge.
- The ratchet charge will only apply for the period for when sites will be ratcheted (October to May)

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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.

No other changes to the ratchet regime are proposed, such as changing the period for which a ratchet charge can be incurred.

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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

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3 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 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 some parties 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 domestic consumers in Product Class 2, who have low consumption levels and who the Proposer believes 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 overestimate likely capacity requirements, 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 proposed solution is to change how the Supply Point Ratchet Charge is calculated in two key regards:

Multiplier

The multiplier used to inflate the Applicable Annual Rate of the LDZ Capacity Charge to derive the Supply Point Ratchet Charge will be set according to the below table:

| | KWh | | Ratchet Charge Multiplier | |
|-------------------|--------|---------|---------------------------|---------|
| | From | To | Class 1 | Class 2 |
| EUC Band 1 | - | 73,200 | 1 | 1 |
| EUC Band 2 | 73,200 | 293,000 | 1 | 1 |

| | | | | |
|------------|------------|------------|---|---|
| EUC Band 3 | 293,000 | 732,000 | 1 | 1 |
| EUC Band 4 | 732,000 | 2,196,000 | 1 | 1 |
| EUC Band 5 | 2,196,000 | 5,860,000 | 1 | 1 |
| EUC Band 6 | 5,860,000 | 14,650,000 | 1 | 1 |
| EUC Band 7 | 14,650,000 | 29,300,000 | 1 | 1 |
| EUC Band 8 | 29,300,000 | 58,600,000 | 1 | 1 |
| EUC Band 9 | 58,600,000 | - | 1 | 1 |

Whilst it is considered the table above represents the optimum solution, as the values are all set at 1, the modification can be initially implemented using a uniform multiplier, as the system changes are developed.

Netting of Charges paid

At present the Applicable Annual Rate used to calculate the Supply Point Capacity Charge does not take into account the capacity charges that a customer is already paying. As 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 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 Capacity Charge will be netted off the Supply Point 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.
- At present ratchet charges is not specifically linked to any settlement date, but is simply a lump sum linked is notionally linked to annual offtake. It is proposed that will only apply for the period where the Ratchet Regime is in operation (i.e 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".

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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.

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 = Capacity Ratchet Amount + Customer Capacity Ratchet Amount + Exit Capacity Ratchet Amount

The components of the above calculation are calculated as follows:

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- Capacity Ratchet Amount = (Annualised LDZ Capacity Charge after ratchet applied * Ratchet Charge Multiplier * Ratchet Period/365) – sum of LDZ Capacity Charge applicable prior during the Ratchet Period being applied.
- Customer Capacity Ratchet Amount = (Annualised LDZ Customer Charge * Ratchet Charge Multiplier * Ratchet Period/365) – sum LDZ Customer Charge applicable during the Ratchet Period prior to ratchet being applied.
- NTS Exit Capacity Ratchet Amount = (LDZ Exit Capacity NTS (ECN) Charges * Ratchet Charge Multiplier * Ratchet Period/365) – sum LDZ Exit Capacity Charge applicable during the Ratchet Period prior to Ratchet being applied.
- Ratchet Period = number days between 1st October of the applicable gas year and the day of the ratchet.

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Example

Site in the East Anglia LDZ, EA1 exit zone.

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

Assuming that the ratchet occurs on the 1st January (93 days after the 1st October) then the calculation is as follows:

| | Calculation | Amount |
|----------------------------------|------------------------|------------|
| Ratchet Period | 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 |
| Total | | £ 3,036.45 |

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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 incorporate the proposed table.

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 | None |

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| satisfied as respects the availability of gas to their domestic customers. | |
| 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 in time for the start of the gas year 2017/18, i.e. 1st October 2017.

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.

Exit Capacity Amount is defined as the LDZ Exit Capacity applicable after the daily offtake has been ratcheted.

Exit Capacity Amount is defined as the LDZ Exit Capacity applicable after the daily offtake has been ratcheted.

The second change to the Supply Point Ratchet Calculation is to net off the Applicable Annual Rate that would apply prior to the application of the Ratcheted Supply Point Capacity, so that the charge is only for the net increase in capacity.