

# 0551:

## Protecting consumers who are disaggregated under Modification 0428 from Ratchet charges for Winter 2015/16

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- 04 Final Modification Report

The disaggregation process under Modification 0428 has created “new” Single Metered Supply Points some of which will fall within scope of the Ratchet regime this Winter. This modification proposes to provide transitional protection for customers from Ratchet charges for Winter 2015/16.



The Workgroup recommends that this modification should now proceed to Consultation.











High Impact: Shippers



Medium Impact: None



Low Impact: None

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<b>About this document:</b>		 <b>07883 099616</b>
This report is to be presented to the Panel on 15 October 2015.		<b>Systems Provider:</b> Xoserve
The Panel will consider whether the modification should proceed to Consultation or be returned to the Workgroup for further assessment.		 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
The Workgroup recommends the following timetable:		
Initial consideration by Workgroup	27 August 2015	
Amended Modification considered by Workgroup	24 September 2015	
Workgroup Report presented to Panel	15 October 2015	
Draft Modification Report issued for consultation	15 October 2015	
Consultation Close-out for representations	05 November 2015	
Final Modification Report produced for Panel	06 November 2015	
UNC Modification Panel decision	19 November 2015	

# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification because it is likely to have material effect on gas consumers. The changes in this modification relate to the application of ratchet charges and therefore potentially have a material impact on existing consumers.

## Why Change?

The introduction of Modification 0428 - Single Meter Supply Points has led to the creation of a large number of “new” single metered supply points and some of these will fall within scope of the Ratchet regime for winter 2015/16.

Recognising that Modification 0428 has introduced a “step change” in market arrangements we believe affected consumers should be provided with a “soft landing” from ratchet charges for winter 2015/16 for those new individual meter supply points created as a result of the implementation of Modification 0428.

For the avoidance of doubt we have waited until after the close out for amendments window under Modification 0428 to raise this proposal to avoid any risk of parties seeking to rely on this remedy when considering the information they submit under Modification 0428.

## Solution

All single metered supply points created as a result of the implementation of Modification 0428 – Single Meter Supply Points would be exempt from Ratchet charges for winter 2015/16.

As this is a Transitional proposal we would not propose changing the existing process but instead would see any Ratchet charges generated being **retrospectively adjusted**.

For the avoidance of doubt and to protect against unreasonable offtake the relief is subject to a cap, which is set out in Business Rule 2 below but which effectively limits relief.

## Relevant Objectives:

This modification has positive impact on Relevant Objective d) by allowing customers and shippers the benefit of a soft landing when booking capacity for a single supply meter point (where previously this had been part of an aggregation), appropriate warning would be given to the shipper and customer as to the potential impact of ratchets for the following year for any unintended error if the capacity is not accurately amended. This would provide accurate information of the site characteristics to the customer, incumbent shipper and any potential new shipper, therefore benefiting competition.

## Implementation

No implementation time-scales are proposed. However, should Ofgem direct implementation of this modification due to its transitional nature and the limited time available prior to winter 2015/16, we would like to see the effects of this modification applying from 1<sup>st</sup> October 2015.

## Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impacts are anticipated.

## 2 Why Change?

The introduction of Modification 0428 - Single Meter Supply Points has led to the creation of a large number of “new” single metered supply points and some of these will fall within scope of the Ratchet regime for winter 2015/16.

Although not intrinsically linked the proposal was scheduled to be implemented in line with the Project Nexus Go Live date of October 2015. Under project Nexus supply points switching class into Class 1 or 2 are afforded a degree of protection from Ratchet charges. By rescheduling Nexus delivery to October 2016 this protection is no longer available for winter 2015/16.

Of the circa 90,000 MPRN's affected by Modification a proportion will remain in scope of the ratchet regime for this winter. Despite the use of reasonable endeavours by both Shippers and Consumers to establish the correct capacity information many of these affected Meter Points have been aggregated for some time (In fact greater than 97% were being created before 2000) and are part of complex downstream interconnected networks. As such the ability to determine the correct capacity data for each disaggregated meter has been challenging. Finally some customers have not been actively engaged in the process and have thus become subject to Xoserve determining the details of the de-aggregation.

As such and recognising that Modification 0428 has introduced a “step change” in market arrangements we believe consumers should be provided with a “soft landing” from ratchet charges for winter 2015/16.

For clarity we have waited until after the close out for amendments window under Modification 0428 to raise this proposal to avoid any risk of parties seeking to rely on this remedy when considering the information they submit under Modification 0428.

For the avoidance of doubt and to protect against unreasonable offtake the relief is subject to a cap, which is set out in below but which effectively limits relief.

What is a Ratchet?

Put simply a ratchet is a commercial penalty charge applied to any daily metered meter which during the Winter Period (October to May) exceeds its agreed Daily Capacity (SOQ). This commercial penalty exists to deter parties from setting their daily capacity requirements below what is actually needed during the winter when demand is at its highest.

Current Process Overview

When a Shipper takes ownership of a supply point they must nominate a Daily Supply Point Offtake Quantity (SOQ), which must not be less than the Bottom Stop SOQ (BSSOQ), the maximum daily amount off-taken in the previous winter period. Should the User Daily Quantity Off-Take (UDQO) exceed the booked capacity, a ratchet will occur. The ratchet acts as both a commercial incentive as well as increasing the SOQ to the new peak off-take, subject to the provisional maximum SOQ for the Supply Point.

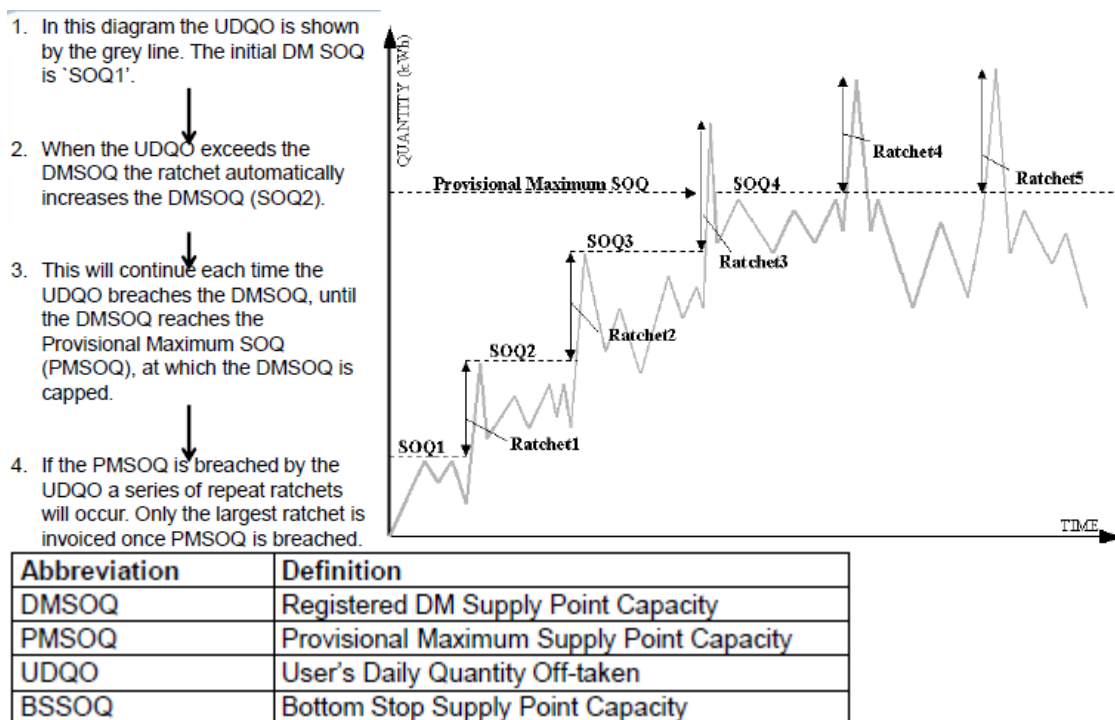
Ratchets are applicable to Daily Metered Supply Points, or the Daily Metered component within a mixed Supply Point.

Ratchet Calculation

In the case where the UDQO exceeds the DM SOQ, the difference is used to calculate the ratchet charge. UNC Section B4.7.6:

- The Supply Point Ratchet Charge shall be calculated as the Capacity Ratchet Amount multiplied by the sum of:
  - (a) 2 times the Applicable Annual Rate (including where determined in accordance with paragraph 1.8.5(a)) of the LDZ Capacity Charge; and

- o (b) where applicable, 2 times the Applicable Annual Rate of the Capacity Variable Component (if any) of the Customer Charge



### 3 Solution

All single metered supply points created as a result of the implementation of Modification 0428 – Single Meter Supply Points would be exempt from Ratchet charges for winter 2015/16. For the avoidance of doubt and to protect against excessive offtake the relief is subject to a cap which is set out in Business Rule 2 below but which effectively caps relief.

As this is a Transitional proposal it is not proposed to change the existing process but instead would see any Ratchet charges generated being refunded for the applicable Meter Supply Points.

The transitional arrangements in this modification would be applicable to eligible MPRNs subject to a ratchet within the period 01 October 2015 to 31<sup>st</sup> May 2016.

Any Multi Metered Supply Point that existed as at the 1<sup>st</sup> October 2014 and which was subsequently reconfirmed as a Daily Metered Single Metered Supply Point are in scope of this proposal and subject to Business Rule 2 would be exempt from Ratchet Charges for Winter 2015/16

The relief from ratchet charges is applicable to Daily Metered (DM) [2] Supply Points where the registered Supply Point Capacity for the 'new' DM Supply Point is exceeded but the **total registered Supply Point Capacity following the ratchet** for all disaggregated DM Supply Points relevant to the site is not higher than the previous aggregated Supply Point Capacity for the DM component as at 1<sup>st</sup> October 2014 '.

#### Business Rules

##### Business Rule 1

A Candidate MPRN is any DM Supply Meter Point, which comprised part of an aggregated configuration as at 1st October 2014 and which was subsequently disaggregated under UNC Modification 0428 requirements and remained as DM.

Excludes any SMP confirmed as DM after 1<sup>st</sup> October 2014, which did not previously comprise part of an aggregated configuration.

- Applicable to Winter 2015/2016 only
- NDMs are excluded

Business Rule 2:

Candidate MPRNs will be subject to two tests both measured using the combined UDQO of the disaggregated DM SMPs:

Against the previously registered aggregated SOQ, and

Against the combined registered SOQ of the newly disaggregated SMPs.

If the combined UDQO is lower than the greater of the two figures, relief from the ratchet incentive charge will be provided.

Relief from ratchets will not be provided if the combined UDQO exceeds the values defined in BR2

Business Rule 3:

Relief from ratchets will constitute exemption (through retrospective adjustment) of the ratchet incentive charge, but the consequent SOQ increase will be retained.

Business Rule 4:

Xoserve will identify those SMP's that qualify for exemption and will notify the Shipper accordingly **as per current process** to enable the relevant Shipper to raise a valid query with Xoserve **within the relevant window**.

Shippers must raise a **valid** query with Xoserve **within the prevailing process and associated deadline** in order to be eligible for relief.

Business Rule 5:

Ratchets will continue to be applied on an individual SMP basis, as per existing processes.

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	This is a User Pays Modification as it amends an existing service for a transitional period.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	TBC
Proposed charge(s) for application of User Pays charges to Shippers.	TBC
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	TBC

## 4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
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

By allowing customers and Shippers the benefit of a soft landing when booking capacity for a single supply meter point (where previously this had been part of an aggregated Supply Point), appropriate warning would be given to the Shipper and customer as to the potential impact of ratchets for the following year for any unintended error if the capacity is not accurately amended. This would provide accurate information of the site characteristics to the customer, incumbent Shipper and any potential new Shipper, therefore benefiting competition.

## 5 Implementation

No implementation time-scales are proposed. However, should Ofgem direct implementation of this modification due to its transitional nature and the limited time available prior to winter 2015/16, the Proposer would like to see the effects of this modification applying from 01 October 2015.

## 6 Impacts

### Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impacts have been identified or are anticipated should this modification be implemented.

## 7 Legal Text

### Text Commentary

Insert text here

### Text

The following Text has been prepared by Northern Gas Networks, at the request of the Modification Panel; no issues were raised by the Workgroup regarding its content.

## 8 Recommendation

The Workgroup invites the Panel to:

- AGREE that this modification should be submitted for Consultation.