**ChMC Example ROM**

**ACTION 1201** - To look to provide a case study which the Change Management Committee could then examine in order to hopefully identify a ‘best practice’ which would hopefully improve the provision of high level ROMs going forwards.

Below is an example ROM which could be produced to support development of a ROM with additional detail.

Points to note:

* The current timelines for delivery may exceed the 10 day SLA where additional detail is required
* There will need to be sufficient detail in the modification, including business rules and requirements that support the development of a detailed ROM

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| ROM Analysis |
| **Change Assessment**The modification proposal states that if ratchet charges remain disproportionate…[a] The number of SMPs that may elect to become DM will be severely limited, reducing settlement accuracy and hampering the development of innovative granular market products.[b] Shippers are incentivised to be risk averse and over-book their capacity resulting in an inflated and distorted view of peak system requirements with potential denial of constrained capacity to those who need it.To make ratchet charges proportionate the proposer wishes to implement the principle that DNOs only recover the capacity revenue that would have been payable had the quantity offtaken been the booked SMP capacity from the start of the period that ratchets apply (i.e. since the most recent Oct 1st). Where the SMP was not registered on Oct 1st the period will start on the first registration after that date. For Seasonal SMPs the period will start from the Seasonal Contract start date.  Essentially; for each capacity charge type included in ratchet charges, which must now include the ECN charge type, the following daily ratchet charge must be billed for each day (inclusive) from the preceding October 1st to the last day the pre-ratchet SOQ was applicable for capacity charging. Daily Ratchet Charge =  ( Quantity offtaken \* Relevant Rate for Quantity offtaken ) minus  ( Pre-ratchet SOQ \* Relevant Rate for Pre-ratchet SOQ ) The above rule must also apply to Seasonal SMPs. Note: The rules relating to Seasonal SMPs have been revised in the latest version of the MOD but too late to be the basis of cost estimation. The resultant charges would be then uplifted by an amendable multiplier that would initially set to 1.1An annual Ratchet Performance report will be available  |
| **Change Impact:****Invoicing changes to Ratchet charges** Charges resulting from application of the new rules would be billed via the Capacity Invoice at M+2.In the charge calculation example table in the MOD there is a separate row for “Ratchet Incentive Charge”.Consideration was given to the increment by which charges are increased by application of the multiplier. The below options were considered. 1. As a single separate charge (of a new charge type) based on the total charge amount for all ratchet charge types
2. As a separate charge (of a new charge type) for each ratchet charge type based on the charge amount for each ratchet charge type
3. As a separate charge (of the same ratchet charge type) for each ratchet charge type based on the charge amount for each ratchet charge type
4. As an increase to the charge amount invoiced for each current ratchet charge type based on the charge amount for each ratchet charge type **Note:** **This would be the easiest to implement and has been assumed for the purposes of the ROM and costs.**

**Ratchet Performance Reporting and Monitoring**To understand if the *proposed 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).**Report Usage**A monthly report has been requested but it is unlikely that a decision to adjust the regime would be made based on the data for a single month. If data was additionally provided by LDZ and by AQ band (and/or SOQ band) more detailed analysis would be possible.**Terminology**The term “ratchet volume” in the above MOD extract is an energy value not a volume value and so the term “ratchet quantity” will be used here.**Trigger**Each month produce a report for the previous month (October to May). Triggered no earlier than “exit close out” plus 1day for the last day in each report month.**Selection Criteria**All Gas Days in the relevant report month“Ratchet Quantity” for each Ratchet counted = Daily SMP offtake - (aggregate) Booked Daily Capacity at the SMP on that day the booked capacity is breached.Assumptions: * “Cumulative Ratchet Volume” means the aggregate ratchet quantity for all ratchets counted in the relevant report month (and not the cumulative ratchet quantity for all ratchets counted so far in a gas year).
* “Customer Count” is the number of ratchets for each shipper in the relevant period
* “Ratchet Count” is the number of ratchets for all shippers in the same period

The reported count of Ratchets is one of the following… * The Number of Capacity Breaches: The number of times a daily SMP offtake exceeded (aggregate) booked capacity at the SMP on that day (this count would include all capacity breaches).
* The Number of Capacity Ratchets: The number of times the booked capacity at a SMP was “ratcheted” upwards. This count would exclude all breaches that occurred at a SMP while the SMP capacity was already >= 16 x SHQ.
* The Number of Billed Capacity Breaches: The number of times a ratchet charges was billed. This count would exclude all but one of the breaches that occurred in a month while the SMP capacity was already >= 16 x SHQ.

Recommended Option: The Number of Capacity Breaches  |
| **Output rules**For each Shipper (anonymised) on these gas days count the number of times there is a “Ratchet” and accumulates the “Ratchet Quantity (kwh)” for all counted ratchets. “Ratchet Quantity” for each Ratchet counted = Daily SMP offtake - (aggregate) Booked Daily Capacity at the SMP on that day the booked capacity is breached.**Assumptions:** * “Cumulative Ratchet Volume” means the aggregate ratchet quantity for all ratchets counted in the relevant report month (and not the cumulative ratchet quantity for all ratchets counted so far in a gas year).
* “Customer Count” is the number of ratchets for each shipper in the relevant period
* “Ratchet Count” is the number of ratchets for all shippers in the same period

In producing this ROM the below 3 options have been considered:* The Number of Capacity Breaches: The number of times a daily SMP offtake exceeded (aggregate) booked capacity at the SMP on that day (this count would include all capacity breaches).
* The Number of Capacity Ratchets: The number of times the booked capacity at a SMP was “ratcheted” upwards. This count would exclude all breaches that occurred at a SMP while the SMP capacity was already >= 16 x SHQ.
* The Number of Billed Capacity Breaches: The number of times a ratchet charges was billed. This count would exclude all but one of the breaches that occurred in a month while the SMP capacity was already >= 16 x SHQ.

The recommended Option: The Number of Capacity Breaches has been considered within producing this ROM. **Alternative options can be considered and costed if required.**  |
| **Change Costs (implementation):**The solution will cost at least **£75,000**, but probably not more than **£115,000** to develop.The high end cost includes development of an additional interim operational solution that may be needed to bridge the gap from October 2018 to delivery of the enduring automated solution. Note: This accounts for only a portion of the difference between low and high end costs.  |
| **Change Costs (on-going):****Ratchet query management** The cost of operational management of ratchet queries will depend on ratchet frequencies after MOD 619 is implemented.Assuming historic ratchet query and resolution rates, ongoing costs to manage queries resulting from 100 ratchets would cost approximately £650.Actual ongoing costs will vary from the above depending on…* Changes in the size of the DM SMP population,
* Changes in capacity booking behaviour and the effect this has on ratchet frequencies,
* Shipper query behaviour in response to such ratchets.

**Cost of operating an interim solution** (if needed)**£12,000 to £24,000** for every 100 ratchets that incurred charges under pre-MOD 619 rules. |
| **Timescales:**The strategy adopted for Post Nexus change is a Release strategy (changes grouped and implemented together at a set date) and it is expected that this change would form part of a Release. The desire for an implementation in time for the ratchet period starting in October 2018 is understood. Whilst the change will be targeted at a release to achieve that aim, a target release ((or target release date) cannot be specified until a Change Proposal for delivery has been prioritised and agreed by the DSC Change Committee.Note: Since ROMs are requested some way in advance of releases being scoped, costs quoted in a ROM are based on implementing the solution in isolation. When the change is implemented a portion of the relevant release costs will attributed to this change and in doing so reflect the costs from implementing the change as part of a release. |
| **Assumptions:*** The change applies to all DM SMPs, i.e. including Class 1 SMPs.
* The change will be implemented within the new UK Link SAP system
* The uplift in charges as a result of the applying the ratchet multiplier value of 1.1 will be billed as an increase to the charge amount for each charge type included in ratchet charges, i.e. the uplift will not be billed as a separate charge amount(s) or via new charge type(s).
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| **Dependencies:*** No material dependencies have been identified at this time.
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| **Constraints:*** It has not been possible within the timescales of ROM analysis to determine if there is a frequency of ratchets which would result in higher system operation costs and/or the need for performance improvement measures.
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| **Observations:*** None
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Please send the document to the following:

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| Xoserve Portfolio Office | changeorders@xoserve.com |
| Requesting Party | As specified in ROM Request |