












UNC Modification	At what stage is this document in the process?
<h1>UNC 0665:</h1> <h2>Introduction of suitable classification of Ratchetable Supply Points & ensuring accurate Capacity Allocations (SOQ)</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #008000; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;"> 01 Modification </div> <div style="border: 1px solid blue; padding: 5px; display: flex; align-items: center; justify-content: center;"> 02 Workgroup Report </div> <div style="border: 1px solid purple; padding: 5px; display: flex; align-items: center; justify-content: center;"> 03 Draft Modification Report </div> <div style="border: 1px solid orange; padding: 5px; display: flex; align-items: center; justify-content: center;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</p> <p>Relevant Transporters (for the avoidance of doubt NTS sites are excluded) will ahead of the relevant Gas Year Ratchet period identify Supply Points which will then be subject to <u>the existing</u> Ratchet charges <u>regime</u> (Ratchetable Supply Points).</p> <p>In addition, a relevant non Ratchable Supply Point that exceeds its booked supply point offtake (SOQ) during the relevant Gas Year Ratchet period will incur the same transportation charges for that higher capacity without being unduly penalised</p>	
	<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>High Impact: Shippers, Distribution Network Operators (DNO's) and CDSP</p>
	<p>Medium Impact:</p>
	<p>Low Impact:</p>

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1 Summary

What

Gazprom Energy originally raised Modification 0571 in January 2016 to address industry concerns about the detrimental impact of penal Ratchet Charges on consumers. This Modification was withdrawn in May 2017 and replaced with Modification 0619 which developed the proposals and was subsequently accompanied by two alternative proposals (0619 A and B). All three of the proposals were rejected by Ofgem on 27 July 2018. This was **nearly two and half years after** the issues were first highlighted and accordingly customers have continued to be subject to this penal regime for the past two ratchet seasons.

In Ofgem’s decision letter they noted:

*“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”*

Taking on board Ofgem’s comments this Modification seeks to address these points.

There remains a concern that the current penal Ratchet regime is applied to all Daily Metered Supply Points or Product Class 1 & 2 customers as a tool by Transporters to manage constraints and the safety of their network, **when most sites pose no material risk to the gas network**. Given that the penalties are non-cost reflective and are not proportionate for most customers, this has impacted on the utilisation of Class 2. This lack of Class 2 utilisation (Aug-18 data below) has a direct impact on temporary Unidentified Gas (UIG) allocation and therefore the current scope of the Ratchet regime is not fit for purpose.

Class	MPRN Count	Smart Count	Total	Smart %
1	427	0	427	0.00%
2	657	1	658	0.15%
3	58,833	66,658	125,491	53.12%
4	18,092,536	5,945,478	24,038,014	24.73%

Why

By targeting the application of penal Ratchet charges to the sites that a Transporter can evidence will have a negative effect on its ability to discharge its licence obligations for adequate arrangements to enable it to meet its Safety Case, this will ensure that only those Supply Points that meet the relevant requirements will be subject to a penal Ratchet charge whilst also ensuring that those that are not subject to the penal Ratchet charge but are using Class 1 & 2 Daily Metered set their SOQ accurately.

How

Relevant Transporters (for the avoidance of doubt NTS sites are excluded) will ahead of the relevant Gas Year Ratchet period identify Supply Points which will then be subject to Ratchet charges (Ratchetable Supply Points). Taking advantage of the reforms proposed under UNC Modification

0647 (Opening Class 1 reads to Competition) these sites will be classified as Class 1, as defined under the current proposal (for the avoidance of doubt there is no proposal to increase the number of sites classified as Class 1 under the current criteria).

In addition, a relevant non Ratchable Supply Point that exceeds its booked supply point offtake (SOQ) during the relevant Gas Year Ratchet period will incur the same transportation charges for that higher capacity without being unduly penalised.

2 Governance

Justification for Authority Direction

The proposals in this Modification ~~should be implemented in time for the 2018/19 Gas Year and therefore,~~ need to be progressed urgently as soon as possible. This is to minimise the risks associated with a low population of daily metered sites adversely affecting the accuracy of gas settlements, particularly in respect of the daily volumes of unidentified gas, which would otherwise have a significant commercial impact on Users and consumers over the next winter.

By placing a requirement on relevant Transporters to justify the use of the Ratchet regime will ensure that the Ratchet Regime use is proportionate. The proposal will, therefore, remove a material artificial constraint on Shippers utilising the Class 2 product other than where its use is justified.

Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance
- be assessed by a Workgroup

The proposals in this Modification should be implemented in time for the 2018/19 Gas Year and therefore be treated as urgent, as they aim to remove a barrier to participating in Class 2 that will increase the accuracy of gas settlements, particularly in respect of the daily volumes of Unidentified Gas and should proceed as such under a timetable agreed with the Authority.

Following discussion at the Modification panel on 16th August 2018 it was agreed that the proposal would not be treated as Urgent and would be sent to workgroup for development with a report expected to panel in January 2019.

3 Why Change?

In Ofgem's decision letter on Modification 0619/A/B they noted:

*"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"*

Taking on board Ofgem's comments this Modification seeks to address these points.

By targeting the application of Ratchet charges, we will ensure that only those Supply Points that meet the relevant requirements will be subject to penal Ratchet charges whilst also ensuring that those using Class 1 & 2 set their SOQ accurately. The greater use of Class 2 will better maximise

the amount of accurate, forward looking Supply Point information that is supplied to the Distribution Network Operators (DNOs) thus helping to reduce the levels of temporary Unidentified Gas.

4 Code Specific Matters

Reference Documents

Modifications:

UNC 0571/A Application of Ratchet Charges to Class 1 Supply Points (and Class 2 with an AQ above 73,200kWhs) - <https://www.gasgovernance.co.uk/0571>

UNC 0619/A/B Application of proportionate ratchet charges to daily read sites

- <https://www.gasgovernance.co.uk/0619>

UNC 0647 Opening Class 1 reads to Competition – <https://www.gasgovernance.co.uk/0665>

Knowledge/Skills

None.

5 Solution

~~Ratchable Supply Points~~

Site Classification

- ~~1. Class 1 sites will be subject to the Ratchet regime as currently defined in the UNC Relevant Transporters (excluding NTS) will be required to identify relevant Supply Points, by Meter Point Reference Number (MPRN), which will then be subject to Ratchet charges, (Ratchetable Supply Point).~~
- ~~2. Class 2 sites will be subject to the revised ratchet regime (Revised Ratchetable Charge Calculation).~~
- ~~3. A site will be classified as Class 1 (in addition to those sites classified as Class 1 as set out in UNC TPD G1.5.1) if the relevant Gas Transporter designates it to be a Ratchetable Supply Point in accordance with BR5&BR6 below.~~
- ~~4. Gas Transporters may not designate a site as a Ratchetable Supply Point until the Class 1 regime is reformed in accordance with UNC Modification 0647.~~

~~4.5.~~ The relevant Transporter shall –

- a. No later than one month ~~{30}~~ days ahead of the relevant Gas Year Ratchet period (October to May) or
- b. No later than one month ~~{30}~~ days after the Ofgem decision; or
- c. Within ~~{30}~~ days of a new Supply Point being Registered for the first time

Identify those Supply Points, which meet the relevant criteria, and are to be considered as relevant Ratchetable Supply Points;

~~2.6.~~ A Supply Point shall be considered as a relevant Ratchetable Supply Point if:

- a. The relevant Transporter is able to demonstrate that if the specific Supply Point was not subject to the Ratchet regime it would constitute a material negative effect on its ability to discharge its licence to manage their pipe-line systems efficiently and economically and affected its Safety Case.
- b. A Guidance document will be developed and maintained (Guidelines for the determination of Ratchable Supply Points) which will set out how the relevant Transporter will determine if a Supply Point is a Ratchetable Supply Point.

7. An appeal mechanism will be put in place to enable a relevant Shipper to appeal to the UNCC any such determination made under 2a in accordance with the Guidance document developed under 2b.

~~3-8. [A transporter may seek to engage with a shipper to agree a NExA regarding any Class 1 meter point. Similarly a shipper may seek to engage with a transporter to agree a NExA for a Class 1 meter point].~~

~~4. Once identified as a Ratchable Supply Point, the Supply Point will be treated as a Class 1 or Class 2 Supply Point. The relevant Shipper will ensure the Ratchetable Supply is, and remains whilst determined to be a Ratchetable Supply Point, a Class 1 or Class 2 Supply Point.~~

Revised Ratchet Charge Calculation (Class 2)

9. The Revised Ratchet Charge is as follows: Supply Point Ratchet Charge = LDZ Capacity Ratchet Amount + Customer Capacity Ratchet Amount + Exit Capacity Ratchet Amount

- a. 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)
- b. 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)
- c. 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)
- d. 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.

Example

Site in the East Anglia LDZ, EA1 exit zone

	<u>Unit rate</u>	<u>Pre-ratchet (Annual)</u>	<u>Post-ratchet (Annual)</u>	<u>Annualised Difference</u>
<u>AQ (kWh)</u>		<u>20,000,000</u>	<u>20,000,000</u>	-
<u>SOQ (kWh)</u>		<u>100,000</u>	<u>150,000</u>	-

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 20th December then 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

h. 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.

Interaction with Provisional Maximum Supply Point Capacity

10. 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 Non Ratchetable charge calculation would utilise the Maximum Supply Point Capacity in this circumstance.

Ensuring accurate Capacity Allocations (SOQ) for non Ratchetable Class 1 & 2 Supply Points

A non Ratchetable Supply Point that **does breach** its supply point offtake (SOQ) will incur the same transportation charges for that higher capacity

The intention of these rules is to ensure that non Ratchetable Class 1 & 2 Supply Points who exceed their current SOQ in the relevant Gas Year Ratchet period (October to May) do not benefit from having not set their SOQ accurately but are not unduly penalised either:

1. All Class 1 and Class 2 sites who are not a Ratchetable Supply Point(s) will if they exceed the SOQ during the relevant Gas Year Ratchet period (October to May) be considered a non Ratchetable Supply Point and be subject to the following:
 - a. The LDZ Capacity charge that the site has paid for the current Gas Year prior to the SOQ change will be netted off the new charge.
 - b. A new charge, the Customer Capacity Amount, will be levied to correct for the difference between the original SOQ and the actual SOQ LDZ Customer Charges for that Gas Year.

- e. ~~A new charge, the NTS Exit Capacity Amount, will be levied to correct for the difference between the original SOQ and the actual SOQ LDZ Exit Capacity NTS (ECN) Charges.~~

~~At present non Ratchable charges are not specifically linked to any settlement date, but is simply a lump sum 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 Non Ratchetable will continue to apply for the period October to May inclusive and is linked to the Non Ratchetable charge to the date to ensure that the customer is charged in line with the principles set out above. The period for which the non Ratchetable charge is applied is termed the "Non Ratchetable 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 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 calculation.~~

Interaction with Provisional Maximum Supply Point Capacity

- e. ~~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 GDSP 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 Non Ratchetable charge calculation would utilise the Maximum Supply Point Capacity in this circumstance.~~

Revised Non Ratchetable Charge Calculation

~~The Non Ratchetable Ratchet Charge will be changed to reference three different types of transportation charges in its calculation.~~

~~Supply Point Non Ratchetable Charge = LDZ Capacity Non Ratchetable Amount + Customer Capacity Non Ratchetable Amount + Exit Capacity Non Ratchetable 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 Non Ratchetable Amount = (Annualised LDZ Capacity Charge after revised ratchet capacity applied * Non Ratchetable Charge Multiplier * Non Ratchetable Period/365) — LDZ Capacity Charge that would be applicable immediately prior to the charge * Non Ratchetable Period/365)~~

~~Customer Capacity Non Ratchetable Amount = (Annualised LDZ Customer Charge after revised ratchet capacity applied * Non Ratchetable Charge Multiplier * Non Ratchetable Period/365) — LDZ Customer Charge that would be applicable immediately prior to the charge * Non Ratchetable Period/365)~~

~~NTS Exit Capacity Non Ratchetable Amount = (Annualised LDZ Exit Capacity NTS (ECN) Charges after revised ratchet capacity Charge that would be applicable immediately prior to the charge * Non Ratchetable Period/365)~~

~~Non Ratchetable Period = for sites other than Seasonal Large Supply Points, it is either the number of days between 1 October of the applicable gas year and the day before that the prospective Non Ratchetable 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.~~

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 should remove a key barrier to Non Ratch~~et~~able Supply Points becoming daily read by removing the risk of a penal ratchet charge, which will improve cost targeting by the removal of an inappropriate charge 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. At the same time, it ensures that Non Ratch~~et~~able Supply Points ~~that are Class 1 & 2~~ set their SOQ's accurately and in the event that they do not are subject to reasonable charges.

Cross Code Impacts

The changes proposed in ~~this Modification~~this Modification might impact iGT UNC requiring its amendment to maintain consistency with the UNC.

EU Code Impacts

None Identified.

Central Systems Impacts

These proposals would have an impact on central systems.

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.	Positive
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.	Positive
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers;	Positive

(ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	
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

The increased uptake of Product Class 1 & 2 will seek to maximise the amount of accurate, forward looking Supply 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; and Relevant objective (b) so far as is consistent with sub-paragraph (a), the 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.

This Modification should remove a key barrier to Non Ratchable Supply Points becoming daily read by removing the risk of a penal ratchet charge, which will improve cost targeting by the removal of an inappropriate charge 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, therefore, furthering Relevant Objective (d).

8 Implementation

As directed by the Authority. These proposals would have an impact on central systems and implementation may require a transitional project and possibly rules if implementation is required for 2018/19. This modification is dependent on the implementation of UNC Modification 0647 and so its implementation should be timed to coincide with that.

9 Legal Text

Text Commentary

To be provided by Transporters.

Text

To be provided by Transporters.

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