

| UNC Draft Modification Report | At what stage is this document in the process? |
|---|--|
| <h1>UNC 0665:</h1> <h2>Changes to Ratchet Regime</h2> | <div style="display: flex; flex-direction: column; gap: 10px;"> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 01 Modification </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 02 Workgroup Report </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;"> 04 Final Modification Report </div> </div> |
| <p>Purpose of Modification:</p> <p>This Modification has 2 purposes: -</p> <p>It amends the current Class 2 Ratchet Charging Arrangement</p> <p>It allows Transporters to identify Supply Points that should, in addition to mandatory Class 1 Supply Points, be subject to the existing Class 1 Ratchet Charging Arrangement</p> <p>For the avoidance of doubt NTS Supply Points are excluded from the scope of this Modification</p> | |
|  | <p>This Draft Modification Report is issued for consultation responses at the request of the Panel. All parties are invited to consider whether they wish to submit views regarding this modification.</p> <p>The close-out date for responses is 14 March 2019, which should be sent to enquiries@gasgovernance.co.uk. A response template, which you may wish to use, is at www.gasgovernance.co.uk/0665</p> <p>The Panel will consider the responses and agree whether or not this modification should be made.</p> |
|  | <p>High Impact:</p> <p>Shippers, Distribution Network Operators (DNOs) and Central Data Services Provider (CDSP)</p> |
|  | <p>Medium Impact:</p> <p>None</p> |
|  | <p>Low Impact:</p> <p>None</p> |

| Contents | |
|---|--|
| 1 | Summary 3 |
| 2 | Governance 4 |
| 3 | Why Change? 5 |
| 4 | Code Specific Matters 5 |
| 5 | Solution 5 |
| 6 | Impacts & Other Considerations 8 |
| 7 | Relevant Objectives 10 |
| 8 | Implementation 11 |
| 9 | Legal Text 12 |
| 10 | Recommendations 12 |
| 11 | Appendix 1 – Class 1 Ratchet Charge Guidance Document 12 |
| Timetable | |
| Modification timetable: | |
| Initial consideration by Workgroup | 14 September 2018 |
| Amended Modification consider by Workgroup | 28 February 2019 |
| Workgroup Report presented to Panel | 01 March 2019 |
| Draft Modification Report issued for consultation | 01 March 2019 |
| Consultation Close-out for representations | 14 March 2019 |
| Final Modification Report available for Panel | 15 March 2019 |
| Modification Panel decision | 21 March 2019 |

 Any questions?

Contact:
Joint Office of Gas Transporters

 enquiries@gasgovernance.co.uk

 0121 288 2107

Proposer:
Steve Mulinganie, Gazprom

 steve.mulinganie@gazprom-energy.com

 07990972568

Transporter:
Scotia Gas Networks

 hilary.chapman@sgn.co.uk

 07749 983418

Systems Provider:
Xoserve

 UKLink@xoserve.com

1 Summary

What

Modification 0571 was raised in January 2016 to address industry concerns about the detrimental impact of penal Ratchet Charges on consumers. Modification 0571 was withdrawn in May 2017 and replaced with Modification 0619 which further developed the proposals and was subsequently accompanied by two alternatives (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 it 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 Ratchet arrangement 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 Product Class 2 take up. This lack of Product Class 2 utilisation (August 2018 data below) has a direct impact on temporary Unidentified Gas (UIG) allocation and therefore the current scope of the Ratchet arrangements are 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 Product Class 1 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 Ratchet charge whilst also ensuring that those Product Class 2 Supply Points that are not subject to the Product Class 1 Ratchet charge but are Daily Metered set their SOQ accurately.

How

This Modification has 2 purposes: -

1. It amends the existing Ratchet Charging Arrangements for Product Class (Class) 2 Supply Points

2. It allows Transporters to identify Supply Points that should be subject to the Class 1 Ratchet Charging Arrangements and which are not currently mandatory Class 1 Supply Points as set out in UNC TPD G1.5.1

For the avoidance of doubt:

- NTS Supply Points are excluded from the scope of this Modification.
- This Modification does not intend to extend the ratchet arrangements to the summer months as the additional system cost and complexity to do so will be significant and will provide little benefit to the market as the network is not constrained at that time.
- 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.
- 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.

2 Governance

Justification for Authority Direction

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

The Modification Panel determined that this Modification is likely to have a material impact on competition, as it aims to remove an artificial constraint on the use of Product Class 2 daily reads services which some consider is impacting the development of innovative consumer products.

Modification 0665 will therefore follow Authority Direction procedures.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to self-governance
- be issued to consultation.

The Workgroup concluded that the proposals in this Modification aim to remove a barrier to participating in Product Class 2 that is currently impacting market take-up, which in turn has a material impact on the accuracy of gas settlements. This Modification is likely to have a material impact on daily volumes of Unidentified Gas and should therefore proceed as a material change requiring Authority Direction.

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, it should ensure that only those Supply Points that meet the relevant requirements will be subject to Ratchet charges, whilst also ensuring that those using Product Class 1 & 2 set their SOQ accurately. The greater use of Product 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/0647>

Knowledge/Skills

None.

5 Solution

This Modification has 2 purposes: -

1. It amends the existing Ratchet Charging Arrangements for Class 2 Supply Points
2. It allows Transporters to identify Supply Points that should be subject to the Class 1 Ratchet Charging Arrangements and which are not currently mandatory Class 1 Supply Points as set out in UNC TPD G1.5.1

For the avoidance of doubt:

- NTS Supply Points are excluded from the scope of this modification.
- This modification does not intend to extend the ratchet arrangements to the summer months as the additional system cost and complexity to do so will be significant and will provide little benefit to the market as the network is not constrained at that time.

- 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.
- 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.

Business Rules

1. Class 1 sites will be subject to the existing Ratchet Charging arrangements as currently defined in the UNC (Class 1 Ratchet Charging Arrangements).
2. Class 2 sites will be subject to the amended Ratchet Charging Arrangements (Class 2 Ratchet Charging Arrangements)
3. Additional Supply Points will be subject to the Class 1 Ratchet Charging Arrangements (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 subject to the Class 1 Ratchet Charging Arrangements in accordance with the rules below. All processes that apply to Class 1 sites will apply to these sites, including the "soft landing" set out in UNC TPD section B for sites that are newly designated as Class 1.
4. Transporters may seek to designate a site as Class 1:
 - a. Within 6 calendar months of this modification being approved.
 - b. Within 30 Supply Point Systems Business Days of a new Supply Point being Registered for the first time.
 - c. When a Supply Point is identified by the relevant Transporter as having had a material increase in consumption or capacity requirement.
5. On an ongoing basis, the relevant Transporter shall no later than 40 Supply Point Business Days ahead of the relevant Gas Year Ratchet period (October to May) identify those Supply Points, which meet the relevant criteria, and are to be considered subject to the Class 1 Ratchet Charging regime
6. A Supply Point, in addition to the current criteria set out in the UNC regarding Class 1 sites, shall be considered as subject to the Class 1 Ratchet Charging Arrangements if the relevant Transporter is able to demonstrate that, if the specific Supply Point was not subject to the Class 1 Ratchet Charging Arrangements 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.
7. A Guidance document will be developed and maintained (the Guidelines for the determination of relevant Supply Points which should be subject to the Class 1 Charging Arrangements) which will set out how the relevant Transporter will determine if a Supply Point is subject to the Class 1 Ratchet Charging Arrangements.
8. In the event that a Gas Transporters designates a site as subject to the Class 1 Ratchet Charging Arrangements then the CDSP shall notify the registered Shipper, and the relevant Supply Point will as soon as reasonably practicable be required to be a Class 1 Supply Point.

9. If a Shipper does not reclassify the Supply Point as Class 1 within 20 Supply Point Systems Business Days of the notice of Designation, then the CDSP will reclassify the site as Class 1 after so notifying the relevant shipper and providing not less than 20 Supply Point Systems Business Days' notice of the revised classification effective date unless the CDSP has been informed that the Supply Meter Point is unable to be Daily Read in accordance with current code requirements.
10. An appeal mechanism will be put in place to enable a relevant Shipper to appeal to the Transporter to reconsider their decision in relation to compliance with the Guidance document. This appeal must be raised within 20 Supply Point Systems Business Days of the Shipper being informed of the Transporter notification. The Transporter must respond to any appeal from a Shipper within 20 Supply Systems Point Business Days. If the appeal is upheld, then any Class 1 Ratchet charges that have been levied shall be reversed and if relevant the Class 2 Ratchet Arrangements will be applied to any such Ratchets.

Class 2 Ratchet Charging Regime

11. The Revised Ratchet Charge is as follows: Supply Point Ratchet Charge = LDZ Capacity Ratchet Amount + Customer Capacity Ratchet Amount + LDZ Exit Capacity NTS (ECN) Ratchet Amount.
 - a. LDZ Capacity Ratchet Amount = (LDZ Capacity Charge after ratchet applied * Ratchet Period/Days in Year) – (LDZ Capacity Charge that would be applicable immediately prior to the charge* Ratchet Period/Days in Year)
 - b. Customer Capacity Ratchet Amount = (LDZ Customer Charge after ratchet applied * Ratchet Period/Days in Year) – (LDZ Customer Charge that would be applicable immediately prior to the charge * Ratchet Period/Days in Year)
 - c. LDZ Exit Capacity NTS (ECN) Ratchet Amount = (LDZ Exit Capacity NTS (ECN) Charges after ratchet applied * Ratchet Period/Days in Year) – (LDZ Exit Capacity NTS(ECN) Charge that would be applicable immediately prior to the charge* Ratchet Period/Days in Year). Please note that there is currently not a formal definition of the LDZ Exit Capacity NTS (ECN)charge in the UNC. This modification will correct that deficiency.
 - d. Ratchet Period = For sites other than Seasonal Large Supply Points, it is the number of days between 1st October of the applicable gas year and the day before that the prospective ratchetted capacity applies on the LDZ Capacity invoice. For new or shipperless Supply Points registered after 1st October of the relevant gas year, the supply point registration date shall define the start of the Ratchet Period. 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

| | Unit rate | Pre-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 Exit Capacity NTS (ECN) | $0.0689 * SOQ^{-0.2100}$ | £ 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 and the revised capacity is applied on the LDZ Capacity invoice from 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 |
| LDZ Exit Capacity NTS (ECN) Ratchet Amount | $949 * 93 / 365$ | £ 241.80 |
| Total | | £ 3,036.45 |

6 Impacts & Other Considerations

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

No impacts have been identified.

Consumer Impacts

This Modification will remove the penal element of a charge that currently discourages customers participating in the Product Class 2 daily read regime. This in turn should encourage customers to participate in the Product Class 2 daily read regime, thereby improving settlement accuracy. The mitigation of this risk should improve cost targeting by the removal of an inappropriate charge and support the development for innovative products for these customers. The combined effect of better settlement, improved cost targeting, and product innovation should benefit competition in the marketplace.

Consumer Impact Assessment

Criteria

Extent of Impact

Which Consumer groups are affected?

- Domestic Consumers
- Small non-domestic Consumers
- Large non-domestic Consumers
- Very Large Consumers

| | |
|--|---|
| <p>What costs or benefits will pass through to them?</p> | <p>This Modification should</p> <ul style="list-style-type: none"> • reduce the risk of the application of inappropriate ratchet charges to all consumer types • increase the use of daily metered products in all customer types |
| <p>When will these costs/benefits impact upon consumers?</p> | <p>The aim is to implement this Modification in time for Gas Year 2019/20, subject to suitable transitional arrangements and systems being in place.</p> |
| <p>Are there any other Consumer Impacts?</p> | <p>Some consumers might be aligned to Product Class 1 based on their location on the network and not the capacity they are likely to consume.</p> |

Cross Code Impacts

The changes proposed in this Modification might impact IGT UNC requiring its amendment to maintain consistency with the UNC, although the Workgroup did not identify any direct consequences.

EU Code Impacts

None Identified.

Central Systems Impacts

These proposals would have an impact on central systems, see the ROM details below.

Workgroup Impact Assessment

The Workgroup consider this Modification is likely to have a material impact on competition and the contractual arrangements between Transporters, Shippers and Suppliers. It should reduce the risk of inappropriate ratchet charges being levied on Shippers and Consumers, by focusing charges on those sites which would have a material or detrimental impact on the networks should they exceed their agreed system offtake capacity.

By reducing the risk of inappropriate ratchet charges, this should in turn facilitate the uptake of daily metered products by Suppliers and Shippers, which in turn should lead to more accurate settlement and a reduction in UIG.

The Workgroup supported the development of a proposed UNC referenced document “Guidelines document for the inclusion of relevant Supply Meter Points in the ratchet charging arrangements”. This document sets out the approach Transporters should take when assessing Supply Meter Points and whether they should be nominated by the Transporter as a Product Class1 site and therefore be subject to Product Class 1 ratchet regime charges if applicable. This document will include a standard communication template for use by Transporters.

The proposals contain and guidance document set out the appeal process mechanism should a party wish to challenge the Transporters view on inclusion of a site as a Product Class 1 Supply

Meter Point.

The Workgroup notes the proposers concerns on the proposed system implementation lead time. It also noted that systems changes are managed through the DSC Change Management Committee and its assessment of change priorities.

Some Workgroup participants felt the Modification would benefit Transporters as they would be able to demonstrate that they were using targeted incentives to mitigate risks to network operation and stability.

Update for 01 March 2019 Modification Panel:

The Workgroup reviewed the amended Modification, Draft Legal Text and Class 1 Ratchet Charge Guidance Document.

The amendments to the Modification were considered immaterial and provided clarification and should not prevent the Modification being issued to consultation.

The Legal Text and Class 1 Ratchet Charge Guidance Document were reviewed and a number of minor referencing errors were identified and the Workgroup requested that these errors are amended by the provider.

The Workgroup recommends that the Modification is issued to consultation based on the timeline proposed. That the amended Legal Text and Class 1 Ratchet Charge Guidance Documents are published alongside the Draft Modification as soon as provided after the Modification is issued to consultation.

Rough Order of Magnitude (ROM) Assessment

Costs:

An enduring solution will cost at least **£125,000**, but probably not more than **£196,000** to implement.

The ongoing cost impacts had not been identified at the time of delivering the ROM Response.

Implementation Timescales:

The high-level estimate to develop and deliver this change is approximately 30 weeks and includes 4 weeks of Post Implementation Support.

See the ROM published alongside this report for further details.

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 | None |

| | |
|--|----------|
| (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. | |
| 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 |

The increased uptake of Product Class 1 & 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 Non Ratchable 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).

8 Implementation

No implementation timescales are proposed other than as directed by the Authority.

The Workgroup notes the proposer’s ambition of seeking amendments to ratchet arrangements by the commencement of Winter 2019/20. As these proposals will have an impact on central systems, implementation might require the development of transitional arrangements to meet this implementation timescale.

The proposer is seeking Ofgem support for a decision prior to the 31 March 2019.

9 Legal Text

Legal Text was provided by SGN for consideration by the Workgroup prior to completion of this report. It is expected that amended Legal Text and Commentary will be available during consultation.

Text Commentary

To be provided by SGN.

Text

To be provided by SGN.

10 Recommendations

Panel's Recommendation to Interested Parties

The Panel have recommended that this report is issued to consultation and all parties should consider whether they wish to submit views regarding this modification.

11 Appendix 1 – Class 1 Ratchet Charge Guidance Document

The proposed UNC referenced document “Class 1 Ratchet Charge Guidance” is published alongside this Workgroup Report.