












UNC Modification	At what stage is this document in the process?
<h1>UNC 0665:</h1> <h2>Changes to Ratchet Arrangements</h2>	<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p><b>Purpose of Modification:</b></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>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <li>considered a material change and not subject to self-governance</li> <li>assessed by a Workgroup</li> </ul>
	<p>High Impact:</p> <p>Shippers, Distribution Network Operators (DNO's) and CDSP</p>
	<p>Medium Impact:</p>
	<p>Low Impact:</p>

Contents		 Any questions?
1	Summary	3
2	Governance	4
3	Why Change?	4
4	Code Specific Matters	5
5	Solution	5
6	Impacts & Other Considerations	6
7	Relevant Objectives	10
8	Implementation	11
9	Legal Text	11
10	Recommendations	11
Timetable		 0121 288 2107
The Proposer recommends the following timetable:		Proposer: Steve Mulinganie, Gazprom
Initial consideration by Workgroup		 <a href="mailto:steve.mulinganie@gazprom-energy.com">steve.mulinganie@gazprom-energy.com</a>
Workgroup Report presented to Panel		 07990972568
Draft Modification Report issued for consultation		Transporter: Scotia Gas Networks
Consultation Close-out for representations		 <a href="mailto:hilary.chapman@sgn.co.uk">hilary.chapman@sgn.co.uk</a>
Final Modification Report available for Panel		 07749 983418
Modification Panel decision		Systems Provider: Xoserve
		 <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>

# 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 This Modification was withdrawn in May 2017 and replaced with Modification 0619 which developed the proposals and was subsequently accompanied by two alternatives (0619 A and B).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 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 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 penal Ratchet charge whilst also ensuring that those Class 2 Supply Points that are not subject to the penal 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 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

The proposals in this Modification need to be progressed 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 16<sup>th</sup> 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

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 1<sup>st</sup> October of the applicable gas year and the day before that the prospective



ratchett capacity applies on the LDZ Capacity invoice. For new or shipperless Supply Points registered after 1<sup>st</sup> 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
<b>AQ (kWh)</b>		20,000,000	20,000,000	
<b>SOQ (kWh)</b>		100,000	150,000	
<b>LDZ Capacity</b>	$0.8855 \times \text{SOQ}^{-0.2155}$	£ 27,046.50	£ 37,175.25	£ 10,128.75
<b>LDZ Exit Capacity NTS (ECN)</b>	$0.0689 \times \text{SOQ}^{-0.2100}$	£ 2,226.50	£ 3,066.00	£ 839.50
<b>LDZ Customer Capacity</b>	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 20<sup>th</sup> December and the revised capacity is applied on the LDZ Capacity invoice from the 1<sup>st</sup> January (93 days after the 1<sup>st</sup> October) then the calculation is as follows:

	Calculation	Amount
<b>Ratchet Period</b>	93 days	
Capacity Ratchet Amount	$10,128.75 \times 93/365$	£ 2,580.75
Customer Capacity Ratchet Amount	$839.50 \times 93/365$	£ 213.90
LDZ Exit Capacity NTS (ECN) Ratchet Amount	$949 \times 93/365$	£ 241.80
<b>Total</b>		£ 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 impact

### Consumer Impacts

This Modification should remove a key barrier to Non Ratchetable Supply Points becoming daily read (Class 2) 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 Class 2 Supply Points 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 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; (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 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 Class 2 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, though our preference is to have an implementation by October 2019 in order to remove the constraints on sites moving to Class 2 and so realising the market improvements this will bring. As these proposals will have an impact on central systems and implementation we anticipate that the CDPS will be required to develop a transitional process.

Accordingly we would look for an Ofgem decision prior to the 31<sup>st</sup> March 2019 if at all possible.

## 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