

UNC Final Modification Report	At what stage is this document in the process?
<p>UNC 0619 0619A 0619B:</p> <p>Application of proportionate ratchet charges to daily read sites</p> <p>Protection from ratchet charges for daily read customers with an AQ of 73,200kWh and below</p> <p>Application of proportionate ratchet charges to daily read sites</p>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; padding: 2px; display: flex; align-items: center; gap: 5px;"> 01 Modification </div> <div style="border: 1px solid #ccc; padding: 2px; display: flex; align-items: center; gap: 5px;"> 02 Workgroup Report </div> <div style="border: 1px solid #ccc; padding: 2px; display: flex; align-items: center; gap: 5px;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ccc; padding: 2px; display: flex; align-items: center; gap: 5px;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</p> <p>Modification 0619 proposes to change the current ratchet regime so that the charge levied will reflect the costs avoided by the customer by understating its peak daily offtake.</p> <p>Modification 0619A proposes to protect any daily metered customer with an AQ of 73,200kWh and below from the charging elements of the existing ratchets regime.</p> <p>Modification 0619B will change the current ratchet regime so that the charge levied will reflect the costs avoided by the customer by understating its peak daily offtake.</p>	
	<p>The Panel recommended implementation of Modification 0619A</p>
	<p>The Panel did not recommended implementation of</p> <ul style="list-style-type: none"> • Modification 0619 • Modification 0619B
	<p>High Impact:</p> <p>Shipper Users and Transporters</p>
	<p>Medium Impact:</p> <p>N/A</p>
	<p>Low Impact:</p> <p>N/A</p>

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Modification timetable:	
Initial consideration by Workgroup	25 May 2017
Amended Modification considered by Workgroup	05 January 2017
Workgroup Report presented to Panel	18 January 2018
Draft Modification Report issued for consultation	18 January 2018
Consultation Close-out for representations	01 March 2018
Final Modification Report available for Panel	02 March 2018
Modification Panel decision	15 March 2018
<p> Any questions?</p> <p>Contact: Joint Office of Gas Transporters</p> <p> enquiries@gasgovernance.co.uk</p> <p> 0121 288 2107</p> <p>Proposer 0619: Steve Mulinganie 0619A: Hilary Chapman 0619B Andrew Margan</p> <p> steve.mulinganie@gazprom-energy.com Hilary.Chapman@S-GN.co.uk andrew.margan@centrica.com</p> <p> 07990 972568 07749983418 07789 577327</p> <p>Transporter: Wales & West Utilities</p> <p> Richard.Pomroy@w-utilities.co.uk</p> <p> 029 2027 8552 or 07812 973337</p> <p>Systems Provider: Xoserve</p> <p> commercial.enquiries@xoserve.com</p>	

1 Summary

What

As part of the Project Nexus Solution, Product Class 1 and 2 sites will be subject to the ratchet regime.

UNC0619 seeks to remove the 'penalty effect' of the ratchet charge regime for these customers otherwise a disproportionate penal charge would be levied on sites that breach their stated daily system offtake rate, even though they do not represent a risk to the management of the system by doing so.

UNC0619A seeks to restrict the charging element of the regime to apply to customers with an AQ above 73,200 kWh, therefore offering protection from the charges for customers under this threshold who opt to become daily metered.

UNC0619B seeks to remove the penalty Ratchet charge, but maintain a proportional incentive charge to ensure there is accurate SOQ capacity booking.

Why

The industry is rolling out Smart and Advanced metering across the entire market allowing Shippers, Suppliers and Customers ready access to more granular consumption information remotely. At the same time Project Nexus is introducing new Product Classes.

These new Product Classes (1 to 4) allow market participants the ability to provide more granular consumption (read) data into central systems thus driving more accurate and targeted settlement.

UNC0619 notes that the proposed arrangements for market operation post Nexus Go Live and potential disincentives for the use more granular Product Classes, the application of Ratchet Charges seems disproportionate.

If the ratchet charge regime is not reformed so that the ratchet costs levied are proportionate then the number of sites that may elect to become daily read will be severely limited, reducing settlement accuracy and hampering the development of innovative granular market products. For those sites that do elect to become daily read, Shippers are likely to continue to have to over-estimate peak capacity needs, resulting in an inflated and distorted view of peak system requirements.

UNC0619A notes that the Product Classes allow market participants the ability to provide more granular consumption (read) data into central systems and where Remote Meter Reading Equipment¹ is installed, creates greater opportunity for a small consumer to be classified as a daily metered site, and benefit from daily settlement through the presence of a Smart meter. Previously, such customers would not have been subject to the ratchets regime. However, as part of the post-Nexus arrangements, such a customer could now be placed into Product Class 2 (non-mandatory daily read) and would therefore be subject to all elements of the ratchet regime.

UNC0619B seeks to remove a penalty charge, to better improve Transportation cost reflectivity, whilst also seeking to ensure an incentive exists, which drives appropriate SOQ booking behaviour to ensure the network is protected, whilst not penalising end consumers.

¹ [UNC TPD Section M1.5.2\(k\)](#)

How

UNC0619 proposes that the calculation process for the Supply Point Ratchet Charge is changed so that the charge is based on the difference in transportation charges that would be derived from the new peak (ratcheted) daily offtake and the previous peak daily offtake. The transportation charges that a supply point would incur if had not ratcheted will be netted off the Supply Point Ratchet Charge.

The net impact of these changes would be to turn the Supply Point Ratchet Charge into a corrective invoice where the supply point is invoiced for the capacity costs it avoided by having a supply point offtake set too low. In order to ensure that the costs of the change are manageable, no other changes to the ratchet regime are proposed, such as changing the period for which a ratchet charge can be incurred.

UNC0619A proposes that application of the charging element of the ratchets regime is restricted to customers above 73,200kWh thus protecting customers below this threshold. The justification for setting this threshold is provided in the 'Why Change' section.

For the avoidance of doubt, for those sites to which the full regime still applies, no changes to the existing process or charges are proposed.

UNC0619B aligns with the original proposal of back charging to the new SOQ rate, but differs by applying an additional incentive charge. To ensure the total ratchet charge reflects the true cost, the DMSOQ cap is removed.

For clarity UNC0619B seeks to introduce a new ratchet charge calculation methodology, but it does not seek to amend the Ratchet Regime.

2 Governance

Justification for Self-Governance, Authority Direction or Urgency

These modifications might have a material impact as they are expected, for the customers impacted, to have a material impact on the commercial activities connected with shipping gas, or commercial activities related to, the shipping, transportation or supply of gas. They should therefore be sent to the authority for decision.

Panel determined these modifications are likely to have a material effect on commercial activities related to, the shipping, transportation or supply of gas or operation of one or more pipe-line systems because they propose material changes to these contractual arrangements and incentive regime used for Product Class 1 and 2 sites.

Modifications 0619, 0619A and 0619B will therefore follow Authority Direction procedures.

Requested Next Steps

These modifications should:

- Issued to consultation.

The workgroup considered the potential suitability of self-governance procedures for these modifications and agreed with the Panels determination, that these modifications are likely to have a material effect on commercial activities related to, the shipping, transportation or supply of gas or operation of one or more pipe-line systems because they propose material changes to these contractual arrangements and incentive regime used for Product Class 1 and 2 sites.

3 Why Change?

UNC0619 and UNC 0619B

The market is at the threshold of major change with a number of significant projects coming into effect as well as new initiatives such as next day switching being developed. The industry is rolling out Smart and Advanced metering across the entire market allowing Shippers, Suppliers and Customers ready remote access to more granular consumption information. In the Power market the Government is proposing that all consumers should be settled on 15 minute data.

At the same time, Project Nexus has introduced 4 new Supply Meter Point classes or Product Classes, which will allow market participants the ability to provide more granular consumption (read) data into central systems for all sites, thus driving more accurate and targeted settlement. As Product Class 1 and 2 are daily read products, they would be subject to the ratchet regime.

The application of ratchet incentive charges (which some consider to be penal) to daily read sites seems disproportionate considering the potential future utilisation of daily read submission by a wide range of customers, including SME, Micro business and Domestic consumers in Product Class 2, who have low consumption levels and it is believed do not represent a risk to the safe operation of the network. As it currently stands therefore the current regime is likely to limit the number of sites that will seek to be daily read as the risks of incurring ratchet charges will outweigh the settlement benefits.

For those sites that do elect to become daily read, it is likely that Shippers will continue (as they do now) to have to overestimate likely capacity requirements to minimise the risk of these ratchet charges being applied, resulting in an inflated view of peak system requirements which could lead to inefficient system investment.

UNC0619A

Industry Developments:

The industry is currently rolling out Smart and Advanced metering across the entire market allowing Shippers, Suppliers and Customers ready remote access to more granular consumption information.

At the same time, Project Nexus has recently introduced four new Supply Meter Point classes or Product Classes, which will allow market participants to select their preferred class and create the ability to provide more granular consumption (read) data into central systems. As Product Class 1 and 2 are daily read products, they are subject to the full extent of the ratchets regime. As above, it is widely accepted that small consumers are not considered to pose a significant risk to network management, and it is not considered appropriate that these customers be subject to the charging elements of the regime. This proposal therefore seeks to exclude these customers from the charging elements of the regime. For the avoidance of doubt, it is the intention of this proposal that the re-setting of the Supply Offtake Quantity (SOQ) is maintained for all customers, including those below the threshold.

Network Management Requirements:

The forecasting of demand is a critical network management activity. Robust empirical modelling enables the accurate forecasting of consumption for the majority of consumers with an AQ of 73,200kWh and below and this modelling can be validated to a high level of surety as the consumption is predominantly based on weather conditions. Contrastingly, the consumption of large sites with an AQ above 73,200kWh is predominantly based on customer behaviour and the commercial goals of the site in question. Such consumption cannot be modelled in an economically feasible way by the Transporter and there is a reliance on the Shipper making “*all appropriate enquires of the consumer*” and exercising “*reasonable skill and care*” in estimating the maximum offtake rate in accordance with UNC TPD Section G 5.3.3.

Uncertainty in forecasting rests in the DM market and in particular, in large DM sites. Therefore, obtaining appropriate market signals is essential as this directly affects the Transporter’s ability to accurately forecast demand in the network.

Occurrences of Ratchets:

The following data analysis has been undertaken to demonstrate the ongoing occurrence of ratchets at sites with an AQ above 73,200kWh. Given that ratchets continue to occur at this level and frequency, it is considered that it is appropriate to maintain the regime in relation to higher consuming sites, whilst offering protection to those smaller consuming sites which were not previously subject to the regime.

Table 1: Ratchets incurred in 2015/16 Winter Period (all LDZs)

Year	Month	Number of Ratchets
2015	October	18
2015	November	29
2015	December	20
2016	January	39
2016	February	30
2016	March	23
2016	April	13
TOTAL		172

Table 1 demonstrates ratchets occurring on a national basis during the winter period 2015/2016². As ratchets are observed to occur on a regular basis, this demonstrates that the full regime is still required for the higher consuming customers.

Scotia Gas Networks (SGN) has also undertaken evaluation of ratchets within its networks as follows³. The data suggests that the ongoing occurrence of ratchets demonstrates that procedures to encourage accurate SOQ management are still required, for the following reasons:

Table 2: Ratchets incurred by EUC Band for 2012-2016 Winter Periods (SGN LDZs only)

Ratchets by EUC	Total	%age
Exx04	6	5%
Exx05	4	3%
Exx06	27	20%
Exx07	31	23%
Exx08	18	14%

² Data provided by Xoserve during development of UNC Modification 0571/A Application of Ratchet Charges to Class 1 Supply Points (and Class 2 with an AQ above 73,200kWhs). P16 - https://www.gasgovernance.co.uk/sites/default/files/ggf/Workgroup%20Report%200571%200571A%20v2.0_0.pdf

³ Data provided by Xoserve, in relation to the winter periods 2012 - 2016

Exx09	46	35%
Grand Total	132	100%

Table 2 demonstrates that despite the presence of the ratchet charging regime, large consuming sites are still exceeding their SOQs.

Table 3: Ratchets incurred by individual sites as a % of overall DM population including average no. Ratchets incurred per site for 2012-2016 Winter Periods (SGN LDZs only).

	<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>
<u>Winter Period</u>	<u>No. of Ratchet Events</u>	<u>No. of sites incurring ratchet</u>	<u>Average no. ratchets incurred per site</u>	<u>Total population of DM sites</u>	<u>% DM sites incurring 1 or more ratchets</u>
<u>2012-13</u>	<u>31</u>	<u>16</u>	<u>1.9</u>	<u>293</u>	<u>5%</u>
<u>2013-14</u>	<u>34</u>	<u>11</u>	<u>3.1</u>	<u>276</u>	<u>4%</u>
<u>2014-15</u>	<u>34</u>	<u>16</u>	<u>2.1</u>	<u>277</u>	<u>6%</u>
<u>2015-16</u>	<u>33</u>	<u>19</u>	<u>1.7</u>	<u>260</u>	<u>7%</u>

Table 3 demonstrates the following:

- Column A shows the number of individual ratchet events for the given winter period (within SGN LDZs only);
- Column B shows the number of sites across which the ratchets identified in column A have occurred;
- Column C shows the average number of ratchet events identified in column A across the number of sites identified in column B;
- Column D shows the total Daily Metered population (within SGN LDZs only);
- Column E shows the number of Daily Metered sites incurring ratchets, identified in Column B, as a percentage of the total Daily Metered population, identified by Column D.

Table 3 shows that large consuming sites consistently mis-estimate their consumption in each Winter period. Despite a decreasing DM population, the number of ratchet events and number of sites incurring them has remained stable. This indicates that it is reasonable to assume that a certain number of DM sites will use more gas than they have booked in each Winter period and that sites that should be actively managed are still mis-estimating their consumption.

Column C further shows that where a site does incur a ratchet, they are likely to incur more than one in the same Winter period and demonstrates the need for these sites to actively manager their consumption. Therefore, it is important that the existing regime is maintained for such large consuming sites.

Table 4: Ratchets incurred by Shipper for 2012-2016 Winter Periods as a percentage of total ratchets incurred (SGN LDZs only).

Winter Period	Ratchets	No of DM sites	%
2012-13	31	293	11%
2013-14	34	276	12%
2014-15	34	277	12%
2015-16	33	260	13%

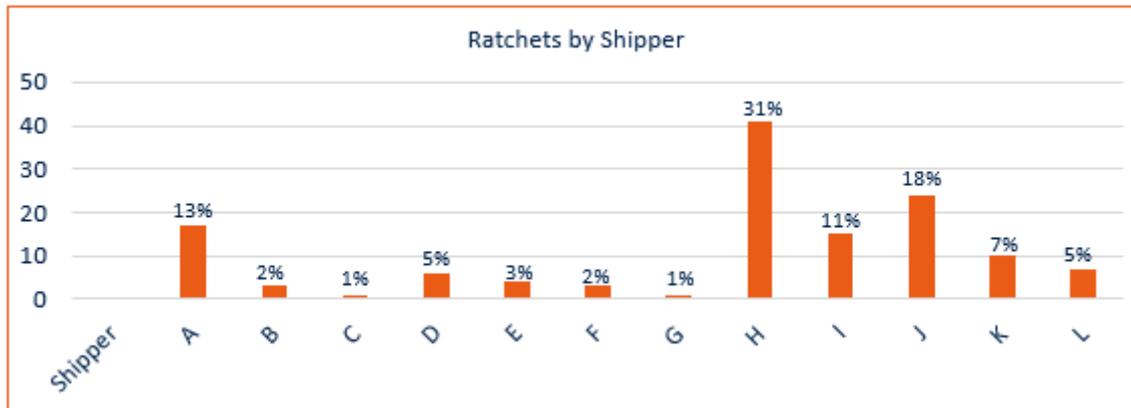


Table 4 shows that, of the 132 ratchets incurred by 12 Shippers within SGN's LDZs in the 2012-2016 Winter Periods, 73% (96) were incurred by just 4 Shippers. There is no correlation between the number of ratchets incurred by a given Shipper and their DM portfolio size. This indicates that some Shippers are more successful than others in terms of providing accurate market signals in the form of SOQs. This disparity is likely due to different internal Shipper processes in terms of making “*all appropriate enquiries of the consumer*” or exercising “*reasonable skill and care*” in setting SOQs, as required by UNC TPD Section G 5.3.3.

Additionally, there were a number of Shippers who were able to provide accurate market signals on a consistent basis within this period and did not incur any ratchets, therefore indicating that there is a variance in individual Shipper processes relating to the management of SOQs.

4 Code Specific Matters

Reference Documents

None identified.

Knowledge/Skills

No specific skills or knowledge are necessary.

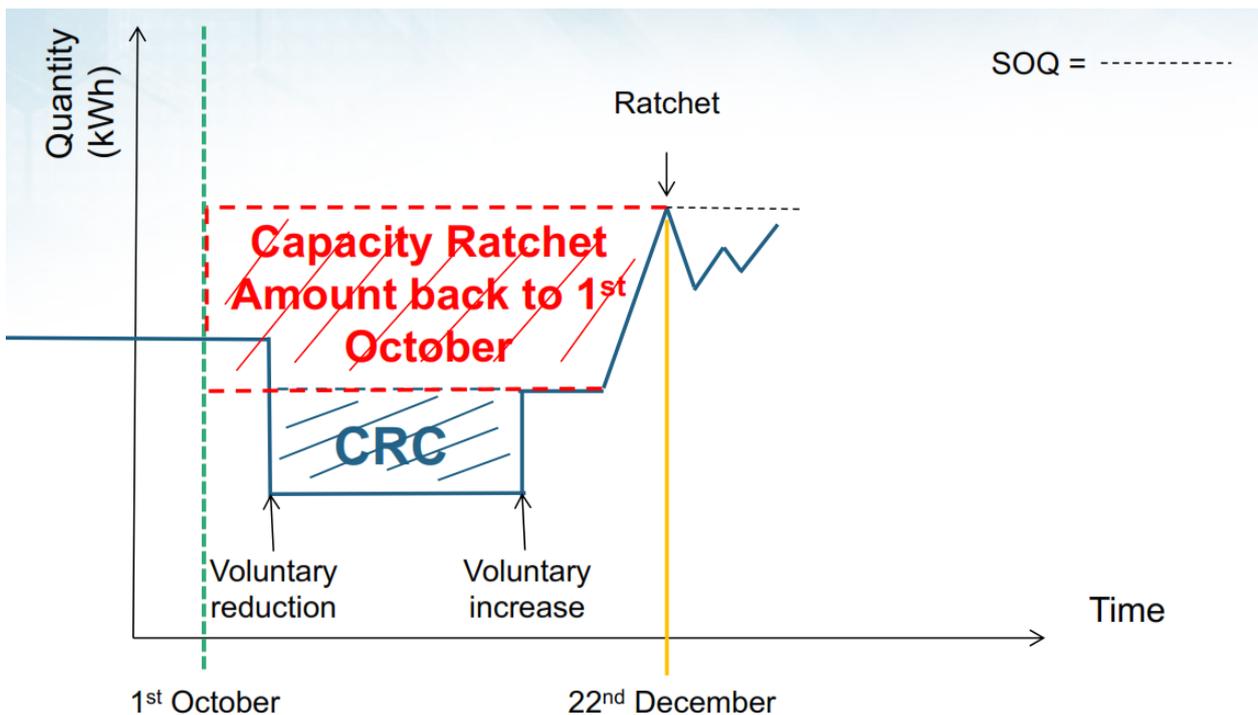
5 Solution

Comparison Table of Proposed Changes:

	0619	0619A	0619B
Introduce a new Ratchet Charge based on the additional SOQ	✓	X	✓
Introduce a new Ratchet Charge based on the additional SOQ + 10%	X	X	✓
Maintains Current Ratchet Charge	X	✓	X
No Ratchet Charges apply to sites with an AQ of or less than 73,200kWh	X	✓	X

UNC0619:

This modification proposes to change the ratchet charge calculation so that a site that does breach its supply point offtake incurs the same transportation charges for that higher capacity, without being unduly penalised. The intention of the modification is to ensure that customers who ratchet do not benefit from having not set their SOQ appropriately but are not unduly penalised either. The proposed change is set out below:



Source: Xoserve.

The current ratchet charge regime needs to be changed in four ways:

- The LDZ Capacity charge that the site has paid prior to the Supply Point Ratchet Charge will be netted off the Supply Ratchet Capacity Charge (“Capacity Ratchet Amount”).
- A new charge, the Customer Capacity Ratchet Amount, will be levied to correct for the difference between the original and ratcheted LDZ Customer Charges.
- A new charge, the NTS Exit Capacity Ratchet Amount, will be levied to correct for the difference between the original and ratcheted LDZ Exit Capacity NTS (ECN) Charges.
- At present ratchet charges are not specifically linked to any settlement date, but is simply a lump sum linked is 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 Ratchet Regime will continue to apply for the period October to May inclusive and is linked to the ratchet charge to the date to ensure that the customer is charged in line with the principles set out above. The period for which the ratchet charge is applied is termed the “Ratchet 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 caused by a ratchet 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 ratchet calculation.

Interaction with Provisional Maximum Supply Point Capacity

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 ratchet charge calculation would utilise the Maximum Supply Point Capacity in this circumstance.

Revised Ratchet Charge Calculation

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

Supply Point Ratchet Charge = LDZ Capacity Ratchet Amount + Customer Capacity Ratchet Amount + Exit Capacity Ratchet 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 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)
- 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)
- 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)

- 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

	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 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

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.

Modification 0619A:

This modification seeks to restrict the current charging regime to sites with an AQ greater than 73,200kWh. Sites under this threshold would be protected from the current charging regime.

For the avoidance of doubt, all sites would continue to be subject to the automated increase of the SOQ following a ratchet.

Based on the current number of Supply Points within SGN's network areas with AQs above and below the threshold, this modification would protect 5.82m customers who account for approximately 60% of consumption from the charging elements of the regime.

Equitable Recovery of Capacity Charges

For sites under the threshold, the Supply Point Ratchet Charge⁴ will not be applied. However, as no site should be in an advantageous position by virtue of not having set their SOQ at an appropriate level, it is proposed that the Capacity Ratchet Amount⁵ is invoiced. The Capacity Ratchet Amount is the amount by which actual gas offtaken from the system exceeds the User's Registered DM Supply Point Capacity.

Similarly, where a voluntary reduction in SOQ (an application resulting in a decrease of the Registered DM Supply Point Capacity⁶) is intimated by the Shipper and a ratchet subsequently occurs, the Capacity Reconciliation Charge⁷ will apply as it does now so as to restore the site's capacity to the pre-reduction level and the Capacity Ratchet Amount will be invoiced so as to ensure the site appropriately pays for the excess capacity they have used.

For the avoidance of doubt, no changes are proposed to the existing arrangements for sites above the threshold.

Provisional Maximum Supply Point Capacity (PMSOQ)

Ratchet charges are inherently linked to the PMSOQ. Protecting customers under the threshold from the current charging regime removes the function of PMSOQ for these customers. As the PMSOQ effectively acts as a cap on capacity increases where a site has ratcheted to 16 times the original Supply Point Offtake Rate⁸, removal of the ratchet charge for sites under the threshold could result in a site breaching their PMSOQ, not paying a Supply Point Ratchet Charge (as they are protected) and not having their capacity booking increased because it is already at the provisional maximum. Therefore, for sites under the threshold, it is proposed that code is amended such that any increase in a site's capacity booking up to the threshold is approved by the CDSP without the need for the CDSP to inform the Transporter.

This change to the PMSOQ for sites under the threshold does not alter or in any way lessen Shippers' obligations to set maximum offtake rates for DM sites *"in good faith and after all appropriate enquiries of the consumer and on the basis of reasonable skill and care"* as required by UNC TPD Section G 5.3.3.

For the avoidance of doubt, no changes are proposed to the existing arrangements for sites above the threshold.

Invoicing of Excess Capacity

⁴ UNC TPD Section B 4.7

⁵ UNC TPD Section B 4.7.2

⁶ UNC TPD Section G 5.1.14

⁷ UNC TPD Section G 5.1.14

⁸ UNC TPD Section G 5.3.1. "The "Supply Point Offtake Rate" in respect of a DM Supply Meter Point is the maximum instantaneous rate (in kWh/hour) at which a User is permitted to offtake gas from the Total System at that Supply Meter Point."

Any excess capacity utilised, as defined by the Capacity Ratchet Amount, will be charged from the day the ratchet occurred and invoiced on an M+2 basis as is currently the case for ratcheted capacity invoicing.

For sites above the threshold, no changes to existing arrangements are proposed.

Prevailing AQ (Threshold Crossers)

In determining whether a site is subject to the current charging regime, the prevailing rolling AQ at the time the ratchet was incurred will be used and not the post-ratchet AQ.

Seasonal LDZ Capacity

For the avoidance of doubt, no changes are proposed to the existing arrangements for Seasonal LDZ Capacity and Seasonal Large Supply Points.

Modification Business Rules

- **Recovery of Capacity Charges:**

Sites with a prevailing AQ $\leq 73,200$ kWh will be exempt from the Supply Point Ratchet Charge.

The Capacity Ratchet Amount will be invoiced to ensure any site below the threshold pays for system capacity they have utilised in excess of their Registered DM Supply Point Capacity.

- **Capacity Reconciliation Charge (CRC):**

The CRC will apply to sites where the Registered DM Supply Point Capacity has increased due to occurrence of a Supply Point Ratchet Charge following a Capacity Revision Application, within the current Gas Year, that decreased the Registered DM Supply Point Capacity (a 'voluntary reduction'). The CRC will apply so as to restore the site's capacity booking to the pre-reduction level.

- **Invoicing of Excess Capacity:**

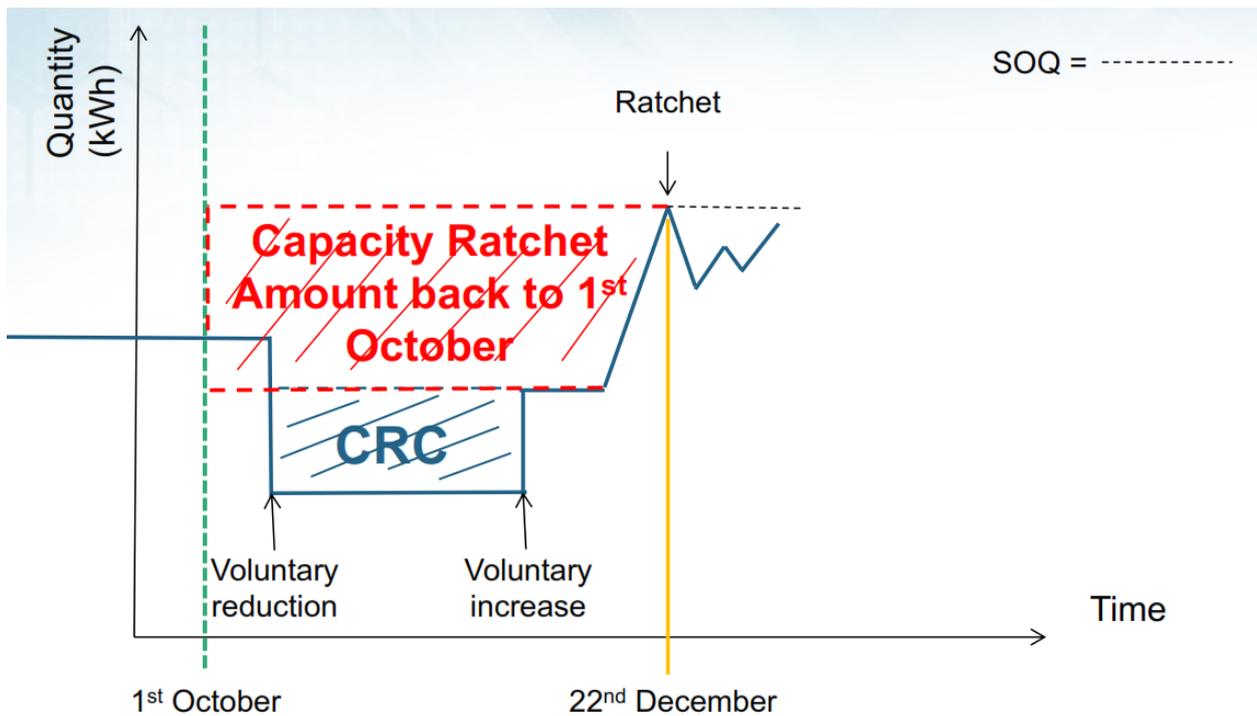
For sites under the threshold, the increased capacity booking is charged from the day the ratchet occurred and invoiced on an M+2 basis as is currently the case for ratcheted capacity invoicing.

- **PMSOQ:**

For sites equal to and under the threshold, any increase in the site's capacity booking above the PMSOQ is approved by the CDSP without the need for the CDSP to inform the Transporter.

UNC0619B

This modification proposes to change the ratchet charge calculation so that a site that does breach its supply point offtake incurs the same transportation charges for that higher capacity, without being unduly penalised. The intention of the modification is to ensure that customers who ratchet do not benefit from having not set their SOQ appropriately but are not unduly penalised either. The proposed change is set out below:



Source: Xoserve.

The current ratchet charge regime needs to be changed in four ways:

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- A new charge, the Customer Capacity Ratchet Amount, will be levied to correct for the difference between the original and ratcheted LDZ Customer Charges.
- A new charge, the NTS Exit Capacity Ratchet Amount, will be levied to correct for the difference between the original and ratcheted LDZ Exit Capacity NTS (ECN) Charges.
- A new charge, the Ratchet Incentive Charge, will be levied in addition to the above charge types
- At present ratchet charges are not specifically linked to any settlement date, but is simply a lump sum linked is 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 Ratchet Regime will continue to apply for the period October to May inclusive and is linked to the ratchet charge to the date to ensure that the customer is charged in line with the principles set out above. The period for which the ratchet charge is applied is termed the “Ratchet 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 caused by a ratchet 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 ratchet calculation.

Interaction with Provisional Maximum Supply Point Capacity

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 ratchet charge calculation would utilise the Maximum Supply Point Capacity in this circumstance.

The proposer of the Alternate B believes the PMSOQ could create a charging cap or ‘gaming’ opportunity for sites that deliberately under book capacity. To ensure the new Ratchet charge reflects the true value of the SOQ increase, the Alternate proposal is not capped by the PMSOQ, but reflects the true off-take capacity used.

Revised Ratchet Charge Calculation

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

Supply Point Ratchet Charge = LDZ Capacity Ratchet Amount + Customer Capacity Ratchet Amount + Exit Capacity Ratchet 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 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)
- 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)
- 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)
- 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.
- The Ratchet back charge will include a ratchet incentive multiplier charge of 1.1.

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 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
Ratchet Incentive Charge	Total charge * 1.1		£ 1,191.73	£ 13,108.98

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
Ratchet Incentive Charge	1,191.73*93/365	£ 303.65
Total		£ 3,340.01

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.

Ratchet Performance Reporting and Monitoring

To understand if the above 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).

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

UNC0619

This modification should remove a key barrier to smaller sites becoming daily read by removing the risk of a 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.

UNC0619A

This modification should ensure the continued application of ratchets as per the original intention of the regime – i.e. to apply to those sites which, due to larger consumption, could have a material impact upon network management procedures. By protecting smaller consumers, this neutralises the potential

negative impacts they could incur as a result of becoming daily metered under the new class arrangements.

Both the roll-out of Smart and Advanced metering, plus the implementation of the new classes under Project Nexus, support the CMA's assessment that enhanced availability and use of granular data will be of benefit to the industry.

UNC0619B

This modification should remove a key barrier to smaller sites becoming daily read by removing the risk of a 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.

Consumer Impact Assessment	
Criteria	Extent of Impact
Which Consumer groups are affected?	<ul style="list-style-type: none"> • Domestic Consumers • Small non-domestic Consumers • Large non-domestic Consumers • Very Large Consumers <p>Note –these modifications exclude NTS directly connected consumers</p>
What costs or benefits will pass through to them?	<ul style="list-style-type: none"> • These modifications proposes to either remove or change the current Ratchet charging regime: <ul style="list-style-type: none"> ○ 0619 – change the current Ratchet Charge to a charge based on the additional SOQ; ○ 0619A – remove ratchet charges for sites with an AQ equal or below 73,20kWh; ○ 0619B – change the current Ratchet Charge to a charge based on the additional SOQ + 10% • These modifications should improve cost targeting and allow the development of innovative products for these customers; • The combined effect of better settlement, improved cost targeting and product innovation should benefit competition in the marketplace. • These benefits would apply to consumers with an AQ below 73,200kWh for 0619A and all consumers for 0619 and 0619B.
When will these costs/benefits impact upon consumers?	<ul style="list-style-type: none"> • Following implementation on a date to be agreed.
Are there any other Consumer Impacts?	<ul style="list-style-type: none"> • None identified.

Cross Code Impacts

The changes proposed in these modifications might impact iGT UNC requiring its amendment to maintain consistency with the UNC. The iGT UNC Code administrator intends to undertake a review following a decision on implementation by the Authority.

EU Code Impacts

None identified.

Central Systems Impacts

These modifications would have an impact on Central Systems and a ROM assessment has been undertaken for each.

Workgroup Impact Assessment

UNC0619

- Some Workgroup participants consider the proposals in this modification would reduce barriers to entry for smaller sites which want to be daily read and utilise Product Class 2, by removing the risk of a punitive ratchet charge being applied. This charge is not applied to NDM sites which might operate in a similar way;
- In addition, these changes might improve cost targeting and allow the development for innovative tariff related products for customers by utilising SMART and AMR capable meters. It should be noted that larger supply point consumers are more likely to be interested in this type of product.
- The combined effect of better settlement, improved cost targeting and product innovation should benefit competition in the marketplace.
- This modification will remove a disincentive to sites becoming daily read, but there will be no obligation on Shippers to take advantage of this change or mandate sites to be Product Class 2 .
- However, other Workgroup Participants were concerned that these proposals would introduce a risk that DNOs would not be able to rely on stated SOQs, leading to inefficient network investment as the lack of a suitable incentive would not provide sufficient encouragement for parties to demonstrate correct behaviours.

UNC0619A

- Some Workgroup participants consider the proposals in this modification would reduce barriers to entry for smaller sites which want to be daily read and utilise Product Class 2, by removing the risk of a ratchet charge. However, it was not clear if this included microbusiness or should be considered for domestic only.
- This modification will remove a disincentive for smaller sites becoming daily read, but there will be no obligation on Shippers to take advantage of this change, so there will be no costs imposed on parties. However, it would not remove the disincentive on larger sites (over 73,200kWh) from becoming daily read.
- Some Workgroup participants consider this modification would prevent uneconomic system reinforcement which might be required should sites be allowed to increase their SOQs without the risk of an incentive charge being applied.

- However, other Workgroup Participants were concerned that these proposals would not reduce the current practice of overstating SOQs, leading to uneconomic system development and potentially impacting the uptake of Product Class 2 products.

UNC0619B

- Some Workgroup participants consider the proposals in this modification would reduce barriers to entry for smaller sites, which want to be daily read and utilise Product Class 2, by removing the risk of a ratchet charge being applied. This charge is not applied to NDM sites which might operate in a similar way;
- In addition, these changes might improve cost targeting and allow the development for innovative tariff related products for customers by utilising SMART and AMR capable meters. It should be noted that larger supply point consumers are more likely to be interested in this type of product.
- The combined effect of better settlement, improved cost targeting and product innovation should benefit competition in the marketplace.
- This modification will remove a disincentive to sites becoming daily read, but there will be no obligation on Shippers to take advantage of this change or mandate sites to be Product Class.
- However, other Workgroup Participants acknowledged there was an increased incentive in 0619B compared to 0619, they were concerned that these proposals would introduce a risk that DNOs would not be able to rely on stated SOQs, leading to inefficient network investment as the lack of a suitable incentive would not provide sufficient encouragement for parties to demonstrate correct behaviours.

Rough Order of Magnitude (ROM) Assessment

Summary of ROMs

Rough Order of Magnitude (ROM) Assessment	
Development Cost estimate UNC 0619	between £70k and £110k
On going Costs estimate UNC 0619	£650 per 100 ratchets processed
Development Cost estimate UNC 0619A	between £85k and £140k
On going Costs estimate UNC 0619A	£650 per 100 ratchets processed
Development Cost estimate UNC 0619B	between £75k and £115k
On going Costs estimate UNC 0619B	£650 per 100 ratchets processed

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.	0619A - positive
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or	0619A - positive

(ii) the pipe-line system of one or more other relevant gas transporters.	
c) Efficient discharge of the licensee's obligations.	0619A - positive
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.	0619 - Positive/Impacted 0619B Positive/Impacted
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

UNC0619

This modification ensures that the disproportionate impact of the Ratchet Charge regime will be removed so as to allow sites with lower levels of consumption, to benefit from being daily read. This will improve cost targeting and promote innovative products, so furthering relevant objective (d) *Securing of effective competition between Shippers*.

UNC0619A

This modification will ensure that Gas Transporters continue to receive the appropriate market signals from those large consumers who could have an impact upon network management procedures.

Specifically, relevant objectives (a), (b) and (c) will be furthered in the following ways:

- (a) This modification will ensure Transporters will continue to receive appropriate market signals that in turn feed forecasting and inform Transporter investment decisions.
- (b) Similarly, appropriate market signals that assist forecasting help Transporters to plan in terms of offtakes from the NTS, required outlet pressures in the distribution network and storage. Such market signals directly affect the Transporters ability to make sufficient capacity available to meet demand in peak flow conditions. Degradation of such signals could result in the inefficient operation of the pipeline system of one or more relevant Transporters.
- (c) Continuance of such market signals assists Transporters in the discharge of Standard Condition 16 and Standard Special Condition A9 in terms of ensuring the gas security standard is met.

UNC0619B

This modification ensures that the disproportionate impact of the Ratchet Charge regime will be removed so as to allow sites with lower levels of consumption, to benefit from being daily read. This will improve

cost targeting and promote innovative products, so furthering relevant objective (d) *Securing of effective competition between Shippers.*

8 Implementation

UNC0619

No formal timescales are proposed for implementation; however, it would be desirable if these changes were implemented prior to the period where ratchets will start to apply for any sites that have moved from Product Classes 3 and 4 to Product Class 2, which will be October 2018.

UNC0619A

No formal timescales are proposed for implementation, however implementation as soon as reasonably practicable in order to protect any smaller consumers whom may already have elected to become daily metered.

UNC0619B

This modification will remove a disincentive to sites becoming daily read, but there will be no obligation on Shippers to take advantage of this change, so there will be no costs imposed on parties.

No formal timescales are proposed for implementation, but we wish to see these changes implemented prior to the period where ratchets will start to apply for any sites that have moved from Classes 3 and 4 to Class 2, which will be October 2018.

9 Legal Text

Legal Text has been provided by Wales & West Utilities and is to be published alongside this report. The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution for each modification.

10 Consultation

Panel invited representations from interested parties on 18 January 2018. The summaries in the following table are provided for reference on a reasonable endeavours basis only. We recommend that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

UNC 0619

Of the 16 representations received 6 supported implementation, and 10 were not in support.

UNC 0619A

Of the 16 representations received 5 supported implementation, 1 offered qualified support, 1 provided comments and 9 were not in support.

UNC 0619B

Of the 16 representations received 3 supported implementation, 6 offered qualified support, 1 provided comments and 6 were not in support.

Preference expressed

Of the 16 representations received, 5 expressed a preference for **0619**, 6 expressed a preference for **0619A**, and 5 expressed a preference for **0619B**.

Summary Table of Preferences				
Organisation	0619	0619A	0619B	Preference
Cadent	Oppose	Support	Oppose	0619A
Centrica	Oppose	Oppose	Support	0619B
Chivas Brothers Limited	Support	Oppose	Qualified Support	0619
Corona Energy	Support	Oppose	Qualified Support	0619
Engie	Support	Comments	Support	0619B
E.ON	Oppose	Qualified Support	Comments	0619A
Gazprom	Support	Oppose	Qualified Support	0619
Kronospan Ltd	Support	Oppose	Qualified Support	0619
Northern Gas Networks	Oppose	Support	Oppose	0619A
Npower	Oppose	Support	Oppose	0619A
Ørsted	Oppose	Oppose	Oppose	0619B
Saint-Gobain UK	Support	Oppose	Qualified Support	0619
Scotia Gas Networks	Oppose	Support	Oppose	0619A
Scottish Power	Oppose	Oppose	Qualified Support	0619B
SSE	Oppose	Oppose	Support	0619B
Wales & West Utilities	Oppose	Support	Oppose	0619A

Representations were received from the following parties:

Organisation	Response	Prefer	Relevant Objectives	Key Points
Cadent	0619 Oppose 0619A Support 0619B Oppose	0619A	0619 d) negative 0619A a) positive b) positive c) positive 0619B d) negative	<ul style="list-style-type: none"> • Opposes UNC 0619/0619B for the following reasons: • One of the tools DNOs use to manage their networks efficiently is the capacity referral process. The DNO will carry out the required analysis and if capacity is available it will be provided. Where requested capacity is not

			<p>available, the costs of pipeline reinforcement (subject to the 'economic test'), will be levied to the requesting Shipper User. This process ensures that loads which cannot be sustained are not offered and the customer pays the specific reinforcement costs associated with their increased capacity requirement.</p> <ul style="list-style-type: none"> • If the ratchet charge were to be removed there would be no incentive on the Shipper User to apply to the DNO for additional capacity as capacity up to the PMSOQ would be automatically provided (regardless of whether the capacity is actually available within the network). • A consequence of this, would be a potential cross subsidy in that 'specific' reinforcement costs which would previously have been payable by the individual customer would now be borne to all Shipper Users being 'general' reinforcement costs. • Additionally, were a particular Shipper User's customer to follow the correct process and apply for and be charged for the required reinforcement for additional capacity but a second Shipper User in a similar circumstance simply 'ratcheted' their Daily Capacity thereby avoiding any such reinforcement costs, this would be detrimental to equitable competition. • In addition, for UNC 0619 only, notes the undesirable position arising whereby a Supply Point may breach their PMSOQ but the Shipper User would not be liable for the full Transportation Charge for that element of additional capacity. • Supports UNC 0619A for the follow reasons: • Acknowledges that it is unnecessary for SSPs which are predominantly domestic properties to be captured by the current ratchets arrangements. • This change therefore retains the ratchet principle for Class 1 and 2 Supply Points over 73,200 kWh, but does not create a possible disincentive for Shipper Users to utilise the Class 2 product for SSPs. • UNC TPD Section G5.3.3 sets out the
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				<p>obligations on the Shipper User to ‘estimate the maximum offtake rate, after appropriate enquiries of the consumer. These estimates are critical to the Transporter in their ability to accurately forecast levels of demand, forecasts which are also passed upstream and used by the NTS.</p> <ul style="list-style-type: none"> Notes the evidence produced in support of UNC 0619A suggests that the majority of Shipper Users provide accurate market signals in the form of reflective SOQs and that the prevalence of Ratchets can be confined to a subset of Shipper Users.
Centrica	<p>0619 Oppose</p> <p>0619A Oppose</p> <p>0619B Support</p>	0619B	<p>0619 none</p> <p>0619A none</p> <p>0619B positive</p>	<ul style="list-style-type: none"> Ratchets are a historical, non-cost reflective mechanism to incentivise large sites to book appropriate daily offtake capacity to protect the network from any under-booking risk. Ratchet penalties are excessive and thus shippers book additional capacity headroom to protect themselves from these very expensive penalty charges. This is not good economic use of the system as it sterilises capacity and prevents it from being released into the market. UNC 0619 seeks to remove high penalty ratchet charges, should a daily read in Product Class 1 and 2 site breach its daily capacity offtake. It seeks to replace the penalty charge with cost reflective transportation charging back to the start of the gas year from the time the ratchet occurred. This is an important step to removing barriers for sites to submit more regular reads, without undue penalties being in place. Whilst supporting this proposal in principle, believes there are two unintended consequences. Firstly, the back charge is limited under the PMSOQ rules. Should an artificially low SOQ be submitted and accepted, and the site subsequently breaches its SOQ, the new charge might not reflect the offtake volume. This could allow for ‘gaming’ opportunities. Secondly, whilst proposing incentives on parties to set the SOQ to the correct level, is concerned the incentives may be too low to encourage the booking of a reasonable level of capacity ‘headroom’, resulting in parties under-booking capacity. Collectively this could risk the safety of

				<p>the network and may cause new network constraint issues.</p> <ul style="list-style-type: none"> • UNC 0619A, seeks to maintain the ratchet regime, but remove the charging for sites below the 73,200kWh threshold. It should be noted that Small Supply Points traditionally do not submit daily reads. Given that in the near term most sites that will use Product Class 2 are Large Supply Points, it does not address the fundamental concerns that ratchet charges are penal and by default not cost reflective. • UNC 0619B seeks to remove the unduly and unjustifiably high penalty ratchet charge and replace it with a more cost-reflective regime via a back-charge Transportation charge. UNC 0619B removes PMSOQ gaming opportunities and it ensures proportionate incentives are in place to mitigate the risk of under-booking. • Given that Product Class 2 sites can set their own SOQ volume, UNC 0619B ensures an incentive will apply, so sites continue to set their SOQ with some 'head-room', mitigating Transporter concerns of sites under-booking and risking the integrity of the pipeline system. • In addition, the incentive will reduce the need for action by the Transporters to amend the customer SOQ/PMSOQ booking. • Introduces reporting to enable the monitoring of SOQ breaches, allowing the gas industry to 'self-police' its own arrangements. • Introduces a balance between ensuring ratchet charges are more cost reflective, but maintaining an incentive to ensure capacity is not under booked or 'gamed'.
Chivas Brothers Ltd	0619 Support 0619A Oppose 0619B Qualified Support	0619	0619 positive 0619A negative 0619B positive	<ul style="list-style-type: none"> • Is concerned that as a large gas user in the North East of Scotland where the gas network is extremely constrained, this limits their ability to raise SOQs and limits growth and production. • Having penal ratchet charges when SOQs are so tight is unhelpful and potentially damaging to business in a generally rural area of the UK.
Corona Energy	0619 Support 0619A	0619	0619 d) positive 0619A	<ul style="list-style-type: none"> • Both UNC 0619 and 0619B address the current penal ratchet regime, which is unnecessary following the recent decline in peak gas demand

	<p>Oppose 0619B Qualified Support</p>		<p>a) none b) none c) none 0619B d) positive</p>	<p>resulting in excess system capacity. If implemented either of these modifications will result in increases in daily metered sites, improving settlement accuracy, and also reduce the amount of excess peak capacity that will be booked by customers to avoid penal ratchet charges. Both of these developments will improve cost targeting and so further competition.</p> <ul style="list-style-type: none"> • Does not believe that either UNC 0619 or 0619B would result in shippers ignoring their obligations to book appropriate peak capacity. A ratchet charge will still be levied and, particularly in the non-domestic market, those costs will be unrecoverable as they will be pass through costs that the customer will likely challenge. • By contrast UNC 0619A will continue the penal ratchet regime for those customers most likely to move to Class 2, whilst removing any form of effective obligation to ensure appropriate peak capacity requirements are registered for the vast majority of sites. Removing any form of ratchet charge from these sites does not further the economic and efficient operation of the pipeline (and if anything is probably slightly detrimental) and so does not further the relevant objectives a),b) or c). • All three of these modifications will have a material impact on the customers involved and will substantially change how the capacity bookings for some or all customers will be handled. UNC 0619 and 0619B will also reduce the level of unwarranted capacity booked by shippers in the market, so having a material impact on any new connections and level of additional capacity that may be required. These modifications should therefore be sent to Ofgem for decision. • The presence of a penal ratchet regime is inhibiting the adoption of Class 2 status by shippers. They believe that results in higher level of settlement error. To reduce the impact of this issue, they believe that UNC 0619 should be implemented as soon as possible. • Significant development costs are not expected if any of these modifications are implemented,
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				<p>outside of taking account of revised ratchets costs when they occur. If it was decided to increase the proportion of daily metered sites in a portfolio, they anticipate an increase in operating costs as they would continue to apply the same rigour to setting and monitoring SOQ values as they do for existing DM sites.</p> <ul style="list-style-type: none"> Notes some shippers in the market, are experiencing high levels of UIG. A key driver to reduce the scale and volatility of UIG is to increase the use of meter reads in settlement, in particular increase the number of site settled on a daily basis. If both UNC 0619 and 0619B are rejected then these large and unpredictable costs will continue, to the detriment of the market. Conversely if either is implemented, they would expect to see these costs diminish.
Engie	<p>0619 Support</p> <p>0619A Comments</p> <p>0619B Support</p>	0619B	<p>0619 positive</p> <p>0619B positive</p>	<ul style="list-style-type: none"> Supports UNC 0619, which applies the principle of cost reflectivity, which they note was the primary motivation for OFGEM approving modification DCP 161 in the power market. They would suggest an annual review of the level of ratchets thereafter, increasing the level of the incentive if the current rate of ratchets deteriorated. However, if a more conservative initial approach is desired then our alternative preference is UNC 0619B, again with an annual review of ratchets. Support the motivation of UNC 0619A, to put in place an appropriate level of incentive for smaller sites to provide accurate SOQ's, but they feel this should be extended to cover all Class 1 and Class 2 sites to provide a level playing field for all daily metered sites.
E.ON	<p>0619 Oppose</p> <p>0619A Qualified Support</p> <p>0619B Comments</p>	0619A	<p>0619 d) none</p> <p>0619A a) none b) none c) none</p> <p>0619B d) none</p>	<ul style="list-style-type: none"> Conclude that all three options have differing pros and cons and view that none of the options proposed provide an overall positive solution with a deliverable and quantifiable cost/benefit. While recognising what all proposers are trying to achieve they don't believe any should be approved. Believes that the UNC 0619 solution goes against the electricity equivalent which is about to be implemented (DCP161), although on occasion gas and electricity may benefit from

			<p>individual solutions they don't believe in this instance it should. The principles should be aligned even if the lower level solution has some differences.</p> <ul style="list-style-type: none"> • They also feel this solution doesn't provide any incentive to get things right but instead leaves it open to allow under allocation to avoid costs. The modelling could possibly lead to more ratchets being created in the future because there is no incentive not to trigger them; it is also likely to result in increased processing/operational costs with little encouragement to avoid this. The increase in costs may result in increased customer charges (possibly pass through – possible not). • Of the options proposed UNC 0619A has the potential to be a suitable solution, however they believe there are still some elements of the solution which may require further consideration and possibly incorporating into the solution. • Customers with AQs <73,200kWh would benefit from having a system set SOQ, this would increase the appetite to move to Class 2 and would simplify the process to move a customer. If AQs <73,200kWh are expected to provide the same level of information it is possible customers would prefer to stay in Classes 3 or 4 which reduces the benefits of this proposal. • Having considered read performance risks; although limited when related to a single supply, however, collectively these customers could cause further stability issues with UIG which under the circumstances they would prefer not to add to. • Is concerned with UNC 0619B, although there is an incentive of 10% which goes towards their earlier point of 'getting it right' they are not sure that 10% is a % which will change or instil behaviours. Ongoing review of this % would be required with a view to vary it depending on the previous ratchet period. Although this could cause additional work it could have benefits on behaviours. • An implementation of a minimum of 6 months' notice due to system changes and the modification aligned with any the DSC release
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				date.
Gazprom	0619 Support 0619A Oppose 0619B Qualified Support	0619	0619 positive 0619A negative 0619B positive	<ul style="list-style-type: none"> • Has significant concerns related to the continued operation of a penal regime in an unconstrained market which was evolving with the removal of Code services such as Interruptible and Network Sensitive sites, the rollout of new technologies including Advanced and Smart Metering and the introduction of new Customer Classes as a result of Project Nexus. • UNC 0619 and 0619B both seek to remove the current penal ratchet regime, reflecting the fact that the gas distribution networks are now unconstrained after the drop in peak gas demand. Removal of this penal barrier to sites transitioning to daily metered status will allow the market to take advantage of the rollout of advanced and smart meters into the market. • The subsequent increase in the number of sites settled daily will significantly improve settlement accuracy, reducing UIG. • It will also minimise the level of sterilised capacity in the networks caused by the prudent purchasing of capacity to avoid penal ratchet charges, likely reducing the level of unwanted investment in additional capacity at a time when the Networks are unconstrained. • Does not agree with the statement by the transporters that either UNC 0619 or 0619B will result in an under-booking of capacity by shippers. Though its materiality will be less, there will still be a ratchet charge levied on shippers, who will then need to recover this cost from non-domestic customers. This will at the least result in a negative customer experience. This places a clear incentive on shippers to ensure peak capacity bookings are and remain accurate. • Prefers UNC 0619 as it aligns the ratchet charge with the costs the customer should reasonably pay. Whilst UNC 0619B reduces the level of the penalty there is still a penal 10% uplift applied which does not seem to have any form of evidence base to justify it. • In addition, the treatment of sites that breach the provisional maximum SOQ is more appropriate

				<p>in UNC 0619, namely that Customers are not continually penalised for breaching a limit they cannot control and be adjusted by their Shipper.</p> <ul style="list-style-type: none"> • Opposes UNC 0619A as it seeks to treat customers differently simply based on the sites consumption. By affirming the status quo for those sites most likely to move to daily read status (i.e. with consumption above 73,200 kWh), this will sharply disincentives Customers to move to a more granular settlement class and so prevent the major benefits of daily read status from being realised. • In addition it removes any form of control over the peak gas demands of most sites and this goes against relevant objectives a),b) and c).
Kronospan Limited	<p>0619 Support</p> <p>0619A Oppose</p> <p>0619B Qualified Support</p>	0619	<p>0619 positive</p> <p>0619A negative</p> <p>0619B positive</p>	<ul style="list-style-type: none"> • Representing a large industrial gas user supports UNC 0619 as the current Ratchet charge would be removed and replaced with a significantly lesser of a penalty. Whereas UNC 0619A does not change the current penal regime for any Customers using above 2,500 Therms, with only the smallest (domestic sized) Customer exempt from Ratchet Charges. • Offered qualified support for UNC 0619B as it is less penal than the current ratchet charge.
Northern Gas Networks	<p>0619 Oppose</p> <p>0619A Support</p> <p>0619B Oppose</p>	0619A	<p>0619 b) negative</p> <p>0619A a) positive b) positive c) positive</p> <p>0619B b) negative</p>	<ul style="list-style-type: none"> • Supports UNC 0619A as an acceptable change to the current regime because it will ensure that any smaller, or domestic properties which offer no risk to network security of supply are able to submit daily meter reads from smart meters within the class 2 arrangements without a requirement to assess peak day demand. This will ensure that larger users who may impact on the network more significantly remain incentivised to provide a reasonable peak day demand for capacity booking which will allow the Networks to have more trust in stated SOQs; therefore, resulting in more efficient network investment. • Does not support either UNC 0619 or 0619B based on the assertion that all networks are unconstrained and therefore capacity is freely available without consequence. The Networks have advised that this is not correct, and that they rely on incentivised activity to encourage

				<p>the nomination of appropriate SOQs. For parts of the network which are constrained additional capacity that has not been booked could result in the need for network intervention to maintain supply to domestic properties and impact on any reinforcement requirements that have been through the network planning processes.</p> <ul style="list-style-type: none"> Acknowledges that while overall consumption has reduced in recent years as a result of energy efficiency measures this in itself does not removal all constrains on networks either physically or commercially. While seeking to ensure that the 1-in-20 peak demand can be catered for, GDNs have reduced NTS exit bookings to take account of reduced overall consumption. This has subsequently made capacity available for other NTS directly connected sites, increasing efficiency of the total network. The reduction in booked NTS Exit (Flat) Capacity at offtakes could then place the network at risk of NTS Overruns for unanticipated increases in demand caused by large users under-booking SOQs. Would like to see implementation occur as soon as reasonably practicable following Authority Decision.
Npower	<p>0619 Oppose</p> <p>0619A Support</p> <p>0619B Oppose</p>	0619A	<p>0619 a) negative</p> <p>0619A b) positive</p> <p>0619B c) negative</p>	<ul style="list-style-type: none"> Understand the problems created by the ratchet regime, and that it remains an imperfect system. However, it is not clear that UNC0619 does enough to safeguard against the possibility that SOQs could be submitted that are lower than is appropriate. As the process allows a DM SOQ to be submitted independent of AQ consumption values, and because it is linked so intrinsically to capacity charging, they feel more would be needed to reassure transporters and shippers that a relaxing of the charging regime would not create an environment where inappropriately reduced SOQs could be submitted due to a reduction in consequences. UNC 0619A retains the current safeguards which despite imperfections, has the benefit of remaining a known quantity. It also makes clear that supply points with smaller usage would be able to take up the option of Class 2 settlement provision without ratchet penalties, and they feel

				<p>this is an important point of clarity and distinction for the development of the industry. The ratchet regime prior to Nexus was always designed to ensure larger sites booked appropriate capacity, and an indirect extension of this to smart meters through the Nexus arrangements was never a satisfactory outcome.</p> <ul style="list-style-type: none"> • UNC 0619B whilst adds an additional incentive charge to a new ratchet regime, again it is still not clear that it is set at an appropriate level, which would therefore make the case that it would safeguard against perverse incentives. They appreciate that modelling behavioural impacts of changes is extremely difficult to undertake, but they would have preferred more reassurance that indirect opportunities for SOQ under-booking were not being created through this proposal. • Believe further analysis should be undertaken by transporters and shared with the industry to understand any behavioural impacts of the changes, and ensure remedial action is possible. • Implementation should take place as soon as is practical, factoring in other changes through the appropriate prioritisation mechanism, and allowing the CDSP enough time to make the required changes.
Ørsted	<p>0619 Oppose</p> <p>0619A Oppose</p> <p>0619B Oppose</p>	0619B	<p>0619 d) none</p> <p>0619A a) negative b) none c) none</p> <p>0619B d) none</p>	<ul style="list-style-type: none"> • Sympathetic to a review of the high level of ratchet penalties, but believes that significant negative knock-on effects would be generated by all three proposals as none of them provide enough incentive on shippers to best manage their SOQ values, especially for weather sensitive sites. • Sees potential in all three to introduce gaming, unfair practices and price volatility to the market. • Considers additional costs may arise from instability in the market caused by less robust SOQ calculations if the penalty arrangement is weakened. Although no analysis undertaken to verify the impact.
Saint-Gobain UK	<p>0619 Support</p> <p>0619A Oppose</p>	0619	<p>0619 positive</p> <p>0619A negative</p>	<ul style="list-style-type: none"> • As an organisation with a large number of high consuming gas sites, some of which do exceed their SOQ on occasion. In some instances, this

	0619B Qualified Support		0619B positive	is extremely hard to predict, even harder to prevent and always very expensive. Some of the sites also have their SOQ capped so they could ratchet on several occasions without the level being raised automatically which is also unfair.
Scotia Gas Networks	0619 Oppose 0619A Support 0619B Oppose	0619A	0619 d) negative 0619A a) positive b) positive c) positive 0619B d) negative	<ul style="list-style-type: none"> • SGN recognises that the new settlement arrangements implemented by Project Nexus may result in domestic consumers becoming liable under the regime, and as such has raised UNC 0619A as a pragmatic solution to maintain the existing arrangements where required whilst providing smaller consumers with the appropriate protections • Analysis undertaken, indicates that in the majority of cases the existing regime drives the correct behaviours in relation to SOQ management and as such should not be diminished as proposed by UNC 0619 and 6019B. However, they note that there is also evidence of repeated ratchets being incurred by the same parties or at the same sites and as such this suggests that there are certain circumstances in which the existing regime is not sufficiently strong to encourage the correct behaviours in every case. • UNC 0619A acknowledges the need to exclude sites below 73,200kWh from the ratchet regime. SGN believes this is possible because due to the reliable weather algorithms that they have which allow domestic demand to be predicted on the network with a high degree of accuracy. They note that some parties had previously indicated that applying ratchet charges to domestic supply points could become a barrier to moving these supply points from Class 4 into Class 2 hence why they believe this modification provides the mechanism needed to encourage the use of Class 2 that will result in the use of more granular data. • Cannot support UNC 0619 as the removal of ratchets will remove commercial incentives for Shippers to proactively manage their SOQ demands and to provide the networks with the correct demand data used in network modelling. • The implementation of UNC 0619 has the

				<p>potential to put at risk the security of supply of customers downstream of large users therefore they would encourage the authority to take this into consideration when giving their direction on this modification.</p> <ul style="list-style-type: none"> Is unable to provide support to UNC 0619B due to the lack of supporting analysis provided within the modification. An assumption has been articulated in the modification that Shippers over-book capacity to avoid ratchet charges, however currently this has not been supported with any quantifiable evidence to help the authority to make an informed decision. An additional concern that arises from UNC 0619B is that the incentive to set SOQs to the correct level will be reduced to a level whereby the parties experiencing a ratchet will only endure a corrective invoice for the capacity costs it avoided by setting the SOQ low. The Implementation of these modifications will incur development costs to the central systems in the region of £70k - £140k these costs have been estimated by the CDSP. Implementation of UNC 0619 is likely to cause SGN to incur increased costs in respect of network analysis and monitoring, as well as potential reinforcement on sensitive parts of the network. The implementation of UNC 0619B is also likely to have a cost impact to SGN as it will allow Shippers to avoid the site works referral process and specific reinforcement for taking increased volumes of gas from the network.
Scottish Power	<p>0619 Oppose</p> <p>0619A Oppose</p> <p>0619B Qualifies Support</p>	0619B	<p>0619 d) positive</p> <p>0619A a) negative b) negative c) negative</p> <p>0619B d) positive</p>	<ul style="list-style-type: none"> Believes UNC 0619B provides a good balance between incentive and sanction, this would not limit parties electing to become daily read sites while ensuring the network is protected without penalising end consumers.
SSE	<p>0619 Oppose</p> <p>0619A Oppose</p>	0619B	<p>0619 d) negative</p> <p>0619A a) none</p>	<ul style="list-style-type: none"> Believes UNC 0619 gives no incentive for shippers to declare the correct levels of SOQ values, as the charges specified for a site ratcheting within this modification are at the level

	0619B Support		b) none c) none 0619B d) positive	<p>that would be applied even if the shipper had declared the correct SOQ in the first instance. It, therefore, provides a free 'one-way bet' for shippers and provides no incentive for correct SOQs to be declared.</p> <ul style="list-style-type: none"> Does not support UNC 0619A for mainly the same reasons as above, where shippers can under declare SOQ levels without penalty, albeit for much smaller customers, without any form of incentive payment. Believes UNC 0619B provides an incentive for shippers to declare correct levels of SOQ values, but at the same time will protect shippers from the currently penal rates that they can incur should sites ratchet. Implementation should be done in order to amend the ratchet regime from October 2018.
Wales & West Utilities	0619 Oppose 0619A Support 0619B Oppose	0619A	<p>0619 a) negative c) negative d) positive</p> <p>0619A a) positive b) none c) positive</p> <p>0619B a) negative c) negative d) positive</p>	<ul style="list-style-type: none"> Supports UNC 0619A because the proposal provides the commercial regime that best enables networks to manage demand on their network. It removes small Supply Meter Points from the regime which were already well understood and predictable by networks and therefore there is no risk if they are removed from the ratchet charging regime. Acknowledge the points made about the size of the charges but observe that these charges are avoidable and that any revenue recovered from ratchet charges are returned to Shippers collectively by the operation of the price control arrangements. Believes that there needs to be an incentive for Shippers to meet their obligations in UNC TPD G and UNC 0619 and 0619B do not provide sufficient incentive. Acknowledges that there may be a perception that the presence of ratchet charges discourages migration to Class 2 but have not seen evidence that demonstrates why Shippers cannot work with their customers to manage their SOQs. Implementation should be after system changes have been designed, built and tested. UNC 0619 and 0619B must be implemented outside the ratchet charging window and UNC 0619A should

				also be implemented outside the window.
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Summary of Responses to Panel Questions

Q1: Please provide clear views and supporting evidence on the self-governance status of this modification focusing, in particular, on whether this proposal is likely to have a material impact upon competition in the shipping, transportation or supply of gas.

Q2: Respondents to provide a view as to whether or not this modification should be re-designated as self-governance.

Organisation	Question	Response
Cadent	Q1	UNC0619 and 0619B, if implemented, would be likely to have a material impact on competition; under current 'ratchet' arrangements there is varying ability among Shipper Users to register their accurate Supply Point SOQ requirement.
	Q2	The modifications should not be designated as self-governance.
Centrica	Q1	Believes the proposals are seeking to introduce charging that is more cost reflective. This should have a material impact to competition.
	Q2	Given the materiality of cost to shippers and some customers, does not support self-governance arrangements for these proposals.
Chivas Brothers Ltd	Q1	No comment
	Q2	No comment
Corona Energy	Q1	UNC Modification 0642 estimated UIG error to be in the order of £13.5m a month. This error is caused in large part by the preponderance of NDM sites in the market. The major barrier to sites moving from NDM to DM is the presence of a penal ratchet regime. If removing these penal regime results in only 10% of sites (by volume) moving into the DM regime, this will reduce UIG volatility by 10% as these sites will now be settled daily on actual reads. This clearly demonstrates that these modifications have a material impact on the competitiveness of the market. There are also potential cost savings for new connections as the level of sterilised capacity in the market will be reduced.
	Q2	See above, these modifications have a material impact and so should be sent for authority decision.

Engie	Q1	No comment
	Q2	No comment
E.ON	Q1	Supports these modifications not being self-governance and being sent to the Authority for decision, as the alternates have different customer impacts including commercial and financial depending on the option chosen (if any are chosen).
	Q2	See above
Gazprom	Q1	These modifications will reduce UIG error by improving the granularity of settlement for many sites. UIG was recently estimated in UNC Modification 0642 as around £13.5m a month. In addition, it will also reduce the level of sterilised capacity that customers have to book to avoid penal ratchet charges.
	Q2	See above, these modifications have a material impact and so should be sent for authority decision.
Kronospan Limited	Q1	No comment
	Q2	No comment
Northern Gas Networks	Q1	No comment
	Q2	Agrees that these modifications should be subject to Authority Decision due to the material impact they may have on network activities.
Npower	Q1	No comment
	Q2	Not applicable.
Ørsted	Q1	<p>Does not support UNC 0619 because there are likely to be unintended negative consequences that are difficult to quantify.</p> <p>Class 3 and 4 Load Factors and therefore SOQs are set annually by the DESC to reflect a 1 in 20 winter peak day demand. These SOQs in turn are used for transportation charges and fed in to setting transportation tariff dates. Removing any penalty charge from the ratchet process could result in movement of weather sensitive sites to Class 2 solely to artificially reduce SOQs and therefore</p>

		<p>transportation costs because of either:</p> <ul style="list-style-type: none"> a) Limited historical data that does not contain the rare 1 in 20 winter peak day. b) A view on how much less cold the coldest day is likely to be in the coming year in comparison to a 1 in 20 winter. <p>Secondary but important knock on impacts would be:</p> <ul style="list-style-type: none"> a) Reduced transporter revenues and therefore added instability in the transportation charging regime as unit rates rise to recover enough revenue. This would be difficult to predict given the different SOQ setting methods that could be used by various shippers. b) Misalignment of infrastructure investment which could eventually drive up costs for customers in some areas. <p>The combination of these impacts could ultimately reduce competition by driving the more scrupulous shippers out of the market.</p> <p>UNC 0619A – by excluding supply points with AQs less than 73,200kWh from the ratchet process risks leading to the I&C market cross subsidising the smaller supply point market and is anti-competitive. It will allow domestic shippers to have the advantages of a daily metered portfolio without facing any of the consequences for under estimating their usage. The fact that sites in this volume band represent a large percentage of demand with high weather sensitivity would tend to amplify the negative impacts of UNC 0619.</p> <p>UNC 0619B – this has the potential to influence behaviour in a similar but smaller way as UNC 0619. This is because whilst a 10% penalty charge may be sufficient for the least weather sensitive loads, it can be smaller than the difference between a 1 in 20 year peak and a higher frequency peak for weather sensitive sites. Supports more detailed analysis by Xoserve or an independent expert to determine:</p> <ul style="list-style-type: none"> a) An appropriate penalty % level b) Examine whether different % penalty levels should apply to different End User Categories
	Q2	The market impacts of all three modifications are too significant for self-governance to be a suitable solution.
Saint-Gobain UK	Q1	No comment

	Q2	No comment
Scotia Gas Networks	Q1	No comment
	Q2	Does not believe that UNC 0619, 0619A or 0619B meet the criteria for self-governance as they will impact the commercial arrangements between Transporters, Shippers and end consumers if implemented.
Scottish Power	Q1	No comment
	Q2	These modifications should not be designated as self-governance.
SSE	Q1	No comment
	Q2	Believes that these modifications should go to the Authority for a decision.
Wales & West Utilities	Q1	Believes that these modifications are not self-governance. In 16/17 there were 33 ratchets on the WWU network of which two incurred very significant charges. These charges would have been likely to be significant for these customers and therefore changes to ratchet charges are likely to have a significant impact on competition.
	Q2	These modifications should not be designated as self-governance.

Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

Panel was pleased to see the participation of a number of customers to the Consultation.

No new issues were identified by Panel Members.

Determinations

Members voted with 5 votes in favour (out of a possible 14) and did not agree to recommend implementation of Modification **0619**

Members voted with 9 votes in favour (out of a possible 14) and recommend implementation of Modification **0619A**

Members voted with 5 votes in favour (out of a possible 14) and did not agree to recommend implementation of Modification **0619B**

Members considered, should one of the modifications be implemented, which one better facilitated the Relevant Objectives:

4 votes in favour (out of a possible 14) proposed Modification **0619** better facilitates the Relevant Objectives than proposed Modifications **0619A** and **619B**.

7 votes in favour (out of a possible 14) proposed Modification **0619A** better facilitates the Relevant Objectives than proposed Modifications **0619** and **0619B**.

1 vote in favour (out of a possible 14) proposed Modification **0619B** better facilitates the Relevant Objectives than proposed Modifications **0619** and **0619A**.

12 Recommendations

Panel Recommendation

Members recommended:

- that Modification **0619** should not be implemented.
- that Modification **0619A** should be implemented.
- that Modification **0619B** should not be implemented.
- that Modification **0619A** better facilitates the Relevant Objectives than Modification **0619** and **0619B**.