

UNC Modification		At what stage is this document in the process?
<h1>UNC 0619A:</h1> <h2>Protection from ratchet charges for daily read customers with an AQ of 73,200kWh and below</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; display: flex; justify-content: space-between; align-items: center;">01 Modification</div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; justify-content: space-between; align-items: center;">02 Workgroup Report</div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; justify-content: space-between; align-items: center;">03 Draft Modification Report</div> <div style="border: 1px solid #00a651; padding: 5px; display: flex; justify-content: space-between; align-items: center;">04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>This modification will protect any daily metered customer with an AQ of 73,200kWh and below from the charging elements of the existing ratchets regime.</p>		
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> considered a material change and not subject to self-governance assessed by a Workgroup <p>This modification will be presented by the Proposer to the Panel on 20 September. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>	
	<p>High Impact:</p> <p>Shipper Users and Transporters</p>	
	<p>Medium Impact:</p> <p>None</p>	
	<p>Low Impact:</p> <p>None</p>	

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Timetable			 As above
The Proposer recommends the following timetable:			Systems Provider: Xoserve
Initial consideration by Workgroup	28 September 2017		
Workgroup Report presented to Panel	16 November 2017		commercial.enquiries@xoserve.com
Draft Modification Report issued for consultation	16 November 2017		Other:
Consultation Close-out for representations	14 December 2017		
Final Modification Report available for Panel	15 December 2017		
Modification Panel decision	21 December 2017		

1 Summary

What

As part of the Project Nexus Solution, Product Class 1 and 2 sites will be subject to the ratchet regime. This proposal seeks to restrict the charging element of the regime to apply to customers with an AQ above 73,200kWh, therefore offering protection from the charges for customers under this threshold who opt to become daily metered.

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 has introduced four new customer classes.

- Class 1 is a mandatory daily metered class for all meter points with a rolling AQ of over 58,600,000 kWh - meter reads must be provided daily to Xoserve by 11am of the day following the day gas is consumed.
- Classes 2, 3 and 4 are elective classes for any meter points with a rolling AQ below 58,600,000 kWh:
- Class 2 meter reads must be provided daily to Xoserve within 24 hours following the day that the gas is consumed.
- Class 3 meter reads must be provided to Xoserve for each day but can be batched up and issued weekly, fortnightly or monthly.
- Class 4 meter reads must be provided to Xoserve either monthly or annually depending on the size of the rolling AQ. When a meter read is obtained it will be submitted to Xoserve, but no more than two meter reads can be sent in any rolling 24 day period.

These new 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.

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 Class 2 and would therefore be subject to all elements of the ratchet regime.

How

Through industry discussions it is widely agreed that it is not appropriate, nor the intention, for the ratchets regime to apply to small consumers. These customers are not considered to pose a significant risk to network management, and would not previously have been subject to ratchets under the pre-Nexus (pre-classes) arrangements.

¹ UNC TPD Section M 1.5.2(k)

However, it is important that the existing regime is retained for those sites which, if capacity and consumption are not actively managed, are considered to potentially create some risk to network management procedures.

Therefore, it is proposed 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.

2 Governance

Justification for Authority Direction

This modification may have a material impact as it is 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. While we expect this impact to be positive, the decision should ultimately rest with the Authority.

Requested Next Steps

This modification should:

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

3 Why Change?

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.

The Gas Transporter Licence² requires Transporters to ensure that adequate arrangements are in place to satisfy “the peak aggregate daily demand...which...is likely to be exceeded...only in 1 year out of 20 years”. The existing methodology for satisfying this licence condition has been developed and applied on the basis of the ratchets regime being in place.

The booking of SOQs by Shippers is a key market indicator to inform Transporters of capacity requirements at any point in the network. This is especially important on single-fed lines such as those commonly seen on the Scottish distribution 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, we consider 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)³.

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 2015/2016. As ratchets are observed to occur on a regular basis, this demonstrates that the full regime is still required for the higher consuming customers.

SGN has also undertaken evaluation of ratchets within our own network as follows⁴. The data suggests that the ongoing occurrence of ratchets demonstrates that procedures to encourage accurate SOQ management are still required, for the following reasons:

² Standard Condition 16 and Standard Special Condition A9 (<https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions> [Retrieved 18/10/17]).

³ 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 [Retrieved 18/10/17]. Data provided by Xoserve during development of UNC Modification 0571/A.

⁴ Data provided by Xoserve, in relation to the winter periods 2012 - 2016

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

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

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

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).

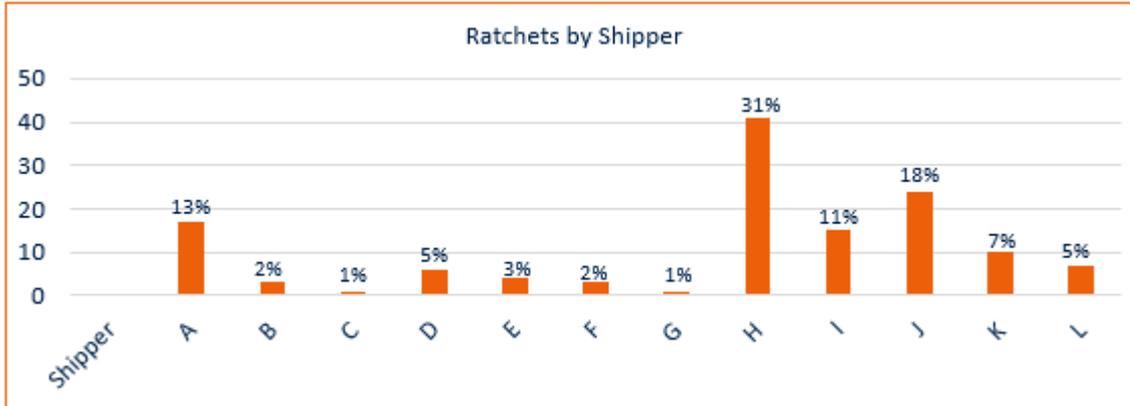


Table 4 shows that, of the 132 ratchets incurred by 12 Shippers within SGN's LDZs in the 2012-2016 Winter Periods, 73% (96) were incurred by just 4 Shippers. There is no correlation between the number of ratchets incurred by a given Shipper and their DM portfolio size. This indicates that some Shippers 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

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 Charge⁵ 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 Amount⁶ 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 Capacity⁷) is intimated by the Shipper and a ratchet subsequently occurs, the Capacity Reconciliation Charge⁸ 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 Rate⁹, 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

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)

⁵ UNC TPD Section B 4.7

⁶ UNC TPD Section B 4.7.2

⁷ UNC TPD Section G 5.1.14

⁸ UNC TPD Section G 5.1.14

⁹ 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."

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 $\leq 73,200\text{kWh}$ 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.

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 will 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.

Cross Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

We expect there will be an impact on central systems in restricting the charging element of the regime.

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.	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.	None
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

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.

8 Implementation

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

9 Legal Text

To be provided.

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.