













UNC Final Modification Report		At what stage is this document in the process?
<h1>UNC 0665:</h1> <h2>Changes to Ratchet Regime</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>Purpose of Modification:</p> <p>This Modification has 2 purposes: -</p> <p>It amends the current Class 2 Ratchet Charging Arrangement</p> <p>It allows Transporters to identify Supply Points that should, in addition to mandatory Class 1 Supply Points, be subject to the existing Class 1 Ratchet Charging Arrangement</p> <p>For the avoidance of doubt NTS Supply Points are excluded from the scope of this Modification</p>		
	The Panel recommends implementation	
	<p>High Impact:</p> <p>Shippers, Distribution Network Operators (DNOs) and Central Data Services Provider (CDSP)</p>	
	<p>Medium Impact:</p> <p>None</p>	
	<p>Low Impact:</p> <p>None</p>	

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Timetable		 0121 288 2107
Modification timetable:		Proposer: Steve Mulinganie, Gazprom
Initial consideration by Workgroup	14 September 2018	 enquiries@gasgovernance.co.uk
Amended Modification consider by Workgroup	28 February 2019	 steve.mulinganie@gazprom-energy.com
Workgroup Report presented to Panel	01 March 2019	 07990972568
Draft Modification Report issued for consultation	01 March 2019	Transporter: Scotia Gas Networks
Consultation Close-out for representations	14 March 2019	 hilary.chapman@sgn.co.uk
Final Modification Report available for Panel	15 March 2019	 07749 983418
Modification Panel decision	21 March 2019	Systems Provider: Xoserve
		 UKLink@xoserve.com

1 Summary

What

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 Modification 0571 was withdrawn in May 2017 and replaced with Modification 0619 which further developed the proposals and was subsequently accompanied by two alternatives (0619 A and B).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

In Ofgem's decision letter it noted:

*"We encourage industry parties to identify a **suitable classification** of relevant Supply Points which maintains the safeguards around **accurate capacity declarations**, as historically provided by the ratchet regime, whilst increasing the frequency and quality of meter read data being submitted to the Central Data Services Provider"*

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

There remains a concern that the current Ratchet arrangement is applied to all Daily Metered Supply Points or Product Class 1 & 2 customers as a tool by Transporters to manage constraints and the safety of their network, **when most sites pose no material risk to the gas network**. Given that the penalties are non-cost reflective and are not proportionate for most customers, this has impacted on Product Class 2 take up. This lack of Product Class 2 utilisation (August 2018 data below) has a direct impact on temporary Unidentified Gas (UIG) allocation and therefore the current scope of the Ratchet arrangements are not fit for purpose.

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

Why

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

How

This Modification has 2 purposes: -

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

For the avoidance of doubt:

- NTS Supply Points are excluded from the scope of this Modification.

- This Modification does not intend to extend the ratchet arrangements to the summer months as the additional system cost and complexity to do so will be significant and will provide little benefit to the market as the network is not constrained at that time.
- This process does not impact the current provisions of TPD B4.7.12, which governs when a supply is liable for Supply Point Ratchet Charges after a Class change.
- UNC TPDG 5.5 limits any increase to a Supply Point's capacity to the Provisional Maximum Supply Point Capacity, which is double the Prevailing Supply Point Capacity or 16 times the supply point offtake rate, until the Transporters notify the CDSP that it can be higher, i.e. the Maximum Supply Point Capacity. Though we do not believe that the UNC needs to be changed to give effect to this principle, for the avoidance of doubt the Non Ratchetable charge calculation would utilise the Maximum Supply Point Capacity in this circumstance.

2 Governance

Justification for Authority Direction

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

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

Modification 0665 will therefore follow Authority Direction procedures.

Requested Next Steps

This Modification should:

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

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

3 Why Change?

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

*"We encourage industry parties to identify a **suitable classification** of relevant Supply Points which maintains the safeguards around **accurate capacity declarations**, as historically provided by the ratchet regime, whilst increasing the frequency and quality of meter read data being submitted to the Central Data Services Provider"*

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

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

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

4 Code Specific Matters

Reference Documents

Modifications:

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

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

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

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

Knowledge/Skills

None.

5 Solution

This Modification has 2 purposes: -

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

For the avoidance of doubt:

- NTS Supply Points are excluded from the scope of this modification.
- This modification does not intend to extend the ratchet arrangements to the summer months as the additional system cost and complexity to do so will be significant and will provide little benefit to the market as the network is not constrained at that time.
- This process does not impact the current provisions of TPD B4.7.12, which governs when a supply is liable for Supply Point Ratchet Charges after a class change.
- UNC TPDG 5.5 limits any increase to a Supply Point's capacity to the Provisional Maximum Supply Point Capacity, which is double the Prevailing Supply Point Capacity or 16 times the supply point offtake rate, until the Transporters notify the CDSP that it can be higher, i.e. the Maximum Supply Point Capacity. Though we do not believe that the UNC needs to be changed to give effect to this principle, for the avoidance of doubt the Non Ratchetable charge calculation would utilise the Maximum Supply Point Capacity in this circumstance.

Business Rules

1. Class 1 sites will be subject to the existing Ratchet Charging arrangements as currently defined in the UNC (Class 1 Ratchet Charging Arrangements).
2. Class 2 sites will be subject to the amended Ratchet Charging Arrangements (Class 2 Ratchet Charging Arrangements)

3. Additional Supply Points will be subject to the Class 1 Ratchet Charging Arrangements (in addition to those sites classified as Class 1 as set out in UNC TPD G1.5.1) if the relevant Gas Transporter designates it to be subject to the Class 1 Ratchet Charging Arrangements in accordance with the rules below. All processes that apply to Class 1 sites will apply to these sites, including the “soft landing” set out in UNC TPD section B for sites that are newly designated as Class 1.
4. Transporters may seek to designate a site as Class 1:
 - a. Within 6 calendar months of this modification being approved.
 - b. Within 30 Supply Point Systems Business Days of a new Supply Point being Registered for the first time.
 - c. When a Supply Point is identified by the relevant Transporter as having had a material increase in consumption or capacity requirement.
5. On an ongoing basis, the relevant Transporter shall no later than 40 Supply Point Business Days ahead of the relevant Gas Year Ratchet period (October to May) identify those Supply Points, which meet the relevant criteria, and are to be considered subject to the Class 1 Ratchet Charging regime
6. A Supply Point, in addition to the current criteria set out in the UNC regarding Class 1 sites, shall be considered as subject to the Class 1 Ratchet Charging Arrangements if the relevant Transporter is able to demonstrate that, if the specific Supply Point was not subject to the Class 1 Ratchet Charging Arrangements it would constitute a material negative effect on its ability to discharge its licence to manage their pipe-line systems efficiently and economically and affected its Safety Case.
7. A Guidance document will be developed and maintained (the Guidelines for the determination of relevant Supply Points which should be subject to the Class 1 Charging Arrangements) which will set out how the relevant Transporter will determine if a Supply Point is subject to the Class 1 Ratchet Charging Arrangements.
8. In the event that a Gas Transporters designates a site as subject to the Class 1 Ratchet Charging Arrangements then the CDSP shall notify the registered Shipper, and the relevant Supply Point will as soon as reasonably practicable be required to be a Class 1 Supply Point.
9. If a Shipper does not reclassify the Supply Point as Class 1 within 20 Supply Point Systems Business Days of the notice of Designation, then the CDSP will reclassify the site as Class 1 after so notifying the relevant shipper and providing not less than 20 Supply Point Systems Business Days’ notice of the revised classification effective date unless the CDSP has been informed that the Supply Meter Point is unable to be Daily Read in accordance with current code requirements.
10. An appeal mechanism will be put in place to enable a relevant Shipper to appeal to the Transporter to reconsider their decision in relation to compliance with the Guidance document. This appeal must be raised within 20 Supply Point Systems Business Days of the Shipper being informed of the Transporter notification. The Transporter must respond to any appeal from a Shipper within 20 Supply Systems Point Business Days. If the appeal is upheld, then any Class 1 Ratchet charges that have been levied shall be reversed and if relevant the Class 2 Ratchet Arrangements will be applied to any such Ratchets.

Class 2 Ratchet Charging Regime

11. The Revised Ratchet Charge is as follows: Supply Point Ratchet Charge = LDZ Capacity Ratchet Amount + Customer Capacity Ratchet Amount + LDZ Exit Capacity NTS (ECN) Ratchet Amount.
 - a. LDZ Capacity Ratchet Amount = (LDZ Capacity Charge after ratchet applied * Ratchet Period/Days in Year) – (LDZ Capacity Charge that would be applicable immediately prior to the charge* Ratchet Period/Days in Year)

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

Example

Site in the East Anglia LDZ, EA1 exit zone

	Unit rate	Pre-ratchet (Annual)	Post-ratchet (Annual)	Annualised Difference
AQ (kWh)		20,000,000	20,000,000	
SOQ (kWh)		100,000	150,000	
LDZ Capacity	$0.8855 * SOQ^{-0.2155}$	£ 27,046.50	£ 37,175.25	£ 10,128.75
LDZ Exit Capacity NTS (ECN)	$0.0689 * SOQ^{-0.2100}$	£ 2,226.50	£ 3,066.00	£ 839.50
LDZ Customer Capacity	0.0052	£ 1,898.00	£ 2,847.00	£ 949.00
		£ 33,531.00	£ 45,228.25	£ 11,917.25

Assuming that the ratchet occurs on the 20th December and the revised capacity is applied on the LDZ Capacity invoice from the 1st January (93 days after the 1st October) then the calculation is as follows:

	Calculation	Amount
Ratchet Period	93 days	
Capacity Ratchet Amount	$10,128.75 * 93 / 365$	£ 2,580.75
Customer Capacity Ratchet Amount	$839.50 * 93 / 365$	£ 213.90
LDZ Exit Capacity NTS (ECN) Ratchet Amount	$949 * 93 / 365$	£ 241.80
Total		£ 3,036.45

6 Impacts & Other Considerations

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

No impacts have been identified.

Consumer Impacts

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

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

Cross Code Impacts

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

EU Code Impacts

None Identified.

Central Systems Impacts

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

Workgroup Impact Assessment

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

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

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

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

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

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

Update for 01 March 2019 Modification Panel:

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

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

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

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

Rough Order of Magnitude (ROM) Assessment

Costs:

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

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

Implementation Timescales:

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

See the ROM published alongside this report for further details.

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

The increased uptake of Product Class 1 & 2 will seek to maximise the amount of accurate, forward looking Supply Meter Point information that is supplied to the DNOs, furthering Relevant Objective a) the efficient and economic operation of the pipe-line system to which this licence relates;

This Modification should remove a key barrier to Non Ratchetable Supply Meter Points becoming daily read by removing the risk of a penal element to the ratchet charge. This should improve cost targeting by the removal of an inappropriate charge on customers that have no material impact on the network and allow for the development for innovative products for these customers. The combined effect of better settlement, improved cost targeting and product innovation will benefit competition in the marketplace, therefore, furthering Relevant Objective (d).

8 Implementation

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

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

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

9 Legal Text

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

Text Commentary

Has been published alongside this report.

Text

Has been published alongside this report.

10 Consultation

Panel invited representations from interested parties on 01 March 2019. 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.

Of the 12 representations received 11 supported implementation and 1 offered qualified support.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
Cadent	Support	a) - positive d) - positive	<ul style="list-style-type: none"> Notes that the efficient operation of the current Supply Point Ratchet arrangements to 'incentivise' Shipper Users to submit and not breach an accurate Daily Supply Point Capacity value (SOQ) for Daily Metered Supply Points, is very important to Transporters and ultimately gas customers. Acknowledges that the ratchet charging arrangements which currently also apply to all Class 2 Supply Points, regardless of their size or proximity, is not sustainable or necessarily required. Believes that the Modification, if implemented, would strike the correct balance between incentivising accurate SOQ submission for Class 1 Supply Points (and Transporter designated Class 1 Supply Points) with removing from the ratchet charging arrangements, those Class 2 Supply Points which pose little or no threat to the effective management of the network. Notes that the requirement in UNC TPD G5.3.3 remains and as such would not wish to see a degradation in the accuracy of Shipper User provided Class 2 Supply Point SOQs as a consequence of implementation of this Modification.

			<ul style="list-style-type: none"> • Notes the desire that the Modification should be implemented as soon as possible following Authority direction in order for the arrangements to be available for the 2019/20 winter period but believes that it is presently unclear whether a systematised solution can be achieved in the required timescales which may lead to a demand for a manual workaround to be developed. • Believes that it is important to ensure the required solution is fit for purpose, practical and efficient and also believes that a rush to implement a 'stop gap' measure in short timescales may give rise to sub optimal and non-cost effective options which could impact adversely on industry parties and ultimately customers. • Welcomed the collaborative approach between DNOs and Shippers in the development of the Modification.
E.ON Energy Solutions	Qualified Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Is supportive of the proposed changes and agree with the proposer's rationale to split out Class 1 & 2 Ratchet charging regimes. • Feels that the proposed change to the charges will also support consumers taking up Class 2. In turn this will support timely and more accurate meter read reconciliation which will also go some way to addressing Unidentified Gas (UIG). • However, is concerned with Gas Transporter (GT) driven settlement class changes up to 40 working days ahead of the relevant Gas Year Ratchet period, as this has potential to cross over into the period whereby the largest amount of change of Supplier/Shipper events occurs on LSPs, generally switches that occur for 1st October start date. • Feels that the timing could cause additional strains which may lead to settlement class changes that could have been challenged by Shippers but are missed due to resource timings. There could be some unexpected costs due to these timing issues such as: <ul style="list-style-type: none"> ○ Charging differences under both ratchet and UIG allocations or incumbent shippers, as the GT initiated settlement class changes could be combined with Shippers effective from start date in this scenario. ○ The meter read service providers, which could be different parties in the future who have different commercial arrangements for Class1 and Class 2 supply points, if UNC Modification 0647 is implemented. • Feels that it would be better to set GT driven settlement class changes up to 60 supply point business days, allowing 20 supply point business days for Shippers to dispute the settlement class change, with settlement class change

			<p>implemented by CDSP by Gas Year Ratchet period.</p> <ul style="list-style-type: none"> • Supports the proposed implementation date as this will provide an overarching benefit to consumers for the 2019/20 charging year, and feels that CDSP should be able to agree and document the required changes. • Is concerned that the transitional rules in the Legal Text set out a '6 month period commencing from the date this paragraph takes effect following implementation of Modification 0665'. • This has not featured in the in the Draft Modification Report and is only apparent in the redline Legal Text, this would suggest that GT's can invoke Class changes within the 2019/20 gas charging year.
Gazprom Energy	Support	<p>a) - positive d) - positive</p>	<ul style="list-style-type: none"> • Believes the Modification will ensure a fair ratchet regime for Class 2 Supply Points. The Gas Distribution Networks Operators (DNO's) are currently largely unconstrained due to the continuing decline in peak gas demand and this has led to both the removal of interruptible Supply Points and Network Sensitive Loads. • Is of the opinion the removal of this artificial, unnecessary and penal barrier to Supply Points transitioning to daily metered (Class 2) will allow the market to fully utilise the benefits of the rollout of Smart and Advanced meters throughout the value chain. An increase in the number of Supply Points settled daily will significantly improve settlement accuracy, reducing Unidentified Gas. • Believes that the Modification will also minimise the level of sterilised capacity in the networks that would occur if parties, in particular those whose consumption is weather sensitive e.g. heating, had to over buy capacity to avoid the risk of penal ratchet charges, reducing the level of unwanted investment. • Acknowledges that the continuation of the current penal Ratchet regime for Class 1 sites, and also for any sites identified by the DNOs as representing a significant risk to the network continues to be appropriate at this time. To ensure transparency around these new arrangements guidance is to be put in place as to how such sites are identified by DNO's and also provided parties with the ability to dispute such a determination. • Believes the proposal strikes an appropriate and fair balance between protecting the DNO's from unexpected increases in gas use whilst: <ul style="list-style-type: none"> ○ Achieving a manageable regime that Shippers can

			<p>operate, and Customers can understand</p> <ul style="list-style-type: none"> ○ Providing Guidance for Customers identified as needing to be treated as Class 1 including the ability to challenge such a decision ○ Making sure capacity charges are fairly levied and recovered ○ Ensuring parties are not incentivised to over or under book capacity ○ Removing a fundamental roadblock to moving supply points from Non-Daily Metered (Class 4 & 3) to Daily Metered (Class 2) ○ Supporting the full utilisation throughout the value chain of Advanced & Smart meters ability to deliver daily reads into Settlement ○ Delivering a Fair and Equitable outcome for all parties <ul style="list-style-type: none"> ● In relation to implementation, believes that this barrier needs to be removed as soon as possible, and certainly before the commencement of the 2019/2020 winter period.
ICoSS	Support	<p>a) - positive</p> <p>d) - positive</p>	<ul style="list-style-type: none"> ● In supporting the Modification as they believe that it will ensure an appropriate ratchet regime for Class 2 sites, reflecting the fact that the gas distribution networks (DNOs) are unconstrained after the drop in peak gas demand in recent years. ● Notes that the removal of this unnecessary barrier to sites transitioning to daily metered status will allow the market to take advantage of the rollout of smart meters into the market. ● Believes that the expected increase in the number of sites settled daily will significantly improve settlement accuracy, reducing Unidentified Gas and will also minimise the level of sterilised capacity in the networks through cautious purchasing of capacity to avoid ratchet charges, reducing the level of unwanted investment. ● Supports the continuation of the current ratchet regime for the largest sites, and also for any sites identified by the DNOs as representing a significant risk to the network. This strikes an appropriate balance between protecting the network from unexpected increases in gas use, a manageable regime that shippers can operate, and minimising the deterrence to moving customers from Non-Daily Metered to Daily Metered status. ● In referring to implementation, notes that the penal ratchet charges that a Class 2 customer may incur if they exceed their registered peak capacity is inhibiting the growth of the

			<p>daily read regime in gas and preventing the benefits of more accurate settlement from these sites being realised.</p> <p>Remains of the view that this barrier needs to be removed as soon as possible and certainly before the commencement of the 2019/2020 winter period.</p> <ul style="list-style-type: none"> • Notes that work to achieve a reformed ratchet regime that does not inhibit an increase in daily metering has taken over 3 years and numerous proposals and hopes that Ofgem will take this into account when it decides whether to implement this proposal.
Infinis	Support	<p>a) - positive</p> <p>d) - positive</p>	<ul style="list-style-type: none"> • Observes that as an operator of gas reciprocating engines fuelled by natural gas which provide peak power and system balancing services (Power Response or PR) to the power market, the penal ratchet regime for exceeding capacity within the gas transportation charging regime is a material disincentive for moving their PR sites from NDM to DM. • Believes that this Modification would remove a significant barrier for transitioning NDM sites to DM status, and notes that whilst the commodities of gas and power have very different characteristics, and the consequent network impacts are materially different, it seems odd that their plants are half hourly settled for electricity (and second by second for balancing services) yet their NDM sites still rely on estimates for settlement of gas. • Believes that this change would allow them to make maximum advantage from the rollout of smart meters. Furthermore, anticipates the enhanced information flow to improve both operational management and network investment signals for gas, ultimately benefiting all consumers. • Support implementation as soon as possible, and therefore implementation before the start of Winter 2019/20 seems sensible. • Sees no advantage in prolonging the current disincentive to move sites to DM.
Northern Gas Networks	Support	<p>a) - positive</p> <p>d) – no view</p>	<ul style="list-style-type: none"> • Believes that the Modification reflects a practical balance between both Shippers' and Ofgem's proposals whilst considering the Distribution Networks' input. • Agrees that the Modification deals with the issues raised in Ofgem's decision letter for Modification 0619 and alternatives, and manages to "<i>identify a suitable classification of relevant Supply Points which maintains the safeguards around accurate capacity declarations, as historically provided by the ratchet regime, whilst increasing the frequency and quality of meter read data being submitted</i>

			<p>to the Central Data Services Provider (CDSP)” and, as a result, should also reduce the Unidentified Gas (UIG) impact of poor Class 2 utilisation.</p> <ul style="list-style-type: none"> • Believes that the new criteria for Class 1 nomination by Transporters should allow Transporters to maintain safeguards, where appropriate, whilst not detrimentally impacting consumers where there is no known risk to the network. • Is of the opinion that the Modification should result in improved accuracy of Supply Point Daily Capacity (SOQ) for Class 1 and Class 2 which should also reduce levels of UIG. • Agrees that this Modification could be implemented as soon as authority approval is received, and once the CDSP systems have been developed to allow for both transitional arrangements and the enduring solution. • May have manpower costs associated with the transitional arrangements, to initially identify sites affected by the new regime. These costs should be minimal and will be managed within existing personnel.
Npower	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Supports the Modification on the grounds that it will ensure for those that are using Product Class 1 & 2, SOQ's are accurately set. • Welcomes improvements to settlement accuracy and therefore believes that this Modification better facilitates the achievement of relevant objectives a) and d). • Is supportive of the implementation timescales as outlined within the Modification.
SGN	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Is supportive of this Modification as they believe it delivers the recommendations set out in Ofgem's decision letter when they rejected Modification 0571, and notes that in this decision letter, Ofgem's specifically encouraged the industry to identify suitable classifications for supply points whilst maintaining accurate capacity declarations. • Believes the Modification should encourage the uptake of the Class 2 product whilst giving the Gas Distribution Networks (DNO) the ability to manage constrained parts of networks in line with the Class 1 Ratchet Guidelines Document, by being able to designate a site into the Class 1 regime which encourages Users not to breach their capacity bookings. • Takes the opportunity to also stress that Shippers must submit accurate demand data to the CDSP and support DNO capacity management processes in accordance with their current UNC obligations. • Whilst supporting the intention to implement this Modification

			by commencement of winter 2019/20, this needs to ensure the solution is robust and fit for purpose. If a systematised solution is not possible by the start of winter 2019/20 then they would welcome further engagement to decide how best this is managed in the most efficient way.
Smartest Energy	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • In expressing support for the Modification, notes that the current ratchet charges are non-cost reflective and are not proportionate for most customers, and therefore believes this has impacted on Product Class 2 take up. • Believes that the lack of Product Class 2 utilisation has directly impacted on Unidentified Gas allocation and therefore argues that the current Ratchet arrangements are not fit for purpose. • Agrees with the proposed implementation time stated within the report of Winter 2019/2020.
SSE	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Agrees that this Modification will better target Ratchet Charges where there are genuine constraints on the gas networks, and also encourage the take up of Product Class 2, which will improve gas settlement data quality. • Believes that the Modification should be implemented in time for the 2019 / 2020 Gas Year.
Total Gas & Power	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Is of the view that the Modification will remove a barrier to the migration of meters onto the voluntary DM Product Class 2. • Notes that AMR and Smart meters should enable more accurate settlement and this Modification is required to encourage Shippers to submit more meter readings more often which improves settlement accuracy and reduces the need for estimation and associated error, a primary cause of unidentified gas. • Notes that the ratchet charges were designed under a pre-Nexus regime and reform is required to compliment the new meter reading and settlement rules. • Believes that the current ratchet rules for the largest mandatory DM sites should continue and this Modification allows for any sites identified by the DNOs as representing a significant risk to the network to be included under a penal ratchet incentive scheme. • Believes that implementation should be undertaken as soon as possible, and certainly before October 2019 winter period begins.
Wales & West Utilities	Support	a) - positive d) - positive	<ul style="list-style-type: none"> • Supports the Modification on the grounds that it makes appropriate changes to the ratchet charging regime for Class

			<p>2 Supply Points.</p> <ul style="list-style-type: none"> • Believes that the Modification will focus attention on the Supply Points that do pose a risk to network operation where they exceed the Shipper nominated daily offtake volume on a peak day, whilst for those that do not pose a risk will benefit from a revised ratchet charging regime. • Believes that it is reasonable to suppose that this change should encourage the take up of Class 2, which should improve settlement accuracy as long as Shippers submit daily reads for these Class 2 Supply Points. • Believes that the Modification furthers both relevant objectives a) and d ii). • Points out that initial analysis suggests that it is likely that they will propose that 6 Class 2, 0 Class 3 and 25 Class 4 Supply Points are moved into Class 1 should this proposal be implemented. Shippers should note the potential for a few Class 4 Supply Points to be moved into Class 1. • Notes that if this proposal is implemented, they would expect Shippers to provide an explanation where a Class 1 Supply Point incurs ratchet charges in accordance with UNC TPDG 5.3, and in particular paragraph 5.3.4.
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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

Discussion

Panel Members noted that Modification 0665 has two purposes:

- It amends the current Class 2 Ratchet Charging Arrangement
- It allows Transporters to identify Supply Points that should, in addition to mandatory Class 1 Supply Points, be subject to the existing Class 1 Ratchet Charging Arrangement

For the avoidance of doubt NTS Supply Points are excluded from the scope of this Modification.

Panel Members noted the twelve representations received and that eleven supported implementation and 1 offered qualified support.

Panel Members noted that the notice periods can be changed at a later date.

Consideration of Relevant Objectives

Panel Members agreed with the representations and with the Workgroup that Relevant Objective a) and Relevant Objective d) are both furthered by this Modification Proposal for the reasons stated in the Workgroup Report.

Determination

Panel Members unanimously agreed that no new issues were raised within the consultation.

12 Recommendations

Panel Recommendation

Members unanimously recommended:

- that Modification 0665 should be implemented.

13 Appendix 1 – Class 1 Ratchet Charge Guidance Document

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