

# UNC 0634 (Urgent):

## Revised estimation process for DM sites with D-7 zero consumption

|    |                           |
|----|---------------------------|
| 01 | Modification              |
| 02 | Workgroup Report          |
| 03 | Draft Modification Report |
| 04 | Final Modification Report |

### Purpose of Modification:

This modification proposes to create a new process for estimating daily metered consumption to prevent D-7 zero estimates from being used inappropriately.



This modification will now proceed to consultation.  
 The close-out date for responses is **03 November 017**, which should be sent to [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk). A response template, which you may wish to use, is at <https://www.gasgovernance.co.uk/0634>.  
 The Panel will consider the responses and agree whether or not this modification should be made.



High Impact:  
 Shippers, Suppliers, Xoserve



Medium Impact:  
 Transporters



Low Impact:  
 None

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| Timetable  |                  |
| <b>Ofgem Timetable:</b>  |                  |
| Urgent status agreed   | 19 October 2017  |
| Workgroup discussion   | 26 October 2017  |
| Consultation Commences   | 27 October 2017  |
| Consultation Close-out for representations   | 3 November 2017  |
| Final Modification Report available for Panel  | 6 November 2017  |
| Modification Panel decision  | 9 November 2017  |
| Ofgem Decision   | 10 November 2017 |
| <p> <b>Any questions?</b></p> <p>Contact:<br/><b>Joint Office of Gas Transporters</b></p> <p> <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a></p> <p> <b>0121 288 2107</b></p> <p>Proposer:<br/><b>Carl Whitehouse</b></p> <p> <a href="mailto:carl.whitehouse@first-utility.com">carl.whitehouse@first-utility.com</a></p> <p> <b>07545 209826</b></p> <p>Transporter:<br/><b>Cadent</b></p> <p> <a href="mailto:Chris.Warner@cadentngas.com">Chris.Warner@cadentngas.com</a></p> <p> <b>01926 653541</b></p> <p>Systems Provider:<br/><b>Xoserve</b></p> <p> <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a></p> <p>Other:<br/><b>Gareth Evans (proposer rep)</b></p> <p> <a href="mailto:gareth@waterswye.co.uk">gareth@waterswye.co.uk</a></p> <p> <b>telephone</b></p> <p><b>07500 964447</b></p> |                  |

## 1 Summary

### What

At present when a DM daily metered site does not have a Valid Meter Reading for any particular settlement day, then the consumption from D-7 is used as a proxy to determine the consumption. The use of the consumption from D-7 is intended to minimise the level of error between the actual consumption and the estimated read. However, an unintended consequence is that if the D-7 consumption is zero then this zero is used and could be propagated week after week incorrectly into settlement.

### Why

The unintended consequence of the current mechanism is that if a site that is consuming gas, does not submit a Valid Meter Reading and the D-7 consumption is zero, the volume is allocated to Unidentified Gas (UIG) which is paid for by NDM shippers until a Valid Meter Reading is accepted.

### How

The current estimation process will change so that if a DM site does not submit a Valid Meter Reading and the D-7 consumption is zero, then the consumption estimate shall be AQ/365 instead of zero.

## 2 Governance

### Justification for Urgency

The additional burden placed on shippers as a result of both high and volatile UIG during the summer since the new UK Link system went live on 01 June 2017 has had a material impact and this modification seeks to address some of these issues. There are a number of industry initiatives in progress to address UIG; however, little progress appears to have been made. Since mid to late September 2017, UIG, instead of decreasing as a result of the industry initiatives, increased to levels never seen before by the industry. As winter approaches and consumption increases further, this, combined with increasing UIG percentage allocations will cause the burden of overall UIG for shippers to become a significant risk that cannot currently be mitigated. It is on this basis that this modification should be granted urgent status.

### Requested Next Steps

This modification should:

- be treated as urgent and should proceed as such under a timetable agreed with the Authority.

## 3 Why Change?

Project Nexus made a number of significant changes to how the gas settlement regime operates. The removal of scaling factor in settlement, changes to individual reconciliation for all sites with the withdrawal of RbD process and the use of actual weather data has meant that settlement error and losses that arise in LDZs are the responsibility of (paid for by) shippers and are now concentrated into a single volume, termed Unidentified Gas or UIG.

Settlement losses from energy theft and other reasons that are not accounted for at some point in the reconciliation process (permanent UIG) have been consistently assessed by the AUGES since 2012 as

around 1% of total LDZ throughput. The Demand Estimation Sub Committee (DESC) estimates have also indicated a permanent UIG value of around 1%.

These predicted volumes do not tally with the current levels of UIG being experienced by the market with average monthly volumes of approximately 5% (approximately £20-40m per month across the industry). A number of LDZ's have experienced significant volatility with some daily volumes greater than 10% or sometimes even negative. There is a possibility that the AUGER and DESC estimates are incorrect; however, it is highly unlikely that this explanation would account for the scale of error that has been visible since 01 June 2017. Settlement error must be considered as the primary factor.

Settlement error can come from a number of sources such as algorithm errors, inaccurate AQs or the use of estimated consumption for daily read sites that do not submit an Actual Meter Reading. An assessment of the current settlement algorithm would take considerable time and whilst there may be some benefits in doing so (in particular looking to using more extensive datasets to model behaviour), it is uncertain that this would identify changes that materially reduce the level of UIG in the market. The automated rolling AQ process should significantly reduce the level of error within the NDM sector in the coming months as suppliers submit meter reads. The current "must read process" and recent obligations brought in by UNC Modification 0570 will support an acceptable level of accuracy in this area.

The current situation (as of 29 September 2017) indicates that the number of daily metered sites which are using estimated reads for settlement is as high as 110 from 1133 sites. The resulting impact of this volatility is being passed onto the rest of the market. If a Valid Meter Reading is not loaded for a daily read site, Xoserve will utilise a meter reading that was provided seven calendar days previously irrespective of that consumption. This error can be significant if a daily metered site is being assumed to flow no gas (through the use of a zero estimate), when in fact the site was consuming a significant amount of gas.

Xoserve have highlighted the issue and reached out to daily metered shippers with sites which are using estimated reads for settlement. They have also escalated the issue through Transition Progress Group (TPG) and the Performance Assurance Committee (PAC). Since there has not been any distinct progress to date and this urgent modification is required to address this issue prior to the coldest winter months.

## 4 Code Specific Matters

Not relevant

## 5 Solution

It is proposed that:

1. Where a daily metered site does not provide an Actual Meter Reading and where the D-7 reading is zero, the estimated consumption will use an AQ/365 value.
2. When this estimation process occurs, the shipper will be notified, shippers will then have the ability to override this value (and so default the site back to zero) by informing Xoserve in writing within 5 calendar days.

As this is an urgent modification it should be implemented as soon as possible following Authority decision perhaps with preparatory work completed in advance of the Authority decision.

## 6 Impacts & Other Considerations

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

No impacts on the current Significant Code Review or other significant industry change identified.

### Consumer Impacts

There are no direct impacts on consumers should this modification be implemented. However, this modification should reduce the scale and variability of UIG on NDM portfolio shippers. This should reduce balancing costs for shippers which should allow suppliers to provide cost reflective prices.

### Cross Code Impacts

There may be an iGT UNC cross code impact due to the joint agency agreement.

### EU Code Impacts

No EU Code Impacts identified.

### Central Systems Impacts

This solution will require an amendment to the current process for deriving estimated consumptions at some daily metered sites. There will also need to be a mechanism developed to notify shippers when this occurs for their daily metered sites and also an override mechanism to do so. It is anticipated and expected that an interim process should be developed whilst a full system solution is being built.

## 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.   | None              |
| b) Coordinated, efficient and economic operation of<br>(i) the combined pipe-line system, and/ or<br>(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:<br>(i) between relevant shippers;<br>(ii) between relevant suppliers; and/or<br>(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   | None              |

|  |      |
|--|------|
| secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.                        |      |
| 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 should:

- improve the accuracy of settlement by incentivising shippers to ensure that daily metered sites are settled on daily reads in a consistent manner;
- reduce both the scale and variability of UIG in the market, so reducing costs;
- lead to more accurate cost apportionment;

therefore, furthering competition and furthering relevant objective (d).

## 8 Implementation

No formal implementation timescales are proposed, but this modification must be implemented as soon as possible after Authority decision to limit the continuing negative impact of continuing high levels of UIG. An interim solution should be provided if there is a lead time to an automated system solution.

## 9 Legal Text

To be provided.

## 10 Recommendations

This modification will now proceed to consultation