













UNC Modification	At what stage is this document in the process?
<h1>UNC 0672:</h1> <h2>Incentivise Product Class 4 Read Performance</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: This Modification seeks to reduce Unidentified Gas (UIG) volume by incentivising read submission performance for Product Class 4 sites. This Modification proposes to measure performance against an agreed performance target for Energy reconciled after a defined period and apply incentive charges against those Shippers whose Energy reconciliation performance is below the target threshold.</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 18 October 2018. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>
	<p>High Impact: Shippers</p>
	<p>Medium Impact: CDSP</p>
	<p>Low Impact: Transporters</p>

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Timetable		 0121 288 2107
The Proposer recommends the following timetable:		Proposer: Chris Faulds ScottishPower
Initial consideration by Workgroup	31 October 2018	 enquiries@gasgovernance.co.uk
Workgroup Report presented to Panel	17 January 2019	 chris.faulds@scottishpower.com
Draft Modification Report issued for consultation	17 January 2019	 0141 614 3376
Consultation Close-out for representations	7 February 2019	Transporter: Cadent
Final Modification Report available for Panel	11 February 2019	 Chris.Warner@Cadentgas.com
Modification Panel decision	21 February 2019	 01926 653541
		Systems Provider: Xoserve
		 commercial.enquiries@xoserve.com

1 Summary

What

There has been excessive levels and volatility in Unidentified Gas (UIG) since the implementation of Project Nexus 01 June 2017. To ensure the accuracy of energy calculations it is extremely important that regular meter reads are submitted for all Supply Points. Supply Points with no read accepted by Xoserve in 12+ months increase the risk of inaccurate deemed energy volumes, which drive volatility in UIG allocation and reconciliation.

UIG levels could be reduced by ensuring that Shippers are submitting as many regular and valid meter reads as possible for sites within Product Class 4. Incentivising Shippers on read submission performance will result in a more cost-reflective UIG allocation based on the level of material risk that the respective Shipper has created throughout their NDM allocation.

Why

Ofgem have highlighted in response to previous Modifications, (notably UNC 0619 & 0642/0643) that they consider meter read submission performance is a significant influencing factor in UIG.

The proposer of this Modification agrees that more frequent meter read submission will reduce levels of UIG exposure for all shippers.

At present there are read submission performance reports and targets set out in the UNC but there is no incentive to achieve these targets.

The benefit of this change would be to increase confidence in the accuracy of nominations, allocations, reconciliations, energy charges and UIG arising from Product Class 4 sites, which should reduce volatility across the market.

How

The modification will have 2 key parts:

- a) Reporting & measuring performance vs. defined targets
- b) Applying a read incentive charge

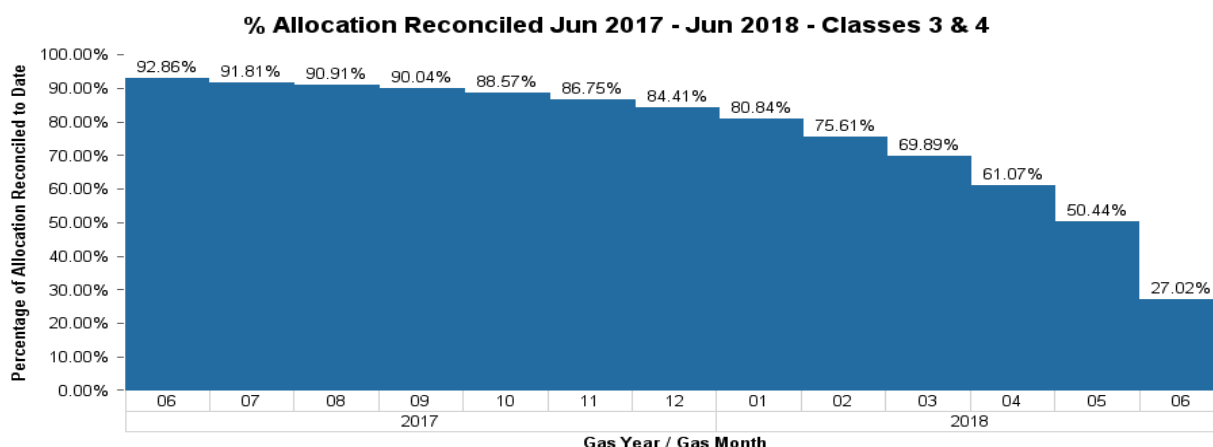
a) Reporting and measuring performance

It is proposed that current Xoserve reconciliation reports will be enhanced to provide information split by:

- ⇒ Individual Product Class
- ⇒ Shipper
- ⇒ LDZ
- ⇒ SSP/LSP

Current reports are available: https://www.xoserve.com/wp-content/uploads/Reconciliation-By-Month-July-2018-With-Chart_v2_.xlsx

Fig1: % of allocation reconciled for classes 3 & 4



New reporting would be required to:

- ⇒ Calculate the shipper performance vs target by product class
- ⇒ Calculate separately for monthly read/SMART/AMR
- ⇒ Calculate the shipper performance by SSP/LSP
- ⇒ Calculate the shipper performance by LDZ

b) Applying read incentive charge

Using these reports Shippers will be measured against a target of % of Allocation energy volume reconciled to an actual read:

- a) Annual read sites - the previous 12 months period.
- b) Monthly read/SMART/AMR sites – the previous 3-month period

This target would provide shippers with 12 months to submit a read for annually read sites and 3 months for monthly/SMART/AMR sites to achieve the agreed target; if the target is not met the shipper would incur a penalty. E.g. Shippers would be measured in Oct-18 for Sep-17 Annual read reconciliation performance.

The % energy reconciled target should be set at an agreed level to start based on current industry performance and be subject to annual review as part of the PAC process. PAC would have the authority to make the decision on setting the target for the year in question.

Typical calculation for the charge could be $(\text{target}\% - \text{actual}\%) \times \text{allocated volume in the month} \times \text{penalty p/kWh}$ (p/kWh to be also agreed by PAC). The charge would be set out clearly on an ad-hoc invoice.

As part of the modifications process an agreement would need to be met on what will happen with the monies collected, but some potential ideas are:

- ⇒ The creation of a “hardship fund” that could be used to help vulnerable customers
- ⇒ Spreading the charges across shippers who exceed the target
- ⇒ Creating a fund that would be used to tackle industry issues e.g. UIG

2 Governance

Justification for Authority Direction

This Modification could have a material impact on Shippers and so should be sent to the authority for decision because it seeks to apply charges based on Shipper read performance at 12 months; this could result in additional costs and could therefore have a material impact on competition.

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?

There has been excessive levels and volatility in nominations, reconciliations and UIG since implementation of Nexus. Supply Points with no read accepted by Xoserve in 12+ months are at high risk of having inaccurate deemed energy volumes and thereby creating UIG and uncertainty.

Change is required as there is no current performance incentive to ensure Shippers are submitting reads and maintaining a level of read submission performance for Product Class 4 sites, in line with UNC requirements.

Why implement read incentive?

By incentivising read performance this will ensure Shippers submit reads in a timely manner, ensuring accurate energy calculations take place. This will help reduce volatility of nominations, allocations, reconciliations and UIG. This change will also provide confidence in these measures for Product Class 4.

If this change is not implemented, then UIG volatility will remain and confidence in the volumes attributed to Product Class 4 sites will remain a concern.

Analysis

Working from the following assumption:

- The more recent the read, the more recent the Annual Quantity (AQ) Calculation
- The more recent the AQ Calculation, the more accurate the AQ
- The more accurate the AQ, the more accurate the NDM allocation
- The more accurate the NDM allocation, the less volatile the UIG

Analysis was carried out by ScottishPower on AQ's which calculated on 1st July 2018 to confirm the volatility of AQ movement based on the last time the AQ calculated.

The data was all Product Class 4 Meter Point Reference Numbers (MPRN) taken from T04 records which met the following criteria:

- REVISED_SUPPLY_METER_POINT_AQ_EFFECTIVE_DATE = 01/07/2018
- CONFIRMATION_EFFECTIVE_DATE < 01/07/2017 - to ensure supply period > 1 year
- AQ_CORRECTION_REASON_CODE = null

The MPRN list was then compared against T04 records from July17 – June 18 to confirm the previous calculation date.

NOTE: October / April list only included meter points where
REVISED_SUPPLY_METER_POINT_AQ_EFFECTIVE_DATE was populated.

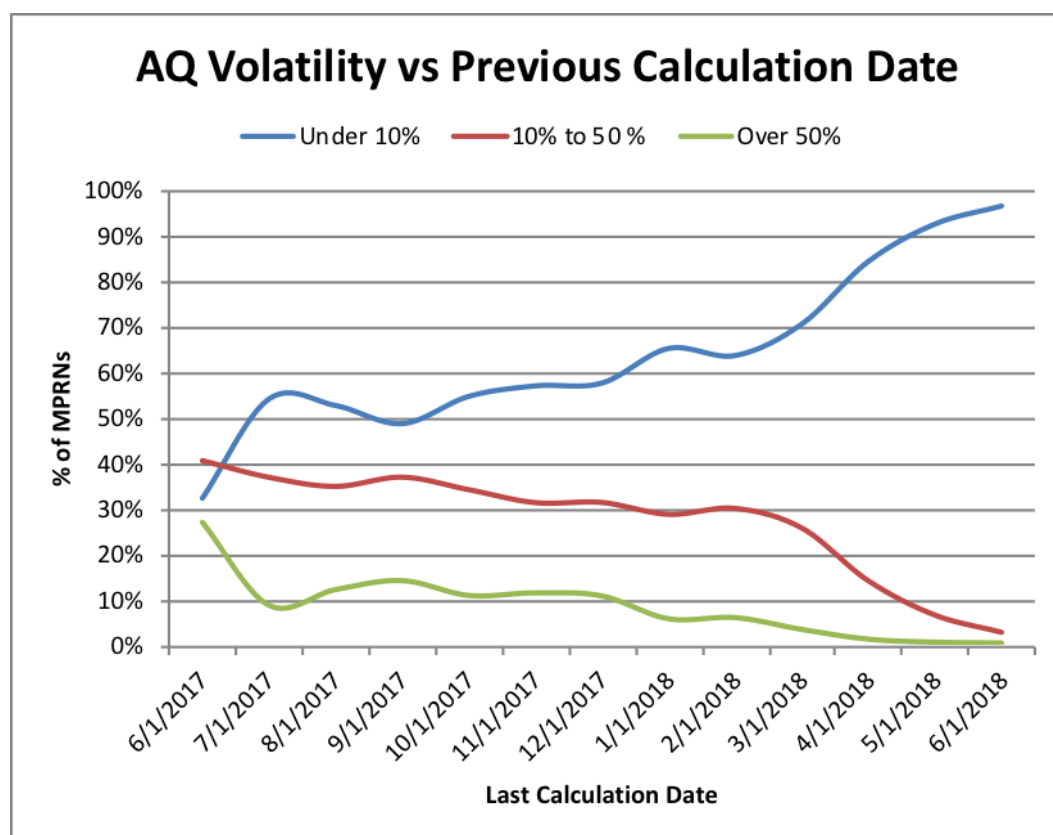
The data was then grouped into 3 categories based on PERCENTAGE_AQ_CHANGE on 01/07/2018:

- Where the AQ has moved under +/- 10% - low volatility to the AQ, pre-01/07/2018 AQ would still have been accurate
- Where the AQ has moved between +/- 10% to +/-50%
- Where the AQ has moved over +/- 50% - high volatility with AQ movement, pre-01/07/2018 AQ not have been accurate

The % of MPRNs calculating in each of the 3 categories based on the last calculation date:

The 01/06/2017 date is used as a default, as an AQ had not calculated since Project Nexus Go-Live but last calculation date could be any time pre-01/06/2017.

Fig2) Graph below highlights the link between the AQ % movement and the time between read submissions.



Key points are:

- Low volatility where the last AQ was calculated within the last 3 months as 84 – 96% of MPRNs moved by <10%
- There is some volatility where the last AQ calculated within the last 4 -12 months as 50 – 70% of MPRNs moved by <10%, though only 10% of MPRNs moved by >50%
- Much higher volatility where the last calculation date is > 12 months as 27% of MPRNs moved by >50%. Only 32% of AQ's moved by <10%.

If the new AQ's on 1st July had not calculated, the meter points that had not calculated > 12 months ago would have caused higher UIG volatility than a site calculated more recently.

It is anticipated that Xoserve will be able to produce UK-wide analysis to back up SCP analysis and this could be included in the Workgroup Report.

4 Code Specific Matters

Reference Documents

UNC Transportation Principle Document (TPD) Sections M & S <https://www.gasgovernance.co.uk/TPD>

5 Solution

This proposal seeks to amend UNC TPD Sections M & S.

Reporting and measuring performance

It is proposed that current Xoserve reconciliation reports will be enhanced to provide information split by:

- ⇒ Individual Product Class
- ⇒ Shipper
- ⇒ LDZ
- ⇒ SSP/LSP
- ⇒ Annually read sites
- ⇒ Monthly read sites
- ⇒ AMR
- ⇒ SMART

New reporting would be required to:

- ⇒ Calculate the shipper performance vs target by product class
- ⇒ Calculate the shipper performance by SSP/LSP
- ⇒ Calculate the shipper performance by LDZ
- ⇒ Calculate the shipper performance by annually read sites
- ⇒ Calculate the shipper performance by monthly/SMART/AMR read sites

Using these reports Shippers will be measured against a target of % of Allocation energy volume reconciled to an actual read:

- a) Annual read sites - the previous 12 months period.
- b) Monthly read/SMART/AMR sites – the previous 3 month period

This target would provide shippers with 12 months to submit a read for annually read sites and 3 months for monthly/SMART/AMR sites to achieve the agreed target; if the target is not met the shipper would incur a read

incentive charge. [E.g. Shippers would be measured in Oct-18 for Sep-17 Annual read reconciliation performance].

Applying read incentive charge

The calculation for the incentive charge would be $(\text{target\%} - \text{actual \%}) * \text{allocated volume in the month} * \text{charge p/kWh}$. The initial p/kWh will be agreed by PAC.

The initial reconciliation target% is for the period 12 months from the implementation of the reporting and will be agreed and set by PAC [93% has been used in calculation in appendix for illustration] .This target% will also be set annually by PAC for the following 12month period

The charge p/kWh will then be subject to an annual review process [similar to AUGE]. The charge would be set out clearly on a new ad-hoc invoice.

Incentive charge fund

[As part of the modifications process an agreement would need to be met on what will happen with the monies collected, but some potential ideas are:

- ⇒ The creation of a “hardship fund” that could be used to help vulnerable customers
- ⇒ Spreading the charges across shippers who exceed the target
- ⇒ Creating a fund to that would be available to use on tackling industry issues e.g. UIG]

6 Impacts & Other Considerations

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

None identified

Consumer Impacts

No direct consumer impacts identified. However, the workgroup should take into consideration any possible consumer impacts during the assessment of this Modification.

Cross Code Impacts

There may be IGT UNC impacts to be considered by the workgroup.

EU Code Impacts

None identified

Central Systems Impacts

There should be limited central systems impact other than the provision of the new reporting.

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 (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

This modification proposes that by incentivising the submission of valid Meter Reads for Product Class 4 sites, it should reduce the levels, volatility and unpredictability of UIG, reduce uncertainty in estimation and improve the accuracy of cost targeting and therefore further Relevant Objective d) Securing of effective competition between Shippers and Suppliers.

8 Implementation

No implementation timescales are proposed; however implementation could be as soon after an Authority decision to implement has been received. This would allow for the reporting to be implemented and the first incentive charges to be applied 12 months from first report for annual read sites and 3 months for monthly read sites.

9 Legal Text

Text Commentary

To be provided by Transporters

Text

To be provided by Transporters

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority direction should apply
- Refer this proposal to a Workgroup for assessment.

11 Appendix

Worked example - for the p/kWh to be attached to the charge is illustrated below *Fig2 – potential gas meter reading incentive calculation*

Gas Meter Reading Incentive Charges Calculation (illustration)

Product Class 4 Volumes	GWh	445,000	Annual
Target	% actual at 12M	93%	tbc
Actual	% actual at 12M	90%	will be measured
Met by	% of Total Market	90%	400,500 GWh
Missed by	% of Total Market	10%	44,500 GWh
Penalty Volume	GWh	1,335	(target%-actual%)*allocated volume where target missed
System Average Price	p/kWh	2.12	Aug18 average used for illustration
Penalty price%	% of SAP	10%	tbc
Penalty price	p/kWh	0.21	
Penalty Charge Recovered	£m	2.8	
Recovered amount as % of total energy cost		0.03%	

In the illustration above

- ⇒ The charge p/kWh is based on 10% of average energy cost p/kWh (the p/kWh to be applied would be agreed as part of the modification)
- ⇒ $10\% * 2.1\text{p/kWh} = 0.21\text{p}$
- ⇒ In example Target is set at 93% at 12 months – This target would be agreed as part of the modification
- ⇒ In example 10% of the market misses the target (*Energy in model in relation to the 10% is calculated for illustration, in reality this would be an actual Energy volume that would be calculated by Xoserve as part of the new reports being delivered in modification*)
- ⇒ Penalty volume is calculated by $(93\%-90\%)*44,500\text{GWh} = 1,335\text{GWh}$
- ⇒ Charge recovered is calculate by $1,335\text{GWh} * 0.21\text{p/kWh} = £2.8\text{m}$
- ⇒ In this scenario the process generates £2.8m per annum (for illustration purposes only we have shown as an annual figure, in reality, this would be a monthly calculation)