

## Representation

### Draft Modification Report

#### 0473 0473A – Project Nexus – Allocation of Unidentified Gas

**Consultation close out date:** 13 November 2014  
**Respond to:** enquiries@gasgovernance.co.uk  
**Organisation:** E.ON  
**Representative:** Colette Baldwin  
**Date of Representation:** 13 November 2014

#### Do you support or oppose implementation?

0473 - Oppose

0473A – Support

#### If either 0473 or 0473A were to be implemented, which would be your preference?

Prefer 0473A

#### Please summarise the key reason(s) for your support/opposition.

We support the alternative modification only. It is in the interests of all parties to ensure that customers are fairly charged for the gas consumed, and that where the gas can't be attributed to an individual supply point that there is a fair and reasonable mechanism to allocate the costs of the "Unidentified Gas" to the market.

#### Current Process

The AUGÉ was brought in to try and make an assessment of where the "Unallocated Gas" should be charged to.

Currently all energy is allocated on a daily basis using a scaling factor to ensure energy metered into an LDZ equates exactly with energy allocated to end consumers. This allocation mechanism uses actual volume from larger Daily Metered (DM) sites, estimates of Transporter losses and a formula estimating the remaining consumption. Although there is very little actual metered volume the estimation process ensures that all energy is accounted for – albeit potentially in the wrong market sectors to the wrong Shippers. The scaling factor that ensures everything "adds up" excludes DM sites – even where these are closed out on an estimated value.

It is also worth noting that the RbD process was instigated assuming that all gas days would be fully reconciled and the energy in the correct place within 12 months of a gas day, something that has been shown to not be the case with reconciliation covering many years. This lack of timeliness has required a reconciliation

0473 0473A  
Representation  
13 November 2014

Version 1.0

Page 1 of 6

© 2014 all rights reserved

cut-off date to be created and increases the lack of certainty over charges for the SSP market.

The current mechanism by its nature means that any errors, missing energy or miscalculations are charged to the mainly domestic consumers through the RbD pot. Despite a number of the errors being from DM metering issues, the adjustment only moved energy to the LSP supply points as they were contained within the initial scaling factor allocation mechanism. The use of the Scaling Factor at an LDZ level also means that some of the unidentified gas is hidden in the SSP sector and given the lack of clarity around the SSP energy volumes almost impossible to identify in the current process.

Although the allocation mechanism is a stable process it has taken over three years for the AUGÉ to refine the UG estimation process and values have varied considerably year on year. In addition on one of the years the process ran out of time, showing the complexity of analysis required.

In addition to the variability inherent in the estimation methodology the resulting UG is scaled to seasonal normal to provide a 'future' estimate. Given the industry concern over the current level of seasonal normal this adds another level of inaccuracy to the values. This method has inaccuracies in the metered calculation, and will increase the level of uncertainty around the UG estimate.

Despite the complicated nature of the work and the detailed analysis some 84% of the final volume is a 'balancing factor' that cannot be directly attributable and is therefore not able to be apportioned to SSP or LSP on anything other than a throughput based mechanism.

While we consider it a positive step to have an independent assessment of UG, it is hard to conclude that the regime is robust with a stable methodology and that parties have a high degree of confidence in the outputs to suggest that they should be taken into a new and different regime as "valuable evidence of UG" to help determine UIG rates in the future.

### Post Nexus

All gas will continue to be allocated on a daily basis; however there is no concept of a scaling factor and the two previous settlement categories have been replaced with four product classes. As we still need to ensure that all the gas metered into an LDZ equates to the allocation to Shippers the concept of "Unidentified Gas" (UIG) has been developed. Significantly the UIG will be impacted by accuracy in estimating non-daily metered categories and the contributing elements will vary day by day.

Allocation will use metered and estimated energy – placing more reliance on the Demand Estimation profiles to produce a reasonable estimate. Allocation takes actual volume from Class 1 and Class 2 sites plus estimated consumption for Classes 3 & 4. The volume variance between LDZ actual and the sum of these four elements will be UIG each day.

Shippers will continue to be required to balance to the Class three and four totals plus the UIG volume, this increases the challenge for energy balancing. While there is a significant improvement in that every site will be reconciled to a meter read making any estimation inaccuracy transient it is worth highlighting that there are real cost implications to Shippers from this process. There are price differentials between daily balancing

0473 0473A  
Representation  
13 November 2014

Version 1.0

Page 2 of 6

© 2014 all rights reserved

and spot purchases to SAP for reconciliation, and in Class 3 sites potentially large variances on a daily basis from allocation to a profile and settlement at actual daily volumes. On top of these issues Class 2 sites can cover a wide range of customer size and behaviour, making any D-7 estimates more significant in impact to UIG volumes.

After close-out volumes will move through reconciliation. There will be significantly more reconciliation as all sites will use meter reads. This increases visibility of actual volumes and is a big improvement in transparency. There are, however, challenges from this process.

Firstly, reconciliation timescales close outs are unknown. Given the approach to use actual meter readings for reconciliation there will be a large number of periodic reads that are likely to be longer than monthly frequency. However Xoserve have undertaken some analysis that has suggested that the speed of reconciliation can be reliably known - with 90% reconciled by the close of year 1 and 99% by the close of year 2.

Secondly, the accuracy of the estimation process for Class 3 & 4 sites is unknown. Moving to a weather based component for the profile formula is new and the accuracy impossible to fully assess until after Nexus goes live.

Thirdly, the accuracy of any estimates in the Classes 1 & 2 sites is likely to be more significant as more sites may use these Classes - amplifying the weather impacts.

In addition the UIG components will vary day to day adding a complexity to assessment of their size and making the values very different to the components the AUGE currently attempts to clarify.

#### Comparison between AUGE process and post-Nexus requirements

The Nexus regime will bring in the concept of UIG for the first time. It is important to draw the distinction between moving energy misallocated to a market sector through the current process and the identification of an unaccounted volume that has not been charged to any market sector.

These distinct processes differ as follows:

<b>Current Process</b>	<b>Post Nexus Process</b>
Unknown volume needs estimating	UIG volumes known
Initial allocation smears unknown across most supply points but excludes DM	Initial allocation separates UIG energy without charging it to any supply points and then shares it across all supply points that can contribute
Current settlement doesn't use meter reads for 98% of the supply points	Settlement will use metered volume for all sites
Lack of clarity on what energy volume is SSP volume	Total clarity on which volume belongs to each supply point and each market sector
Inability to correct historic information impacting reconciliation unknowns	Ability to correct historic information and reconcile energy correctly

0473 0473A

Representation

13 November 2014

Version 1.0

Page 3 of 6

© 2014 all rights reserved

Difficulty unpicking energy that will move from energy that is permanently invoiced to incorrect supply points	Energy will be correct once sites have reconciled. Initial estimation of Class 3 and 4 sites may inflate the UIG volumes
84% of the calculation is an unidentifiable balancing cost and shared on throughput	100% UIG shared on throughput (as per current Nexus Mod)
Calculations apply to future invoices based on <b>historic behaviour</b>	Proportioning of UIG is on a current basis needing to reflect the <b>blend of influences applicable to each day</b>

The industry is currently under significant pressure to ensure we are clear about customer costs and as such the drivers for end consumer charging need to be clearly identifiable. During this significant change to the balancing mechanism that forms a large part of the non-discretionary cost base we need to ensure that we maintain fair charges to every end consumer.

The current system was known to disadvantage domestic customers. In replacing the system we need to ensure the burden of costs is not unfairly borne by **any** market sector. To ensure this we need an evidence based allocation of the unknown costs. What the AUGE process has shown us is that these issues are complex and require time and sufficient data to make a valid determination.

To be able to produce a valid assessment, the size of the UIG needs to be known. Until the mechanisms go live we do not know what volumes will be involved and the current process provides no basis to estimate these. Learnings from the current processes have shown that calculations are complex, time and resource intensive. We have also learnt that the vast majority of unknown elements cannot be attributed directly to specific market participants and should therefore shared on a throughput mechanism as the only equitable basis available. The new expert solution will only work if it is applied after the regime has provided the empirical data to allow the evidence based analysis to be undertaken.

In conclusion, it is worth bearing in mind the additional work that is taking place now and during the coming year that will have a positive impact on settlement arrangements post Nexus and may lead to the root causes of UIG needing to be reassessed and reclassified:

- UNC Mods 424, 425 and 431 which are addressing shipperless and unregistered sites issues are now implemented and we should see positive improvements in current UG and less risk for UIG in the future.
- Performance Assurance Measures are being developed specifically looking at incentivising good settlement performance.
- Data quality initiatives currently being carried out by many market participants to improve the quality of reads/asset data in central systems to prepare for individual meter point reconciliation and Rolling AQ post Nexus.
- Meter Read Rejection rates published by Xoserve show that many of the top reading rejection reasons are actually more “positive” in nature and shouldn’t be considered detrimental – for

example, too many reads being submitted being amongst the largest rejection reasons.

- The Nexus regime itself incentivises SSP shippers to improve their submission of readings as they will be used for reconciliation and for AQ processes, leading to better demand forecasting, narrower allocation to consumption imbalances, and consequently more readings resulting in more AQs being reviewed and amended as appropriate.

**Modification Panel Members have indicated that it would be particularly helpful if the following questions could be addressed in responses:**

**Q1: Please provide as much information and analysis to support your response, particularly any justification for why any particular class should, or should not, attract unidentified gas costs.**

Under the current arrangements DM sites are excluded from the calculations of UG on the basis that they are a closely defined set of customers with specific types of metering and obligations and it is believed specific characteristics.

Under the new arrangements a Class 2 customer may be quite different in nature from the DMM and DMV customers of today, theoretically the new regime is capable of enabling a customer with a domestic smart meter being able to elect into Class 2 providing that it can meet the requirements of the meter reading frequency. The class definition is no longer a narrow category of customer characteristics and is not restrictive in the number of applicable sites, the consumption size of the site or the nature of the supply type. It is therefore no longer appropriate to exclude such a potentially wide range of customers from the application of UIG in the future.

Equally, the nature of the difference between UG currently and the UIG post Nexus means that the causes of each may be quite different and should not be attributed in the same manner.

Whilst the AUGE currently determine that for DM sites things such as metering error or unregistered sites etc. result in gas, potentially not being accurately recorded at the time of allocation and settlement, being classed as temporary and timely in nature and are always reconciled, we do not entirely agree with this assessment. If this were true the need for longer periods of settlement adjustments would not be necessary, such as those introduced by Mods 395/398 & 429 that resolve through the current RbD process, and the nature of retrospective updates under Mod 434 would always correct previous periods of reconciliation, particularly when it would result in a credit value being socialised to UIG.

**Q2: We welcome views on the attribution of unidentified gas costs under these modifications to NTS direct-connected sites.**

**Are there any new or additional issues that you believe should be recorded in the Modification Report?**

None

**Relevant Objectives:**

0473 0473A

Representation

13 November 2014

Version 1.0

Page 5 of 6

© 2014 all rights reserved

*How would implementation of this modification impact the relevant objectives?*

We believe the alternative would have a more positive impact on competition by applying costs of Unidentified Gas (UIG) more accurately to customers when the evidence of the new arrangements have allowed a more accurate assessment of the causes and nature of UIG.

It is difficult to substantiate that a meter reading frequency can predict how likely a customer is to have a meter error, leave a bypass open, start to use gas before getting a supply contract during a new connections process, or for that matter take gas illegally. Other causes of error currently swept up in RbD and UG currently will become more transparent under the new Nexus arrangements and should be socialised equally unless they can be directly attributed to a type of supply point. For these reasons, we believe that until the evidence provides otherwise, that UIG should be allocated on a throughput basis, with the temporary adjustment of the directly measured component only as per the current AUGE table.

We believe that the proposed modification doesn't facilitate competition equally for all market participants as it protects a market sector from the allocation of certain costs that are being subsidised by the remainder of the market, not based on anything but their meter reading frequency.

### **Impacts and Costs:**

*What analysis, development and ongoing costs would you face if this modification were implemented?*

### **Implementation:**

*What lead-time would you wish to see prior to this modification being implemented, and why?*

Given the lead time for contracting new supply points, particularly in the non-domestic market, we would like to see an early decision on this to give us certainty of the arrangements for UIG for the next contract round which will likely bridge the implementation date of Nexus and be subject to the new Unidentified Gas regime.

### **Legal Text:**

*Are you satisfied that the legal text and the proposed ACS (see [www.gasgovernance.co.uk/proposedACS](http://www.gasgovernance.co.uk/proposedACS)) will deliver the intent of the modification?*

As only draft legal text has been provided we cannot comment on the final legal text for the proposals.

### **Is there anything further you wish to be taken into account?**

*Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.*

No