

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: ENI
Representative: Steve Williams
Date of Representation: 13 November 2014

Do you support or oppose implementation?

0473 - Support

0473A - Oppose

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

Prefer 0473

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

UNC Modification 0432 introduced the concept of a uniform smear process, proposing to replace the current mechanism where a third party assess and assigns Unidentified Gas costs to market sectors and daily read sites are not exposed to settlement error caused by the non-daily metered estimation process. This aspect of the modification is of concern to Ofgem, as highlighted in its decision letter¹

Both modifications seek to re-establish a third party assessment process, with the major difference between them being the transition process. Modification 0473A proposes to initially smear a proportion of all residual gas (both settlement error and Unidentified Gas) to daily read sites for two gas years, with a vague commitment to adjusting retrospectively those initial adjustments. This breaks the link between the current AUGGE process and the new enduring regime and is unreasonable as such sites are accurately settled on a daily basis and do not contribute significantly towards Unidentified Gas (irrespective of their actual consumption levels).

By contrast Modification 0473 proposes a transitional process based on the work undertaken by the AUGGE to date. We agree with the proposer that this reflects the most accurate view of the sources of Unidentified Gas (so avoids any retrospection) and does not create a cross-subsidy between the daily settled and non-daily settled markets.

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

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¹ [24 February 2014 Ofgem Decision Letter](#)

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.

When assessing these two modifications against each other, it is clear that both modifications seek to alter how residual gas is allocated across the retail sector. This residual energy is comprised of errors caused in the allocation process (so allocation error) and Unidentified Gas.

The current market regime does not smear errors caused by the estimation process onto daily read sites as they are settled using actual meter reads on a daily basis; with very rare exceptions this consumption does not change. This error is currently allocated to those sites that rely on estimates for initial allocation (either through Annual Quantity calculated annually or via Reconciliation By Difference). Such sites bear this error as collectively they are causing it.

Smearing allocation error across customers that do not cause it (and incur higher costs by being daily settled) is inequitable, not only reducing settlement accuracy across the market but creating a cross-subsidy between market sectors. As such it represents a reduction in market efficiency.

UNC Modification 0473 restores the current equitable allocation process which Project Nexus seeks to remove and bases its transition process on this. By contrast Modification 0473A proposes to maintain the proposed smear process and uses relies on a retrospective process to correct any such issues at some point in the future. Retrospective adjustments will result in inefficient gas purchases and be detrimental to the customer.

Unidentified Gas

Very little Unidentified Gas is assigned daily read sites (less than 0.1% of the total), compared to 15% of throughput. The AUGÉ in its most recent statement² attributes this low level of Unidentified Gas to the fact that the sites are daily read, despite there being a wide range of consumption loads and profiles contained in this market sector. We believe that the take-up of daily settlement at sites should be encouraged as it ensures that issues that cause Unidentified Gas at such sites are addressed promptly. We do not believe there will be a significant movement in the next few years to this status however as current levels of suitable metering in the market is low and few meters are being installed.³ Continuing an equitable allocation mechanism during the allocation process where daily read sites do not subsidise other market sectors will not therefore cause significant dislocation to the market.

Therefore there is no reason why the current principle where Unidentified Gas is allocated to the market sector where it originates from cannot be maintained, as proposed in UNC Modification 0473. By contrast UNC Modification 0473A is

² [2014 Final AUG Statement for 2015-16](#)

³ [Smart meter installations data: April to June 2014](#)

proposing to change this principle and smear Unidentified Gas across all sectors, and then retrospectively adjust this allocation. This seems inefficient.

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

We understand from comments by National Grid that direct-connect sites will not be subject to any form of smearing under Project Nexus. We believe this is just, but there seems to be no reason why daily read sites that are not connected to the distribution network should incur these costs and NTS connect sites should not.

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

No.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

Both modifications will impact the allocation of residual gas, which will impact competition. It therefore must be allocated as accurately as possible. Both UNC Modifications seek to create a third party assessment process eventually, which will be the most efficient process of assigning these costs. For the transition process, UNC Modification 0473 attempts to use the current third party information available and so further the relevant objective. UNC Modification 0473A seeks to use an inaccurate smear process initially and then reconcile at some point in the future. It also has in place a longer transition process. Taken together this means this modification will be detrimental to the relevant objectives.

Impacts and Costs:

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

Costs will be driven by any need to accommodate inaccurate cost allocation and significant changes in process. UNC Modification 0473 attempts to be as consistent as possible and so will minimise costs as the market transits to the enduring regime where a third party assesses the most accurate allocation factors across the market. UNC Modification 0473A does not attempt to do this and the application of a uniform smear factor that will be reconciled will create significant swings in energy allocations in the daily read market. This will drive cost through inefficient gas purchases, reconciliation of customer bills and handling of customer queries.

Implementation:

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

We see no reason why these modifications cannot be implemented immediately upon decision.

Legal Text:

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

We have not reviewed the legal text

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.

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