

## 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:** Corona Energy  
**Representative:** Peter Olsen  
**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.**

We consider that Modification 0473 should be implemented and Modification 0473A should be rejected based on the following factors identified:

- Modification 432 introduces a uniform smearing mechanism for allocating Unidentified Gas which CE considers to be a retrograde step. There are a number of initiatives across the industry to ensure costs are allocated to the appropriate segments. It seems illogical to introduce a uniform smear in light of all the other initiatives. OFGEM also noted concern about uniform smear in their decision letter for Modification 432<sup>1</sup>.
- While both modifications seek to re-establish the third party assessment of Unidentified Gas and both Modifications propose a transition process which will operate until a third party has been identified and appointed, Modification 473 builds on existing work undertaken by the current AUGE while Modification 473A ignores this work.
- Given the AUGE's assessment of zero/minimal Unidentified Gas on daily read meters there is no justification to include daily meters in the smear allocation.
- Similarly the proposed smear process will also apply a settlement error from the non-daily meter process to daily settled sites which we consider unacceptable.
- Modification 0473 represents the most equitable and least disruptive transition

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<sup>1</sup> 24 February 2014 Ofgem Decision Letter

from the current arrangements to the new process that does not result in a cross-subsidy between market sectors.

**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.**

The settlement process proposed for the commencement of Project Nexus will, once gas has been initially allocated to a customer's site via daily meter reads or profiling estimates, require that the residual energy (once transporter shrinkage and other factors are taken into consideration) will be uniformly smeared across all customers, including daily read sites. There is no third party agent to assess the appropriateness of this uniform smear.

Both modifications seek to re-establish a third party assessment of residual energy which we see as an improvement on the uniform smear introduced in Modification 0432.

There are two sources of residual energy: settlement error (either positive or negative) and Unidentified Gas (positive).

### ***Settlement Error***

Settlement error is currently not applied to daily read sites on the justifiable basis that the consumption of that site is known with certainty, based on its meter readings. Except in the very rare event of a meter error, this consumption is not changed. By contrast, sites not based on daily meter reads will be initially allocated on an estimate. As this estimate will not be accurate a settlement error occurs which is currently allocated (either via the AQ or the RbD processes) to the non-daily metered sector as that settlement error has originated from that sector. This principle has been in place since privatisation.

Under Project Nexus this settlement error will continue. As set out by information provided by E.ON on 09 September 2014<sup>2</sup>, the rolling AQ process will result in a lag in consumption estimates for non-daily metered sites. Allocating this lag to daily read sites will result in a cross-subsidy between those sites that are accurately settled from the start (with the attendant additional costs and risks that the shipper incurs) and those that rely on estimates (and so incur a lower operational cost). This is inequitable and every effort should be made to ensure that the correct market sector accounts for any settlement error. The transition arrangements for Modification 0473 does this, but Modification 0473A does not and instead relies on a retrospective process to correct any such issues at some point in the future. As a general rule retrospective adjustments should be avoided.

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<sup>2</sup> [Analysis of the Xoserve Read Validation Proposal \(provided by E.ON UK\)](#)

## **Unidentified Gas**

We note that the AUGÉ, in its latest statement published on 16 September 2014<sup>3</sup>, has determined that an extremely small amount of permanent Unidentified Gas should be allocated to daily read sites. This was based on a single site and that any Unidentified Gas losses due to daily read sites (such as being unregistered or shipperless) are normally quickly resolved and result in no Unidentified Gas.

It is important to note that the AUGÉ concluded that reading daily read sites on a daily basis prevents large amounts of permanent Unidentified Gas occurring. It is not their level of consumption (i.e. high) or load profile that leads to minimal levels of permanent Unidentified Gas. In fact a wide range of consumption loads and profiles are currently classified as daily read, as the current definition of a DM site in the AUGÉ process includes Daily Metered Voluntary (DM(V)), a status until recently has been chosen by customers with a consumption down to 732MWh.

Though the ability to re-designate NDM sites as DM will increase due to Project Nexus, the concern that large numbers of sites will move to daily read to avoid the transitional effects of Modification 0473 is not valid. Based on the latest figures published by DECC<sup>4</sup> only 2% of sites have any form of equipment installed that allow the provision of remote meter reads; far fewer will be able to meet the UNC requirements to be daily read as this requires consistently meeting daily read submission targets, having a suitable read provision service in place to do so and being able to set SOQ and SHQ values. Also the AUGÉ believes that a site being daily read allows the rapid detection and resolution of the sources of Unidentified Gas.

As the reduction of Unidentified Gas benefits the market as a whole, encouraging the use of daily reads would be seen to be a reasonable aim rather than penalising such a move by requiring such customers to cross-subsidise NDM sites. Encouraging the roll-out of daily read metering equipment will widen the number of customers able to access the demand side response product being developed by National Grid and so increase the availability of such services.

Modification 0473 builds on the current AUGÉ table as it reflects the most accurate view of the sources of Unidentified Gas as calculated by a third party, and does not create a retrospective process for allocating costs. In addition it also proposes a shorter transition period to the enduring regime (18 months compared to 24 months that Modification 0473A supports).

Modification 0473A continues the uniform smear for a period of at least two years, with a retrospective process for correcting allocations based upon the findings of the UIGE. This introduces significant uncertainty for suppliers and would therefore lead to cost increases for suppliers and customers.

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<sup>3</sup> [2014 Final AUG Statement for 2015-16](#)

<sup>4</sup> [Smart meter installations data: April to June 2014](#)

## **Enduring Process**

On the evidence provided to date by the AUGE, it is reasonable that daily read sites are not assigned Unidentified Gas because they do not contribute to Unidentified Gas. This is the basis for the proposed allocation factors in Modification 0473 in the transition process and it should be an enduring feature of any residual process. Daily read sites have never been allocated settlement error caused by the non-daily metered process as the level of Unidentified Gas at daily read sites is extremely low. Modification 0473A by contrast permits uniform smearing as part of transition. This fundamental shift in market principle counts against the alternate modification.

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

As we have demonstrated above, daily read sites should not be subject to settlement error and are not a source of Unidentified Gas. As all NTS directly connected sites are daily read and subject to an even higher level of scrutiny, we do not believe such sites should be required to cross-subsidise the rest of the market. We note that the proposer of Modification 0432 has indicated that such sites will not be allocated Unidentified Gas under Project Nexus, though daily read sites connected to the distribution network will be. There seems to be no reason why there should be discrimination between such sites and this strengthens the argument for Modification 0473.

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

We provide comments on this within the following section.

#### **Relevant Objectives:**

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

Both modifications will impact relevant objective (d) as it impacts the allocation of gas (and hence costs) between market participants and so impacts competition. We agree that the 0473 transition process is consistent with the current view of Unidentified Gas arrangements under the AUGE and that this represents the most accurate and appropriate mechanism to deal with Unidentified Gas and further the relevant objective.

The transition process for Modification 0473A, by perpetuating the current inaccurate process for allocating settlement error and Unidentified Gas to market sectors it does not originate from, is detrimental to relevant objective (d). MOD 0473A also has in place a longer transition process and so this inequitable process will be in place for a longer period than under UNC Modification 0473.

#### **Impacts and Costs:**

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

Modification 0473 replicates the current AUGE table as it reflects the most accurate view of the sources of Unidentified Gas as calculated by a third party, and does not create a retrospective process for allocating costs.

Whereas Modification 0473A proposes to introduce a uniform smear for a period of at least two years, with a retrospective process for correcting allocations based upon the findings of the

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UIGE. This introduces significant uncertainty for suppliers and would therefore lead to cost increases for suppliers and customers.

**Implementation:**

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

Notwithstanding our comments above, any decision regarding these modifications will affect the amount of gas that will be allocated to gas suppliers going forward and will impact Corona Energy's gas purchasing strategies (as it will with other gas suppliers and shippers).

It is essential therefore for a decision to be made on Modification 0473 and Modification 0473A as soon as possible to maximise the time available for suppliers to develop their gas purchasing strategies ahead of the project Nexus go-live date.

**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?*

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.*

No.