

Representation Draft Modification Report

0473 0473A – Project Nexus – Allocation of Unidentified Gas

- 1. Consultation close out date:** 13th November 2014
- 2. Respond to:** enquiries@gasgovernance.co.uk
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- 5. Date of Representation:** 12th November 2014
- 6. Do you support or oppose Implementation:**
We Support 0473
We Oppose 0473A

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

We Support 0473

We do not support the implementation of UNC Modification 0473A.

7. Please summarise (in 1 paragraph) the key reason(s) for your position:

Gazprom Energy raised UNC Modification in response to the concerns raised by Ofgem in its decision letter implementing the Project Nexus solution¹ regarding the removal of the AUGE process and the implementation of less accurate process for allocating Unidentified Gas, namely uniform smearing.

UNC Modification 0473 will reinstate the AUGE process as soon as possible and use data provided by the AUGE for the transition allocation mechanism, expected to be in place for less than two years. This represents the most accurate and equitable mechanism for allocating Unidentified Gas. In particular it avoids the issue of daily read and settled sites being required to cross-subsidise the inaccuracies caused by the non-daily metered allocation process, which any uniform allocation mechanism will create.

¹ <http://www.gasgovernance.co.uk/sites/default/files/UNC432D%20.pdf>

Late in the development of 0473 British Gas raised an alternate which seeks to keep in place the current uniform smearing process (with very minor corrections) until a third party is appointed to determine whether the current uniform smearing factors should be replaced. This process will take at least two years. In the interim UNC Modification 0473A proposes to utilise the smear process already identified by Ofgem as a sub-optimum solution. This places both settlement error and disproportionate levels of Unidentified Gas on daily read sites and represent a significant barrier to both competition and the rollout of daily settlement to smart and advanced metering customers.

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

At present there are three key changes proposed to how Unidentified Gas is handled under Project Nexus, UNC Modifications 0432, 0473 & 0473A. The changes to allocation and settlement form each proposal have been summarised below compared to the current regime:

Market Sector	Initial Allocation			Final Allocation		
	Daily Read	Non-daily Read LSP	Non-Daily Read SSP	Daily Read	Non-daily Read LSP	Non-Daily Read SSP
Current Regime	Meter read	AQ estimate		Meter read**	Reconciled AQ	AQ estimate
			Settlement error		UG*	Final Settlement Error
			UG			UG
Market Sector	Class 1 & 2 (DM)	Class 3 & 4 (NDM)		Class 1 & 2 (DM)	Class 3 & 4 (NDM)	
0432 (Project Nexus) + 0473A	Meter read	AQ estimate		Meter Read	Reconciled AQ	
	Settlement Error				Unidentified Gas	
0473	Meter read	AQ estimate		Meter read	Reconciled AQ	
		Settlement error			Unidentified Gas	
		Unidentified Gas				

*via AUGE correction, ** a small (less than 0.1% of the total) amount of Unidentified Gas was allocated to the daily read market in the latest draft AUGE table. This is the first time since the AUGE process was approved in 2009 any gas has been allocated to this sector and is due to the presence of a single site. We expect this Unidentified Gas issue to be a transitory issue.

From this table it is clear that UNC Modification 0473 seeks to restore the current arrangements which Ofgem were concerned would be lost and UNC Modification 0473A seeks to effectively maintain the proposed uniform smearing process. Examining this in more detail, any gas smeared across the market at initial allocation comprises of two parts, settlement error and Unidentified Gas. The implications of this is explored below

Settlement error is the result of settlement inaccuracies inherent in the non-daily metered market. At present these errors are ultimately corrected via AQ reconciliation in the LSP NDM market and via Rbd in the SSP NDM market. Daily Read sites do not cause this error and so is not allocated this error. The proposed arrangement for handling settlement error under Project Nexus will create a cross-subsidy between daily settled sites accurately settled from the start (and by being daily read incur higher operating costs) and those sites that rely on estimates (and so incur lower operating costs). UNC Modification 0473 seeks to maintain the current equitable allocation process, but UNC Modification 0473A will confirm the cross subsidy brought in by Project Nexus until at least 2018. As noted below this will not only be detrimental to competition in this market, but will also inhibit the rollout of daily settlement.

With regard to Unidentified Gas, the current AUGE table (which is still in draft form) will allocate an extremely low level of Unidentified Gas to the daily read market; less than 0.1% compared to 15% of total consumption. This very low level of allocation is due to the identification of a single site that may be a source of Unidentified Gas. In general, the AUGE believes that daily read sites are responsible for little or no Unidentified Gas. This is due to the fact that they are daily read and settled, so any errors are picked up and resolved within settlement timescales. It should be noted that the daily read category include a large range of site uses and consumptions²; the key driver with regard to the lack of Unidentified Gas at these sites is therefore the metering classification.

The evidence is clear that movement to daily settlement greatly reduces the incidence of Unidentified Gas in general. One of the key benefits of Project Nexus is to remove the restrictions on the number of daily read sites in the market and we are supportive of the extension of daily settlement. The concerns raised by UNC Modification 0473A that a large proportion of the market will shift to the daily settled market to avoid Unidentified Gas costs is happily unfounded. Firstly only around 1 in 50 sites have any form of remote metering³, the vast majority of which are older advanced domestic meters currently scheduled for replacement

² A site can be daily read if its annual consumption is more than 25,000Th. By comparison mandatory daily read sites have an annual consumption of 2,000,000Th.

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

We do not expect this to change in the transition period, as only 20,000 smart gas meters are being installed every month. In practice far fewer meters than these numbers will be able, or wish to, meet the stringent UNC requirements to be daily metered, namely achieving consistent daily submission targets, having a suitable read provision service in place and being able to manually set SOQ and SHQ values.

So examining the data provided by the AUGE the transition allocation factors proposed by UNC Modification 0473 are the most equitable process to allocate Unidentified Gas rather than uniformly smear such gas across the daily settlement sector which it does not originate from, as proposed by UNC Modification 0473A.

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

We note the proposer of UNC Modification 0432 has confirmed that NTS sites will not attract any form of Unidentified Gas or settlement error under Project Nexus. Whilst we agree that this is the most equitable solution we do not understand why under Project Nexus a daily read site attached to the transmission network will not attract such gas, but a comparable site attached to the distribution network will. This question therefore provides a compelling reason as to why UNC Modification 0473 should be implemented

8. Are there any new or additional Issues for the Modification Report:

We are concerned about the negative impact that the proposed process for allocating Unidentified Gas under UNC Modification 0432 and UNC Modification 0473A will have on the rollout of daily read settlement in the gas market. One of the key benefits identified in the smart metering rollout programme is the cost savings brought about by improvements in settlement accuracy through the use of additional consumption data. Use of this data in settlement on a daily basis creates additional costs and risk as shippers, on behalf of their supplier, will need to procure enhanced meter readings services, calculate and manage SOQs and be exposed to ratchet charges. If such sites are also exposed to the inaccuracies and errors brought about by the non-daily metered regime then many of the benefits of daily settlement are lost and this will act as a significant deterrent to moving to accurate customer settlement.

9. Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

Both modifications seek to alter how smearing costs are allocated across the market, which impacts competition and so relevant objective (d). To further this objective it is important that such costs, arising from errors in the settlement process, are accurately assigned to where they have originated from. Ultimately both modifications seek to create an assessment process to do this, but there are significant differences in impact from the transition process.

UNC Modification 0473 uses the best information available to the market, the AUGE statement, as well as established industry principles (namely that daily settled sites are not exposed to non-daily settled error) to do so. This represents the most accurate way possible to assign such energy and so furthers the relevant objective.

UNC Modification 0473A does not attempt to meaningfully determine the source of Unidentified Gas in the market and instead relies mainly on an inaccurate smear process. As identified above, this creates a cross-subsidy between markets and so goes against relevant objective (d).

10. Impacts & Costs:

What analysis, development and on-going costs would you face if this modification was implemented?

Gazprom Energy face significant balancing costs from the uniform smearing process owing to the settlement error it will build into the current process, creating a cross-subsidy between non-daily metered sites and daily metered sites. In addition to the unwarranted balancing costs, uniform smearing will also create uncertainty regarding final consumption for both daily and non-daily read customers, which will increase operational costs as customer accounts are reconciled and queries addressed.

By contrast UNC Modification 0473, by replicating the current agreed AUGE process, creates far fewer costs as it seeks to embed acknowledged best practice in the market.

11. Implementation:

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

We would like to see the modification implemented as soon as possible to provide certainty to the market and recognising that 0473 has already been delayed due to the late introduction of modification 0473A

12. Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

As the proposer of UNC Modification 0473 we are satisfied that the proposed legal text for that modification delivers the intention of the modification. We have not reviewed the legal text for UNC Modification 0473A

13. Is there anything further you wish to be taken into account?

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

We are mindful of the fact that the AUGE in its initial draft of the AUG table will seek to allocate a small amount of Unidentified Gas to Daily read sites. This amount has been attributed to an unregistered single daily read site. It is unclear why a daily read site, well below the current mandatory daily read threshold, is responsible for such a small amount of gas.

We note that the AUGE's definition of Orphaned is *“new sites created more than 12 months previously, that no Shipper is currently declaring an interest in. This data is split into sites believed to have a meter and those believed to have no meter”*. We also note that every daily read site currently active in the market will have been supplied with metering equipment by the transporter.

We expect the AUGE to explain why they have made this decision and provide robust evidence demonstrating its reasoning.