

## 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:** SSE Supply  
**Representative:** Mark Jones  
**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 (in one paragraph) the key reason(s) for your support/opposition.

Modification 0473A allows more time for the independent expert to consider the output from the Nexus arrangements. We feel that the arrangements under Modification 0473 require the expert to consider the figures too soon after Nexus go live before an amount of data is available that can be reliably used to reallocate unidentified gas accurately. Either the straight throughput allocation method approved under Modification 0432 or the transitional arrangements under Modification 0473A should apply until enough time has elapsed in order for the expert to have at least one full year of consumption analysis under Nexus with which to form an opinion.

Under Nexus it needs to be ensured that data is mature enough, data volatility is minimised and data availability is adequate enough to allow an accurate opinion to be formed on where the causes of unidentified gas lie. We also feel that Modification 0473 tries to keep the current AUGE year and timelines and as a result of this has a sub optimal solution for the appointment of an independent expert in the first year. Furthermore, the performance assurance framework will improve data quality but the improvements from this new regime will take time to be effective.

#### Transitional Arrangements

The causes of unidentified gas are wide and varied and with the introduction of individual meter point reconciliation for all sites any transitional arrangements should allocate sites based on the fairest

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method, throughput , but allowing an adjustment for that element of unidentified gas which is directly attributable to a particular sector.

Applying an adjustment for directly measured components of unidentified gas as detailed in the relevant AUGE Table at Nexus go live, which Modification 0473A does, provides a level of fairness in that all of the known unidentified gas in each sector will be accounted for in as accurate a manner as possible.

Modification 0473 will result in domestic sites continuing to pick up an unfair amount of unidentified gas, resulting in shippers' cost base to this sector of the market being higher than it should be which will ultimately feed through to prices to domestic customers.

All sites are reconciled under Nexus and in the absence of any proven information then the only fair mechanism is to allocate unidentified gas based on throughput, as we will have very little accurate information and knowledge of where the unidentified gas is being used.

Under Modification 0473, with classes 1 and 2 unfairly avoiding unidentified gas, then the allocation increases on other customers that may have metering in class 3 that is at least as accurate and which would result in the same final energy position if those customers were in class 2. It creates a perverse incentive to put customers into class 2, which is unlikely to be retained once the independent expert provides the first output, and which would distort competition.

The current AUGE identifies how much gas is removed from RbD that is evidence based and this RbD process will not exist under Nexus. The current AUGE output is a fixed allocation to shippers based on market size and doesn't map to product classes, but Modification 0473 tries to use this allocation to map to an adjustment factor based on throughput for the classes, the mathematics of which isn't in line with the current AUGE calculations, as the allocations in Modification 0473 will change with gas demand which the current AUGE process does not do as it is a straight volume allocation.

The current AUGE scope is too limited in that it cannot address a number of inaccuracies in the allocation methodology such as errors in the shrinkage allocation, inaccuracies in temperature and pressure calculations, inaccuracies due to allowable metering tolerances and unknown venting, all of which are errors that should be allocated to shippers based on throughput as there is no bias in any of these inaccuracies towards any types or classes of customer.

**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.**

We believe that in the absence of any knowledge to the contrary that all customers should pick up a share of unallocated gas based on the allocation scaling adjustment as was implemented in Modification 0432. There are known inaccuracies mentioned above in things like shrinkage that should be allocated across the market. Furthermore, shippers should not

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be able to avoid unidentified gas by placing sites in product class 2 as this spreads the unidentified gas across a smaller proportion of sites and we believe that this is anti-competitive as it potentially discriminates against smaller shippers that cannot offer a class 2 product, but would be able to put customers into class 3. No product class should be advantaged or disadvantaged by the transitional arrangements. The latest AUGE figures now give a non zero allocation to DM Sites for unidentified gas.

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

We believe that neither of these modifications attribute any unidentified gas costs to NTS direct-connected sites and are firmly of the view that these sites should be excluded from any allocation of unidentified gas.

**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?*

We agree with the proposer that Modification 0473A would impact positively relevant objective (d) as it will more accurately allocate unidentified gas to known sources and does not allow some shippers to potentially avoid unidentified gas by placing customers into other product classes and thus giving them an advantage over other shippers that are unable to do this.

**Impacts and Costs:**

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

None identified

**Implementation:**

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

We believe that this modification should be implemented in line with the timescales proposed in the modification

**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?*

Yes.

**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.

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