

## Representation

### Draft Modification Report

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

**Consultation close out date:** 13 Nov 2014  
**Respond to:** enquiries@gasgovernance.co.uk  
**Organisation:** WINGAS UK Ltd  
**Representative:** Rob Johnson  
**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 the key reason(s) for your support/opposition.

In its decision letter on UNC Modification 0432<sup>1</sup>, Ofgem indicated its concern with the proposed process to uniformly smear across the market all gas not allocated to a customer or a transporter via shrinkage as it is not as accurate as the current AUGE process. The reason for this concern is that uniform smear removes the incentive to tackle Unidentified Gas, as it becomes a uniform cost to all parties. This has been seen in the current RbD market, where no significant initiatives were raised to tackle the causes of Unidentified Gas. By contrast, in the period the AUGE process has existed, significant efforts have been made to tackle Unidentified Gas due to theft, shipperless and unregistered sites.

Both modifications recognise that a uniform smear process is inadequate and that the third party assessment will bring benefits to the market in terms of equitable allocation of both Unidentified Gas and settlement error. It is important that any transition process to this third party process is the most equitable and transparent possible, using the best information available to the market. UNC Modification 0473 does that, basing its transition process for Unidentified Gas on the latest confirmed AUGE table and continues the practice of not allocating balancing error (i.e. inaccuracies in settlement caused by estimated process for non-daily settled sites) to daily settled sites. UNC Modification 0473A continues to utilise the inequitable smear process (so resulting in a cross-subsidy of non-daily read sites by daily read sites) that was implemented by UNC

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<sup>1</sup>[24 February 2014 Ofgem Decision Letter](#)

Modification 0432 and which it proposes to replace as its enduring solution.

**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.**

UNC Modification 0432 proposes that from October 2015 (current Project Nexus implementation date) any residual gas left over from initial allocation to customer sites and transporters through shrinkage is evenly smeared across the whole retail market. Daily Read sites account for approximately 15-20% of all gas consumed in the market and so will currently attract that proportion of residual gas. This residual gas is comprised of two sources:

- *Settlement error.* Currently not allocated to daily read sites on the basis that this error is created by the inaccuracies inherent in the non-daily metered consumption estimation process. To do so would create a rolling subsidy between those sites accurately settled on a daily basis and those that are not.
- *Unidentified Gas.* We note that from the current AUGE table is proposing that only 0.08<sup>2</sup>% of Unidentified Gas is proposed to be allocated daily read sites, on the basis of a single site. To allocate 15-20% of total Unidentified Gas (once initial settlement errors have been removed) to this sector will mean that each unit of gas consumed in this sector will attract over 200 times that sector's consumption of gas, compared to the non-daily metered market.

It is important to note that the AUGE bases its conclusions on the low level of UG present in this sector on the fact that the sites are daily read and so any errors are quickly identified. The current definition of DMV can include sites of small consumption.

Examining these two sources of residual gas it is clear that it is inequitable that the uniform smear process is used to allocate gas to all sectors evenly and represent a departure from the principle that has operated in the retail gas market since its inception that sites that incur the costs of ensuring accurate settlement are not exposed to the errors originating from other sectors.

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

It is our belief that the UNC, as currently drafted, will not result in any residual gas being allocated to NTS sites. It is discriminatory that daily read sites that happen to be connected to the NTS are exempt from any Unidentified Gas or balancing error and daily read sites (that may have a greater annual consumption) that are connected to the DN networks are. This strengthens the argument for the

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<sup>2</sup> [Draft AUGE table for 2015/16](#)

implementation of UNC Modification 0473.

**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 believe that the only relevant objective impacted will be relevant objective (d), as both modifications seek to amend how residual gas, and so its cost, are smeared across shippers.

UNC Modification 0473 seeks to make the most accurate allocation of both Unidentified Gas and balancing error, based on the current view of Unidentified Gas arrangements under the AUGÉ and the current settlement regime. We believe that this represents the fairest and most accurate way of assigning both initial balancing error and Unidentified Gas and so furthers 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) as it creates a cross subsidy between daily read and non-daily read customers until 2017-18.

**Impacts and Costs:**

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

Under the uniform smear process, the rolling short term costs that will be incurred by our daily read customers in cross-subsidising the allocation error for non-daily metered sites will be significant. We will also have to amend our operational process to take account of the fact that a sizable proportion of the gas allocated to daily read sites will be reconciled. This will have a significant impact on our pass through contracts which the majority of daily read customers use.

If Modification 0473 is implemented then these inefficiencies will be avoided and so our balancing and operational costs will be lower, ultimately resulting in cost savings for the customer.

**Implementation:**

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

Both modifications will impact the purchasing activities of our wholesale trading teams and so a speedy decision will be beneficial.

**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

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**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.*

We do not believe that the concerns raised by the proposer of UNC Modification 0473A that under UNC Modification 0473 large number of sites will be reclassified as daily read to avoid balancing error. This perceived issue only exists for the transition period, as the reinstated AUGE process will be able to adjust Unidentified Gas to take into account market developments.

For the proposed transition period, the number of such sites being able to become daily read will be low. The latest DECC statistics show a very low level of advanced metering in the market (the majority being ADM devices), less than 2% of the market, and with only 20,000 smart meters being installed a month. We also note that there are significant costs and obligations in operating a site as daily read (including more stringent must read requirements, the need to predict SOQs and exposure to ratchet charges). It is therefore highly unlikely that there will be a significant move to daily read status in the transition period.

In any event we do not see why a movement to more daily read sites should be seen as detrimental to the market, as the AUGE believes that a site being daily read allow the rapid detection and resolution of the sources of Unidentified Gas. We would expect if there was a significant move to daily read sites then the level of Unidentified Gas across the market would fall.