Topic Workgroup Report

Allocation Principles

Version 1

1. Aims

Following agreement at the Project Nexus Uniform Network Code (PNUNC) Workstream, a number of Principle Topic Workgroups are to be established to review the high-level industry principles, considering the comments received as part of xoserve's Project Nexus Consultation. These discussions will focus around confirmation of the high-level business rules, only for those processes that are unlikely to be affected by the development of the anticipated Smart Metering Programme.

This report has been produced by the Allocation Topic Workgroup. A copy of their Terms of Reference can be found at: www.gasgovernance.co.uk/nexus/tor.

2. Process

The Allocation Topic Workgroup agreed their Terms of Reference, which were then subsequently approved by PNUNC Workstream. A workplan was developed and a number of meetings arranged to consider:

i. the existing process;

ii. comments provided during the xoserve consultation process on the Project Nexus Scope;

iii. review of potential solutions;

iv. provision of high level principles and recommendations;

v. completion of a Topic Workgroup report.

3. Areas Reviewed

The Allocation Topic Workgroup considered the following requirements identified during the xoserve consultation to ensure the relevant areas were reviewed and recommendations identified:

Initial Requirements Register Reference	Requirement
4.5	All energy consumption data should be used to ensure that costs are targeted at those that incur them on the system.
4.6	Use of daily energy for large part, if not all Meter Points
10.7	Use energy consumption data to develop an additional SSP profile for I&C sites
10.8	Shipper demand allocation data to be split by market sector and LDZ on a daily basis
10.10	Create a new EUC Band for Small Supply Points

4. Conclusions and Recommendations

The Allocation Workgroup considered the respondents comments provided in section 3 above, to the extent that they have an impact on high-level business rules, as well as considering the existing arrangements and any alternatives proposed.

The following high-level principles and business rules were agreed within the Allocation Workgroup and are recommended to the PNUNC Workstream:

The following neutral terminology is used in these high-level business rules, particularly where the clarity about a term will be delivered by a later Topic within Project Nexus:

- Site – using a neutral term and not specifying Meter Point/Supply Point/other;
- DM – a Transporter-managed daily metered and balanced sites, including Unique sites;
    - Assumption that this service is still required for large consumers or interruptibles;
- Smart/remote – non-DM sites with timely remote access to meter reads which are used for balancing, and
- Consumption – could be reads/volume/energy – decision not required at this stage.

Principles	Comments
Daily Energy Allocation (after the Day) 1. Daily readings or consumption will be used in the daily energy allocation process for each directly connected site. If daily readings or consumptions are not available on a daily basis, then an estimation process will be required or the close out date will need to be reviewed.	May need to review once SMIP defines CCP rules for providing reads, e.g. costs may not justify applying this principle
2. Energy balancing settlement for all sites will be based on their actual/estimated daily consumption. *No decision has yet been made on changing or retaining the current D+5 close-out rule.*	The impacts on the Gemini system have not yet been assessed. The Project Nexus solution may aggregate data for submission to Gemini
3. Total energy metered into an LDZ on a day is not likely ever to agree exactly to the sum of the individual site level metered consumptions. The difference between the two could be positive or negative and will be apportioned to all sites in the LDZ, including DM, as a "*balancing correction*" calculated as a percentage of the day's consumption. <u>Worked example</u> Total of individual site level consumptions: 1, 000,000 kWh Actual total LDZ consumption: 1,010,000 kWh Each site receives a balancing correction of 1% of its metered consumption for the day. Site level allocation is 101% of its metered consumption. Total allocation is now 1,010,000 kWh.	Balancing correction could be positive or negative on a day. All sites receive the same % correction. Each LDZ is balanced separately so some LDZs may see a positive correction on a day, whilst others are negative. The impact of this change on Gemini system has not yet been assessed.

Principles	Comments
Missing read days 4. For days where no readings/consumption is available from a site before close out, use an estimating routine to determine an initial view of site demand for the day. The balancing correction is applied to this estimate in the same way as for actual reads. Where daily readings are not available estimated readings will be used. There are a number of options for this estimating routine, including (not an exhaustive list): ▪ Same routine as for dumb meters during transition (see 5 below) ▪ Estimate based on other smart meters' consumption for the day in the geographical vicinity ▪ Actual consumption history of the meter for a similar day/ temperature combination Estimated readings/consumptions can be provided by one of a number of parties. Estimated readings/consumptions may be derived differently within the dumb/smart meter populations.	D-7 estimates are not appropriate for weather sensitive sites, particularly Domestic and smaller I&C sites, since consumption is heavily influenced by temperature and wind speed, which can vary significantly across 7 days. D-1 estimates would not be appropriate due to the significant variation between usage levels across days of the week.

Principles	Comments
Transitional Arrangements for Allocation 5. An enhanced estimating routine is required to apply at site level to take account of: - average consumption under seasonal normal weather conditions - sensitivity to deviations from seasonal normal weather - actual weather on the day compared to seasonal normal 6. During the roll-out of smart/advanced meters a transitional arrangement is required in order to treat remotely read sites and dumb-metered sites equitably. The enhanced estimating routine described in 5 above will be used to give a more robust site-level estimate for dumb meters, which is not reliant on the scaling factor. During the transition phase the total of all remote consumptions and the total of all estimates will be combined to give the total site-level LDZ consumption. The balancing correction will be applied equally to remote and dumb-metered sites. There may be enhanced separate profiles for Domestic and I&C sites or for dumb and remotely read meters.	The details of this estimating technique have not yet been defined. Full details are not required at this stage: a list of the components and their derivation is required to inform the design stage; and actual values are needed for the testing phase.

Principles	Comments
Daily Energy Nomination (before the Day) 7. Shippers will submit their own daily energy nominations by portfolio and Exit Zone or LDZ. This should be subject to an incentive scheme. 8. For nominations a "balancing correction" will be calculated and applied in the same way as for allocations after the day. The Transporter will estimate total LDZ consumption for the day and the balancing correction will be the difference between that total and the sum of all the nominations. Shippers will have visibility of their nominations before and after the application of the balancing correction. Shippers will need the capability to manage their balancing corrections. 9, As an alternative to 7 & 8., there is an option to review the existing regime for day ahead nominations and implement improvements where they can be identified. 10. The workgroup concluded that at a point in time the industry should change to the arrangements detailed in point 7 & 8 above. This is not dependent upon the completion of the smart metering programme.	The Transporter does not require daily visibility of forecast consumption at small sites. There may be a requirement to introduce audit arrangements. Appropriate incentives will need to be developed/applied. These nominations may need to be subject to independent audit. The balancing correction must be applied, otherwise total nominations are unlikely to match actual allocations. Any regime will need to ensure there is not detrimental impact on the balancing regime.
Treatment of CSEP sites 10. CSEP sites will be treated in the same way as directly connected, with daily use of actual consumption (if available) and application of a balancing correction. Data will not be at a lower level of detail than for directly connected and may be at a higher level, i.e. aggregated.	

Principles	Comments
This high level principle topic workgroup has not discussed presentation of any charges derived from Allocations, therefore all invoicing arrangements are at present unchanged, until discussed in later workgroups.	

5. High Level Benefits

The Allocation Workgroup identified a number of potential benefits associated with adopting a daily allocation/readings approach, as follows:

- build in energy efficiency and demand changes, which allow shape changes through the year to be reflected quickly without having to wait for profile and AQ updates;
    - this would allow Shippers to incentivise and reward consumers whilst meeting Ofgem and governmental requirements;
- minimise the risk of profile error and reduce reliance on a sample to be reflective of the whole market – which may no longer be the case as the market sectors demand patterns change;
- allow Shippers to better match their charging regimes to their risk from allocated costs more effectively (e.g. to support flexible pricing that relates daily demand to on the day prices and therefore requires a better daily match);
- daily volumes will help to resolve issues in the current profile shapes not reflecting demand patterns at various points in the year which leads to misallocation across market sectors;
- provide clarity surrounding end-to-end costs which will allow better alignment between consumer pricing and Shipper costs;
- provide the ability to more readily identify unaccounted for gas and more clearly spread this to all parties, without it being mixed up in the scaling and RbD processes, and
- reduce risk between the before the day hedging purchases and on the day balancing activities;
    - allow risk mitigation activities to focus on weather risk. Currently there is no ability to take any risk mitigation for the allocation impacts and resulting reconciliation risks will be improved considerably by moving to daily volumes.

<u>Before the day</u>

- removes the DM impact on the NDM allocations, helps purchasing activities and reduces the risk of an inappropriate cross-sector subsidy;
- places incentives on Shippers to get their volumes correct for their portfolio with less impact from other Shipper inaccuracies. Potentially places the incentive for accuracy in the correct place, and

- potential improvements in portfolio volume derived from a process change.

There was consensus within the Shippers represented within the Allocation Workgroup that adoption of all, or some of these items would enable identification and calculation of financial benefits, which could then be brought to the attention of the Authority.

6. Subjects for discussion in other Topic Workgroups/Industry Forums

Subject	***Where discussed (current view)***
Format of submission of consumption data (meter reading/volume/energy)	AMR detailed requirements (for AMR) SMIP or CCP (for Smart)
Validation of consumptions	AMR detailed requirements (for AMR) SMIP or CCP (for Smart)
Reconciliation principles	Reconciliation Principles Workgroup
Estimating routines for transition and for fully Smart environment	UNC forum, e.g. DESC