



Summary of Gas Settlements Risks

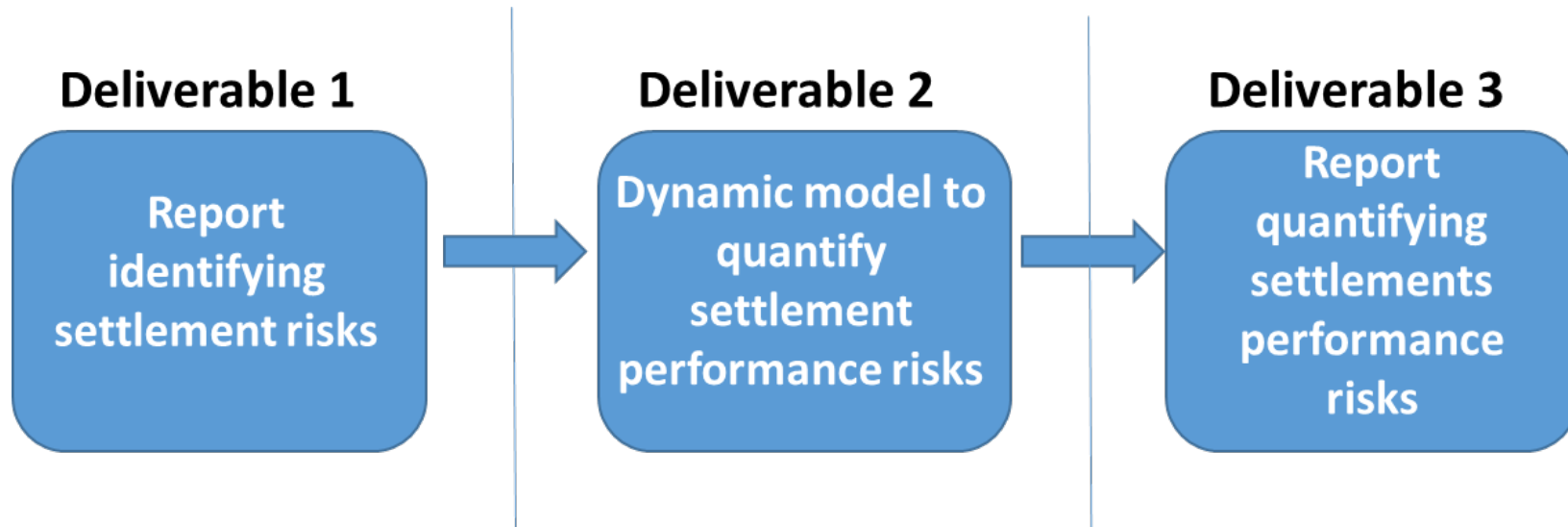


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Summary

1. Reminder of the study deliverables and published documents
2. Summary of findings
3. Recommendations
4. Further development of the model on how to set targets

Independent Gas Settlement Performance Study



- All documents have been finalised on the independent study page on the Joint Office website. These include;
 - Gas Market Settlements Risk Report Section 1;
 - Gas Market Settlement Risk Assessment Dynamic Model Design Specification;
 - Gas Market Settlement Dynamic Model;
 - Gas Market Settlement Dynamic Model User Guide; and
 - Gas Market Settlement Risk Settlement Quantification Section 2.

Summary of findings

- Four significant settlement performance risks are currently being worked on at industry level;
 - Theft of Gas
 - Shipperless Sites
 - Unregistered Sites
 - Offtake metering
- Additional risks for consideration include:
 - “Fair” use of AQ corrections process;
 - Incorrect asset details on the supply point register;
 - Use of estimated reads for Products 1 and 2; and
 - MPRNs in EUC 03-08 without a site-specific winter annual ratio.

Quantification of risks

Ranking		Risks	Products affected				EUC affected									Range of risk to allocation	Range of risk to reconciliation		
			P1	P2	P3	P4	1	2	3	4	5	6	7	8	9				
1	11	Theft of Gas	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	£42,218,000	£43,046,000
2	12	Use of the AQ Correction Process	x	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	£32,218,000	£32,836,000	
3	5	Use of Estimated Read for Product 1 and 2	✓	✓	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	£23,555,000	£47,000	
4	1	LDZ Allocation Error - Corrected	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	£21,152,000	-	
5	7	Incorrect asset data on the supply point register	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	£13,987,000	£14,073,000	
6	13	Use of WAR for EUC 3 - 08	x	x	x	✓	x	x	✓	✓	✓	✓	✓	✓	x	£8,908,000	-		
7	2	LDZ Allocation Error - no correction	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	£7,051,000	£7,051,000	
8	15	Unregistered Sites	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	£2,481,000	£621,000	
9	10	Shipperless Sites	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	£2,326,000	-	
10	3	Meter Read Validation Failure	x	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	£1,439,000	-		
11	9	Late Check Reads	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	£1,437,000	£467,000	
12	6	Read Submission Frequency for Product 4	x	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	£1,350,000	-		
13	8	Change of Shipper estimated reads	x	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	£408,000	£410,000		
14	4	Failure to Obtain a Meter Reading	x	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	£79,000	£79,000		
15	14	Approach to Retrospective Updates	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	x	-	£5,000		

Engage recommend developing performance assurance targets for risks that have a Value at Risk (VAR) >£2million;

(The VAR for meter reading submission and acceptance will increase if the settlement window shortens)

Theft of Gas

- Theft of Gas has been identified as the most significant risk to Unidentified Gas.
- The exact amount of theft is unknown but is likely to be between 1-2% of throughput energy.
- Theft of gas has already received significant industry focus and as such the Theft of Gas Risk Assessment Service is being implemented in February 2016.
- The Settlement Performance Risk Study supports further changes being raised through SPAA to incentivise Theft of Gas detection.
- Engage also recommend that the Performance Assurance Workgroup (PAW) look to ensure that management reporting and performance assurance metrics effectively monitor the quality and efficiency of theft detection.

Use of the AQ Correction Process

- The AQ correction process is the second most significant risk as inaccurate AQs cause meter readings to fail.
- Inaccurate AQs are caused by theft of gas or consumption changes.
- The AQ correction should be used when AQs are significantly low.
- If significantly low AQs are not corrected, all shippers pick up the energy cost through Unallocated Gas.
- Engage recommend where meter readings fall outside the AQ tolerances, meter read re-submissions and AQ corrections are closely monitored.

Use of Estimated Reads for Products 1&2

- The third most significant risk is created where meter read estimates are used for daily read sites and not replaced by D+5.
- The Difference between the estimated and actual consumption falls into unidentified gas.
- Check reads at daily metered sites should be completed by the transporter for product 1 and the shipper for product 2. This will automatically trigger a re-reconciliation.
- Engage recommend that the number of estimated reads used for initial allocation are monitored.
- The check read process should be also monitored in accordance to the rules to ensure transporters and shippers meet the appropriate timescales.

LDZ Metering Errors

- LDZ metering errors create a mis-allocation between NTS shrinkage and allocated gas.
- In recent history there have been a number of significant meter errors, which have affected shipper allocation.
- Engage recommend that the transporters are targeted on completing their inspection visits within the timescales set in UNC OAD.
- Engage also recommend that the OAD is reviewed to ensure it is fit for purpose.

Incorrect Asset Data on Supply Point Register

- Incorrect asset data can affect consumption allocation where the incorrect meter multiplier is used in the energy deeming process.
- Engage recommend that the following items are targeted;
 - Correction factors of 0 and other potentially incorrect correction factors;
 - MPRNs which are confirmed as live with no meter attached; and
 - Incorrect read factors.
- Engage also recommend that where Xoserve liaise with shippers there is a mandatory requirement for shippers to correct asset details within an agreed timescale.

Use of WAR for EUC 03 and above

- There are four site specific profiles in each LDZ for sites in EUC 03-08.
- There is a risk that a high proportion of sites do not have a good meter read history and therefore create a potential mis-allocation between identified and unidentified energy. There is also a potential for AQs to be incorrect.
- Engage recommend that sites in EUC 03-08 are incentivised to submit a valid reading to Xoserve in Nov/Dec and Mar/Apr.
- The PAW should consider if there benefit to measuring meter read submission monthly, as these sites should be monthly read in accordance to the UNC.

Unregistered Sites

- A risk to unidentified gas is created when MPRNs remain unregistered.
- Following the introduction of UNC Modification 410A there will be a risk to initial allocation, however this risk will diminish to include only those sites created without the direct involvement of a shipper. Where a shipper creates a site they will pick up the associated cost.
- Engage recommend that transporters are monitored to complete 12 month gas site visits to minimise the number of illegitimately unregistered sites.

Shipperless Site

- A risk to unidentified gas is created by shipperless sites.
- UNC Modification 424 and 425 should ensure that where a withdrawn site is later found to consume gas, a shipper is responsible for the gas consumed.
- This is a significant risk to initial allocation however it should be resolved by final allocation.
- Engage recommend that additional reporting is implemented to monitor transporters site visits and shipper re-registrations to minimise the number of shipperless sites created as a result of shipper errors.

Further Development of the Model and Performance Monitoring

- Agree settlement risks to monitor and prioritise;
- Agree approach to risk mitigation;
- Re-prioritise dependent on ease and effectiveness of mitigation;
- Instigate detailed analysis of mitigations and solutions; and
- Update the model to re-assess risks with mitigations in place.