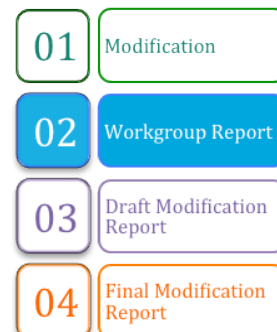


Stage 02: Workgroup Report

0473 0473A:

Project Nexus – Allocation of Unidentified Gas

At what stage is this document in the process?



These modifications two of a series seeking to implement the requirements identified under Project Nexus. These modifications identify changes to the UNC to enable determination in the proposed energy allocation process to enable an appropriate distribution of Unidentified Gas.



The Workgroup recommends that this modification should now proceed to consultation.



High Impact:
Shipper cost allocation

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About this document:		 enquiries@gasgovernance.co.uk
This report will be presented to the panel on [19 June 2014].		 0121 288 2107
The panel will consider whether the modification should proceed to consultation or be returned to the workgroup for further assessment.		Proposer: Steve Mulinganie Gazprom
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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that these are not self-governance modifications because they may have material effect on competition.

Why Change?

Following the decision to implement Modification 0432 - Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform¹. The Business Requirements Documents (BRDs) which constitute the business rules currently provide that no manual intervention in the distribution of Unidentified Gas² between relevant market sectors would occur as might be a consequence of the determination of an Allocation of Unidentified Gas Expert (AUGE)³. Notwithstanding this, Modification 0432 and associated legal text identifies a mechanism whereby, should such determination be deemed necessary, this could be readily incorporated within the proposed regime.

The use of a single scaling factor proposed in Modification 0432 could offer a less accurate means of allocating unidentified gas than is currently offered by the Allocation of Unidentified Gas Expert (AUGE). As the aim should be to reduce unidentified gas, not simply target its allocation, and a universal scaling factor would seem to dilute any existing incentives to do so. Modifications 0473 and 0473A offer two different approaches to the allocation of unidentified gas.

Solution

Modification 0473 0473A propose arrangements to determine the allocation of unidentified gas between markets by the use of an appointed expert in readiness for the Project Nexus go live date. The expert will be responsible for the development of a methodology for allocating unidentified gas on a equitable basis.

Modification 0473 proposes that an Allocation of Unidentified Gas Expert be appointed so that a methodology can be developed and used to populate the AUG table prior to the Project Nexus Go live date.

Modification 0473A proposes that an allocation expert is appointed by the Project Nexus Go live date and that they analysis the first years data following go live so that the methodology is based on observed values.

Relevant Objectives

Implementation of the changes identified within these modifications could be expected to facilitate the securing of effective competition between Users. The changes are expected to lead to more accurate allocation of Unidentified Gas costs between Users.

Implementation

No implementation timescales are proposed. However, implementation as soon as possible after an Authority decision to do so would allow the maximum time for the AUGE tender process to be completed in time for the Project Nexus implementation date.

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¹ Modification Proposal 0432: <http://www.gasgovernance.co.uk/0432>

² TPD Section E10.1.1(a): <http://www.gasgovernance.co.uk/TPD>

³ TPD Section E10.1.1(f): <http://www.gasgovernance.co.uk/TPD>

2 Why Change?

The proposed energy allocation framework identified within Modification 0432 presently does not identify a methodology for the redistribution of Unidentified Gas between the Smaller Supply Point (SSP) and Larger Supply Point (LSP) market sectors over and above the simplistic approach which would occur as part of the proposed 'Allocation Scaling Adjustment mechanism.

For the purposes of avoiding unnecessary delay to the development of Modification 0432, separate modifications have been raised to propose mechanisms by which the allocation of unidentified gas can be shared should the industry determine that this be necessary. The benefits of this approach is that the Transporter's agent (Xoserve) can proceed to develop relevant supporting systems and processes with certainty and with sufficient flexibility to accommodate determination in Unidentified Gas allocation should this ultimately be required.

The new individual supply point reconciliation arrangements being introduced by Project Nexus are significantly different to the incumbent RbD arrangements; therefore it is not appropriate to take a simplistic approach to settlement as proposed in Modification 0432 and both Modifications 0473 and 0473A offer options for the allocation of unidentified gas.

3 Solution

Modification 0473

The purpose of this Modification Proposal is to develop an Unidentified Gas determination and sharing methodology utilising the services of an AUGÉ.

Modification of the UNC is required to incorporate appropriate arrangements to permit the sharing of Unidentified Gas between market sectors by an AUGÉ post Nexus implementation. Rather than as an 'after the event' adjustment process as is presently the case, this would occur as part of the process of deriving and applying the 'Allocation Scaling Adjustment' developed within the remit of Modification Proposal 0432.

Business Rules

- 1) A person, the Allocation of Unidentified Gas Expert (AUGÉ), shall be appointed and engaged by the Gas Transporters through an AUG Expert Contract for the purposes of:
 - a) developing an AUG Statement or (as the case may be) a modification of the prevailing AUG Statement and recommending it to the Committee; and
 - b) by applying the AUG Statement, preparing and recommending to the Committee an AUG Table;
- 2) The AUG table, is incorporated into the UNC, which shall be used by the transporters in determining the allocation factors applicable to each meter point class and band by LDZ.

Supply Meter Point Classification	Allocation Factor	
	EUC Band1	EUC Band 2, etc....
Class 1		
Class 2		
Class 3		
Class 4		

- 3) The process for appointing the AUGÉ is set out in a new UNC Related Document "Framework for the Appointment of an Allocation of Unidentified Gas Expert".
- 4) For the avoidance of doubt, the current AUGÉ process will continue until the implementation of Project Nexus.

Modification 0473A

High level overview of the solution being proposed, which will require further development.

- 1) A new Independent Expert (Unidentified Gas Independent Expert) is appointed in readiness for Project Nexus Go Live Day 1.
- 2) The purpose of the Expert will be to assess the quantity of Unidentified Gas associated with the new settlements arrangements introduced by Project

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Nexus, based upon actual evidence/data, and make a recommendation as to whether any further intervention over and above the 'Allocation Scaling Adjustment' is required.

- 3) The Independent Expert will make a determination as to whether the 'Allocation Scaling Adjustment' is an appropriate mechanism for allocating Unidentified Gas across industry participants. Key to this consideration will be the desired outcome that no sector/product class/AQ banding is unfairly advantaged or disadvantaged by the allocation arrangements.
- 4) The overall aim is to reduce Unidentified Gas and an independent, evidenced-based assessment as to the correct allocation of this cost is critical to ensure that all industry participants are equally incentivised to this end.
- 5) During the initial 12 month 'measurement period' following Nexus implementation (Day 1) the Expert will be responsible for gathering data (in accordance with their Terms of Reference) and performing analysis – this is necessary as there is no available data to indicate the quantum or constitution of the balancing number within Project Nexus. A 12 month minimum period is required to allow for full seasonality.
- 6) At the end of the initial 12 month 'measurement period' a report will be produced by the Expert detailing the results of the data gathered and analysis conducted, making an independent recommendation as to whether or not, further amendment to the existing Nexus allocation is required and an estimate as to when this could be achieved given the need to allow for data maturity and completion of analysis. The Expert would need to demonstrate that the existing Project Nexus allocation arrangements vary materially from the 'correct' allocation and that a need for intervention is required.
- 7) During this 'measurement period' the Reconciliation by Difference (RbD) pot will be subject to existing AUGS arrangements (based upon the last approved AUGS prior to Project Nexus implementation date) and the Project Nexus balancing number is subject to the Project Nexus 'Allocation Scaling Adjustment' arrangements as defined by Modification Proposal 0432.
- 8) Should the measurement period extend beyond the initial 12 months following the Project Nexus implementation date, based on any such recommendation by the Expert, the RbD pot will cease to exist and the total balancing number will be subject to Project Nexus 'Allocation Scaling Adjustment' arrangements until such a time that this is superseded by the Expert's approved methodology.
- 9) It is envisaged that a data maturity period will be required to allow for sufficient reconciliation of the initial 12 month measurement period – potentially a period of 12 to 18 months (based on existing reconciliation data), though the actual timeframe may be defined by the Expert.
- 10) At completion of the 'data maturity' period the Expert, where an intervention is required, will produce a methodology for correcting the Project Nexus 'Allocation Scaling Adjustment' arrangements.
- 11) The methodology will be subject to a robust, transparent consultation process, which will be detailed within the UNC.
- 12) Following completion of the consultation process the methodology will be subject to an approval process, which will be detailed within the UNC.
- 13) Following approval, the methodology will go live at an appropriate point as defined by the supporting governance arrangements.
- 14) The methodology will be updated and consulted upon annually in accordance with an agreed process, with any amendments made based on actual observed evidence/data.

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
These modifications propose to introduce new arrangements for the introduction of a new allocation of unidentified gas expert, which will result in Xoserve incurring costs associated with procurement and appointment, thus resulting in User Pays charges.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
100% Users
Proposed charge(s) for application of User Pays charges to Shippers.
Modification 0473 - The proposed process for allocating Unidentified Gas post Project Nexus is to do so in proportion of total system throughput. It therefore is appropriate for the charge for managing the process to be allocated in the same way, namely in proportion of shipper AQ, as of the 1 April each year. Modification 0473 – TBC
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
TBC

4 Relevant Objectives

Impact of the modification on the **Relevant Objectives**:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

- d) Securing of effective competition:
- (i) between relevant shippers;
 - (ii) between relevant suppliers; and/or
 - (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

Implementation of the changes identified within these modifications would be expected to facilitate the securing of effective competition between Users. The changes are expected to lead to more accurate allocation of Unidentified Gas costs between Shipper Users by implementing the recommendations of an industry expert rather than is currently proposed using an allocation scaling adjustment.

Modification 0473

Modification 0473A

5 Implementation

No implementation timescales are proposed for Modification 0473 0473A. However, implementation as soon as possible after an Authority decision to do so would allow the maximum time for the AUGÉ tender process to be completed. Xoserve have indicated that they will need at least two months between the modification being approved before any tender can be issued

[should implementation timeline be included?]

6 Legal Text

Text

The following Text has been prepared by Northern Gas Networks at the request of Panel, and no issues were raised by the Workgroup regarding its content.

Modification 0473

TPD SECTION E: DAILY QUANTITIES, IMBALANCE AND RECONCILIATION

Insert new paragraph 9 to read as follows:

9 UNIDENTIFIED GAS - ALLOCATION FACTORS

9.1 Interpretation

9.1.1 For the purposes of this paragraph 9:

- (a) the **"AUGE Document"** is the document entitled 'Framework for the appointment of an Allocation of Unidentified Gas Expert' which sets out:
 - (i) the procedure for the appointment of the AUG Expert;
 - (ii) what qualifications and competencies the AUG Expert is required to hold;
 - (iii) the criteria for selection of the AUG Expert;
 - (iv) the terms of the AUG Expert Contract;
 - (vi) procedures for preparing the AUG Statement and the AUG Table; and
 - (vii) such other matters (consistent with this paragraph 9) as the Committee and the Transporters may agree;
- (b) **"AUG Expert"** means the person from time to time appointed pursuant to paragraph [];
- (c) **"AUG Expert Contract"** means the contract appointing a person to act as the AUG Expert;
- (d) **"AUG Statement"** means the statement prepared in respect of an AUG Year pursuant to paragraph []; *[MP refers to statement not methodology]*
- (e) **"AUG Table"** means the table prepared for an AUG Year pursuant to paragraph [];
- (f) **"AUG Year"** means the period from 1 April in any year until and including 31 March in the following year and in relation to any AUG Year the **"Preceding AUG Year"** is the AUG Year ending at the start of such AUG Year;
- (g) **"Unidentified Gas Source"** means a particular set of circumstances in respect of a Class of Supply Point which give rise to Unidentified Gas.

9.1.2 For the purposes of this paragraph 9:

- (a) **"CSEP Equivalent Points"** means System Exit Points treated as comprised (as contemplated in Section A3.3.5 and as provided in the relevant CSEP Network Exit Provisions) in an Unmetered Connected System Exit Point which relate to points of supply (to premises connected to the relevant Connected Offtake System) equivalent to Supply Point Components of a given class; and references to provisions of the Code

include (in relation to CSEP Equivalent Points) corresponding CSEP Network Exit Provisions;

(b) references to a User's CSEP Equivalent Points are to the CSEP Equivalent Points for which the User is responsible in accordance with the relevant CSEP Network Exit Provisions;

(c) references to Larger Supply Points exclude NTS Supply Points and Special Metering Supply Points.

9.1.3 The AUG Document is a UNC Related Document and a reference to the AUG Document is to such document as from time to time in force.

9.1.4 In this paragraph 9 a reference to the Committee is to the Uniform Network Code Committee.

10.1.5 The Committee shall have the functions set out in this paragraph 9 and the AUG Document.

10.2 Appointment of AUG Expert

10.2.1 A person shall be appointed by the Transporters, in accordance with this paragraph 10.2, for the purposes of: *[Reference should be to Ts not GTs]*

- (a) preparing the AUG Statement or (as the case may be) modifying the AUG Statement for the Preceding AUG Year, and recommending it to the Committee; and
- (b) preparing the AUG Table, and recommending it to the Committee, in relation to each AUG Year.

10.2.2 The Transporters shall, subject to and in accordance with the AUG Document and the requirements of the Committee:

- (a) prepare arrangements and documentation for a tender for the appointment of a person as AUG Expert;
- (b) conduct such tender on the basis of such arrangements and documentation;
- (c) review and assess the proposals made by persons tendering for appointment as the AUG Expert ("**bidders**") pursuant to the tender;
- (d) where appropriate (for the purposes of the selection of a bidder) enter into discussions with one or more bidders;
- (e) use reasonable endeavours to enter into an AUG Expert Contract with the selected bidder; and
- (f) perform the Transporter obligations, and exercise the Transporters rights, in accordance with the AUG Expert Contract.

9.2.3 Without prejudice to the requirements of the AUG Document, the Transporters may seek guidance or direction of the Committee in relation to anything they propose to do or any other matter arising in connection with their activities under paragraph 9.2.1, and may act in accordance with such guidance or direction.

9.2.4 This paragraph 9.2 shall apply on each occasion on which an AUG Expert is to be appointed.

10.3 Terms of engagement of AUG Expert and cost recovery

9.3.1 Nothing in this paragraph 9 shall require the Transporters to enter into an AUG Expert Contract on terms which in the Transporters' reasonable opinion:

- (a) would be unlawful for the Transporters; or

- (b) would give rise to the Transporters incurring any liability, other than in respect of their own wilful misconduct, gross negligence or fraud, which the Transporters are not entitled to recover from Users pursuant to paragraph 9.3.5.

10.3.2 The Transporters may enter into an AUG Expert Contract on terms which:

- (a) limit or exclude the liability (as to such matters as may be provided in such contract) of the AUG Expert;
- (b) provide that if a User or any supplier or consumer makes any claim or takes any legal proceedings (as to such matters as may be provided in such contract) against the AUG Expert, the Transporters will indemnify the AUG Expert in respect of such claim or proceeding,

and in such a case each User undertakes that it shall not, and shall procure that each supplier and consumer does not, make such a claim or take such proceedings against the AUG Expert, and shall indemnify the Transporters in respect of any liability to the AUG Expert if such User or any such supplier or relevant customer does make such a claim or take such proceedings.

9.3.3 The Transporters may agree the AUG Expert Contract shall be entered into by a single Transporter; but in the absence of such agreement they shall each be a party to the AUG Expert Contract.

9.3.4 For the avoidance of doubt, the Transporters shall not be the agent or trustee of any User for the purposes of the AUG Expert Contract, and the Transporters shall owe no duties or responsibilities to any User in respect of the AUG Expert Contract other than as provided in this paragraph 9 and the AUG Document.

9.3.5 The functions of the Transporters under this paragraph 9 (including the engagement of the AUG Expert) are User Pays Services and all amounts payable to the AUG Expert and any other costs, expenses and liabilities incurred under the AUG Expert Contract are recoverable as User Pays Charges.

9.4 Establishing the AUG Statement and AUG Table

9.4.1 For each AUG Year a statement [(covering matters including research, sampling, data, modeling, analysis, criteria)] shall be prepared by the AUG Expert which:

- (a) identifies each Unidentified Gas Source;
- (b) estimates the total quantity of Unidentified Gas; and
- (c) specifies the proportionate contribution of each Unidentified Gas Source to the total quantity of Unidentified Gas,

(and in relation to AUG Years other than the first, such methodology shall be established by modifying the methodology for the preceding AUG Year);

which methodology shall be such as, in the opinion of the Committee, is calculated to facilitate (or in the case of a modification to the methodology, better facilitate as compared with the prevailing AUG Methodology) the achievement of the relevant objectives in Standard Special Condition A11 of the Transporters' Licence.

9.4.2 For each AUG Year following preparation of the AUG Statement a table (in the form in Annex E1) shall be prepared by the AUG Expert which:

- (a) identifies each Unidentified Gas Source;

- (b) specifies the proportionate contribution of each Unidentified Gas Source to the total quantity of Unidentified Gas ("**UGS Proportionate Contribution**"); and
- (c) specifies for each Unidentified Gas Source and for each Class of Supply Point a weighting factor ("**UGS Weighting Factor**") reflecting that Class of Supply Point's contribution to the Unidentified Gas Source,

provided for each Unidentified Gas Source the UGS Weighting Factors must satisfy:

$$\sum \text{WFUGS} = 1$$

where:

- (i) WFUGS is for an Unidentified Gas Source the UGS Weighting Factor;

- (ii) \sum is sum over all Classes of Supply Point,

and the allocation factor for purposes of paragraph 1.1.6(c) for a System Exit Point is:

$$\text{AF} = \sum (\text{PCUGS} * \text{WFUGS})$$

where:

- (iii) AF is the allocation factor;;

- (iv) PCUGS is the UGS Proportionate Contribution for the Unidentified Gas Source;

- (v) WFUGS is the UGS Weighting Factor for the Class of Supply Point in which the System Exit Points falls; and

- (vi) \sum is sum over all Unidentified Gas Sources.

9.4.3 In respect of each AUG Year:

- (a) the AUG Expert shall prepare a proposed AUG Statement;
- (b) the Committee shall consult with Users and Transporters (and such other persons as they may agree) in respect of the proposed AUG Statement;
- (c) the proposed AUG Methodology may be modified by the AUG Expert following such consultation;
- (d) such further steps or iterations (if any) as are set out in the AUG Document shall be taken in relation to the proposed AUG Methodology;
- (e) the Committee approve and publish the AUG Statement;
- (f) the AUG Expert shall prepare a proposed AUG Table on the basis of the approved AUG Statement;
- (g) such steps as are set out in the AUG Document shall be taken [by?] in relation to the proposed AUG Table, following which the AUG Expert shall submit a final AUG Table to the Committee for approval;
- (h) the Committee shall approve the final AUG Table submitted by the AUG Expert pursuant to paragraph (g) unless by unanimous resolution the Committee determines:

- (i) to approve a modified AUG Table; or

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(ii) to require any further iteration of any steps as referred to in paragraph (g), in which case paragraph (g) and this paragraph (h) shall further apply;

(i) the Committee shall publish the AUG Table approved in accordance with paragraph (h);
all in accordance with and subject to the annual timetable set out in the AUG Document.

9.4.4 For the purposes of the Code:

- (a) the AUG Statement and the AUG Table established for an AUG Year for the purposes of paragraph 9.4.1 shall be those approved the Committee under paragraph 9.4.3, and shall not be subject to later modification in relation to such AUG Year;
- (b) the approved AUG Methodology and the AUG Table shall be binding for the purposes of the Code.

9.4.5 Each Transporter and User shall, to the extent provided in the AUG Statement, cooperate with and provide data to the AUG Expert in connection with the preparation of the AUG Table.

ANNEX E1

Delete existing table and insert the following table:

Unidentified Gas Source	Proportionate Contribution to Total Unidentified Gas (PC_{UGS})	UGS Weighting Factor (WF_{UGS})			
		Class 1	Class 2	Class 3	Class 4

Modification 0473A

7 Recommendation

The Workgroup invites the Panel to:

- AGREE that these modifications should be submitted for consultation.

8 Appendix one

Modification 0473

Framework for the Appointment of an Allocation of Unidentified Gas Expert and the provision of the Allocation of Unidentified Gas Statement (separate document)