

The Joint Office, relevant Gas
Transporters and other interested
parties

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Dear Colleague

UNC634: Revised estimation process for DM sites with D-7 zero consumption.

We have received a request from First Utility that modification proposal UNC634: '*Revised estimation process for DM sites with D-7 zero consumption*' follows the urgent modification procedures¹; this letter confirms that we have agreed to that request.

Background

Prior to the implementation of UNC432² on 1 June 2017 as part of the Project Nexus, any gas used within a Local Distribution Zone (LDZ) that was left over once allocations had been made for Daily Metered (DM) usage and shrinkage would be allocated to the Non-Daily Metered (NDM) sector. The amount of gas allocated to the NDM sector would be adjusted over time as meter readings came in, allowing for a reconciliation between the amount of gas initially allocated to individual sites and actual metered consumption. However, such reconciliation only took place for larger supply points. Smaller supply points, which typically include domestic premises, continued to be allocated an Annual Quantity (AQ) based proportion of whatever gas was left over once all other reconciliation had taken place. UNC432 removed this Reconciliation by Difference (RbD) process and required smaller supply points to be individually reconciled in the same way as larger supply points.

UNC432 also means that NDM consumption is no longer used as the *balancing factor* in each LDZ. Instead, a new NDM demand algorithm uses actual weather data to derive a *bottom up* estimate. This estimate is subtracted from total LDZ throughput, along with DM measurements and an allowance for shrinkage, with any residual Unidentified Gas (UIG) usage being the new balancing factor. This daily UIG is apportioned across all supply points, in accordance with a weighted scaling factor determined by an independent expert, the AUGE³.

Whilst the industry has become accustomed to permanent⁴ Unidentified Gas estimates of around 1% of throughput, the daily UIG figures have been in excess of this and have been volatile, as shown in the weekly reports provided by Xoserve. This unpredictability could make it more difficult for gas shippers to determine how much gas they should purchase in

¹ Modification Proposal UNC634 can be found on the Joint Office website at: www.gasgovernance.co.uk/0634

² UNC432: "[Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform](#)"

³ The Allocation of Unidentified Gas Expert, see: www.gasgovernance.co.uk/augenex

⁴ i.e. the amount of gas still unaccounted for once the 3-4 year UNC cut-off date for reconciliation has been reached

order to balance their daily positions. The extent of variance between initial and post-reconciliation UIG allocations may also have cash flows implications.

One of the contributing factors to the current levels of UIG is the absence of Valid Meter Reads from a significant number of DM sites. This is at least in part due to meter read submissions failing the new validation rules, which form part of the new systems.

The modification proposal

Currently, when it is not possible for whatever reason to procure a Valid Meter Reading from a DM site, the consumption from the equivalent day the week before, i.e. D-7, is used as an initial proxy of its consumption for settlement purposes. This process is intended to minimise the level of error between expected actual consumption and the amount of gas initially allocated to the site, in instances where there is a short disruption in the submission of actual reads. However, if the D-7 read was atypical of the sites consumption, for instance if it fell on a Bank Holiday, it could exacerbate any error. If the issues preventing an actual Valid Meter Reading continue, this could result in an ongoing distortion of UIG and error in gas settlements more generally.

UNC634 proposes to modify the current estimation process such that in instances where a Valid Meter Reading is not submitted for a DM site in accordance with UNC rules, and the prevailing D-7 consumption is zero, the estimate would instead be calculated to be a daily average of the sites consumption, i.e. AQ/365.

UNC Modification Panel View

Before making our decision on whether the modification proposal should follow the urgent procedure, we requested the UNC Modification Panel's view on urgency for this particular proposal, in accordance with paragraph 10.1.1(b) of the Modification Rules⁵. At a specially convened Panel meeting on 12 October 2017, the Panel members voted by a majority that UNC634 should follow urgent procedures. However, there was also a consensus amongst the Panel members that the proposal would benefit from discussion at a modification workgroup.⁶

Authority decision

In reaching our decision, we have considered the details contained within the modification proposal, the Proposer's justification for urgency and the views of the Panel. We have assessed the request against the criteria set in Ofgem's published guidance⁷. We have considered in particular whether it is linked to "*an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholder(s)*".

We note the proposer's concern that the current levels and volatility of UIG are placing a burden on gas shippers to manage, and that this may be compounded as we enter into the winter period when volumes of gas consumption are expected to increase.

As set out in our guidance, we do consider that urgency could be warranted by a current and ongoing issue rather than necessarily an upcoming event. To the extent that the volume and volatility of UIG is currently making gas allocation more difficult to predict and

⁵ UNC Modification Rules: www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

⁶ Panel minutes and voting record: www.gasgovernance.co.uk/sites/default/files/ggf/book/2017-10/Panel%20Minutes%20and%20Voting%20Record%20meeting%202012%20v1.0.pdf

⁷ Ofgem's Guidance is published on our website: www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/Ofgem%20Guidance%20on%20Code%20Modification%20Urgency%20Criteria.pdf

may impact upon the accuracy and efficiency of gas purchasing decisions, we are satisfied that there is a current issue that if not addressed urgently may cause a commercial impact to gas shippers. Whilst we note that this issue of D-7 reads is one of several issues that may be contributing to the current levels and volatility of UIG, we agree that this is an area that should be addressed expediently.

Noting the UNC Panel members' suggestion that this proposal would benefit from discussion at a modification workgroup, we consider that there will be an appropriate opportunity to do so at the scheduled meeting of 26 October 2017. We therefore consider that the timetable set out below strikes the appropriate balance between ensuring a timely consideration of this issue, while ensuring the proposal is developed and assessed with an appropriate degree of rigour:

Process Date

Urgent status agreed	19 October 2017
Workgroup discussion	26 October 2017
Consultation issued	27 October 2017
Consultation closes	3 November 2017
Modification report issued to the UNC Panel	6 November 2017
UNC Panel makes its recommendation on the proposal	9 November 2017
Authority decision expected by	10 November 2017

For the avoidance of doubt, our decision on urgency should not be treated as any indication of our view on the merits of modification proposal UNC634. We will make a decision on the proposal itself in due course, in accordance with the appropriate process and after having taken account of all relevant considerations.

Yours sincerely

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