UNC Workgroup Report	At what stage is this document in the process?
# UNC 0672: ## Incentivise Product Class 4 Read Performance	01 Modification 02 Workgroup Report 03 Draft Modification Report 04 Final Modification Report

Purpose of Modification:

This Modification seeks to reduce Unidentified Gas (UIG) volume by incentivising read submission performance for Product Class 4 sites. This Modification proposes to measure performance against an agreed performance target for energy reconciled after a defined period and apply incentive charges against those Shippers whose energy reconciliation performance is below the target threshold.

	The Workgroup recommends that this Modification should be: • subject to Authority Direction • be further assessed by a Workgroup The Panel will consider this Workgroup Report on 18 April 2019. The Panel will consider the recommendations and determine the appropriate next steps.
	High Impact: Shipper
	Medium Impact: CDSP
	Low Impact: Transporters

Contents

Timetable

Modification timetable:

Initial consideration by Workgroup	31 October 2018
Amended Modification considered by Workgroup	26 February 2019
Workgroup Report presented to Panel	18 July 2019
Draft Modification Report issued for consultation	18 July 2019
Consultation Close-out for representations	08 August 2019
Final Modification Report available for Panel	12 August 2019
Modification Panel decision	15 August 2019

Any questions?

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1 Summary

What

There has been excessive levels and volatility in Unidentified Gas (UIG) since the implementation of Project Nexus 01 June 2017. To ensure the accuracy of energy calculations it is extremely important that regular meter reads are submitted for all Supply Points. Supply Points with no read accepted by Xoserve in 12+ months increase the risk of inaccurate deemed energy volumes, which drive volatility in UIG allocation and reconciliation.

UIG levels could be reduced by ensuring that Shippers are submitting as many regular and valid meter reads as possible for sites within Product Class 4. Incentivising Shippers on read submission performance will result in a more cost-reflective UIG allocation based on the level of material risk that the respective Shipper has created throughout their NDM allocation.

Why

Ofgem have highlighted in response to previous Modifications, (notably UNC 0619 & 0642/0643) that they consider meter read submission performance is a significant influencing factor in UIG.

The promotion of more frequent meter read submission should reduce levels of UIG exposure for all Shippers.

At present there are read submission performance reports and targets set out in the UNC but there is no incentive to achieve these targets.

The benefit of this change would be to increase confidence in the accuracy of nominations, allocations, reconciliations, energy charges and UIG arising from Product Class 4 sites, which should reduce volatility across the market.

How

The modification will have 3 key parts:

1. Reporting and measuring performance

It is proposed that current Shipper reconciliation reports produced by the CDSP will be enhanced. Using these enhanced reports, Shippers will be measured against a target of % of Allocation energy volume reconciled to an actual read:

a) Annual read sites - the previous 12 months period.

b) Monthly read/SMART/AMR sites – the previous 4 month period

This target would provide Shippers with 12 months to submit a read for annually read sites and 4 months for monthly/SMART/AMR sites to achieve the agreed target; if the target is not met the Shipper would incur a read incentive charge.

2. Applying read incentive charge

This target would provide Shippers with 12 months to submit a read for annually read sites and 4 months for monthly/SMART/AMR sites to achieve the agreed target; if the target is not met the shipper would incur an incentive charge reconciliation performance.

It is proposed that Xoserve provide the Performance Assurance Committee (PAC) with un-anonymised industry data showing current performance. This will provide PAC with the information to define fair and reasonable targets.

The % energy reconciled target should be set at an agreed level by PAC prior to consultation based on current industry performance and be subject to annual review as part of the PAC process. PAC would have the authority to make the decision on setting the target for the year in question.

Typical calculation for the charge could be *(Actual Reconciled volume – Target Reconciled Volume) *incentive charge p/kWh* (p/kWh to be also agreed by PAC). The charge would be set out clearly on an ad-hoc invoice.

3. **Incentive charge fund**

Any charges levied from this incentive are to be re-distributed to Shippers that met or exceeded the monthly target.

2 Governance

Justification for Self-Governance, Authority Direction or Urgency

The Modification Panel determined that this Modification could have a material impact on competition and so should follow Authority Direction procedures, as it seeks to apply incentive charges based on Shipper read performance at 12 months; this could result in a material impact on read performance and settlement.

Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance
- be further assessed by a Workgroup

The Workgroup agrees with the Panels view that this Modification should follow Authority Direction procedures for the reasons set out above.

3 Why Change?

There has been excessive levels and volatility in nominations, reconciliations and UIG since implementation of Nexus. Supply Points with no read accepted by Xoserve in 12+ months are at high risk of having inaccurate deemed energy volumes and thereby creating UIG and uncertainty.

Change is required as there is no current performance incentive to ensure Shippers are submitting reads and maintaining a level of read submission performance for Product Class 4 sites, in line with UNC requirements.

Why implement read incentive?

By incentivising read performance this will ensure Shippers submit reads in a timely manner, ensuring accurate energy calculations take place. This will help reduce volatility of nominations, allocations, reconciliations and UIG. This change will also provide confidence in these measures for Product Class 4.

If this change is not implemented, then UIG volatility will remain and confidence in the volumes attributed to Product Class 4 sites will remain a concern.

Analysis

Working from the following assumption:

- The more recent the read, the more recent the Annual Quantity (AQ) Calculation
- The more recent the AQ Calculation, the more accurate the AQ
- The more accurate the AQ, the more accurate the NDM allocation
- The more accurate the NDM allocation, the less volatile the UIG

Analysis was carried out by ScottishPower on AQ's which calculated on 1st July 2018 to confirm the volatility of AQ movement based on the last time the AQ calculated.

The data was all Product Class 4 Meter Point Reference Numbers (MPRN) taken from T04 records which met the following criteria:

- REVISED_SUPPLY_METER_POINT_AQ_EFFECTIVE_DATE = 01/07/2018
- CONFIRMATION EFFECTIVE_DATE < 01/07/2017 - to ensure supply period > 1 year
- AQ_CORRECTION_REASON_CODE = null

The MPRN list was then compared against T04 records from July 17 – June 18 to confirm the previous calculation date.

NOTE: October / April list only included meter points where REVISED_SUPPLY_METER_POINT_AQ_EFFECTIVE_DATE was populated.

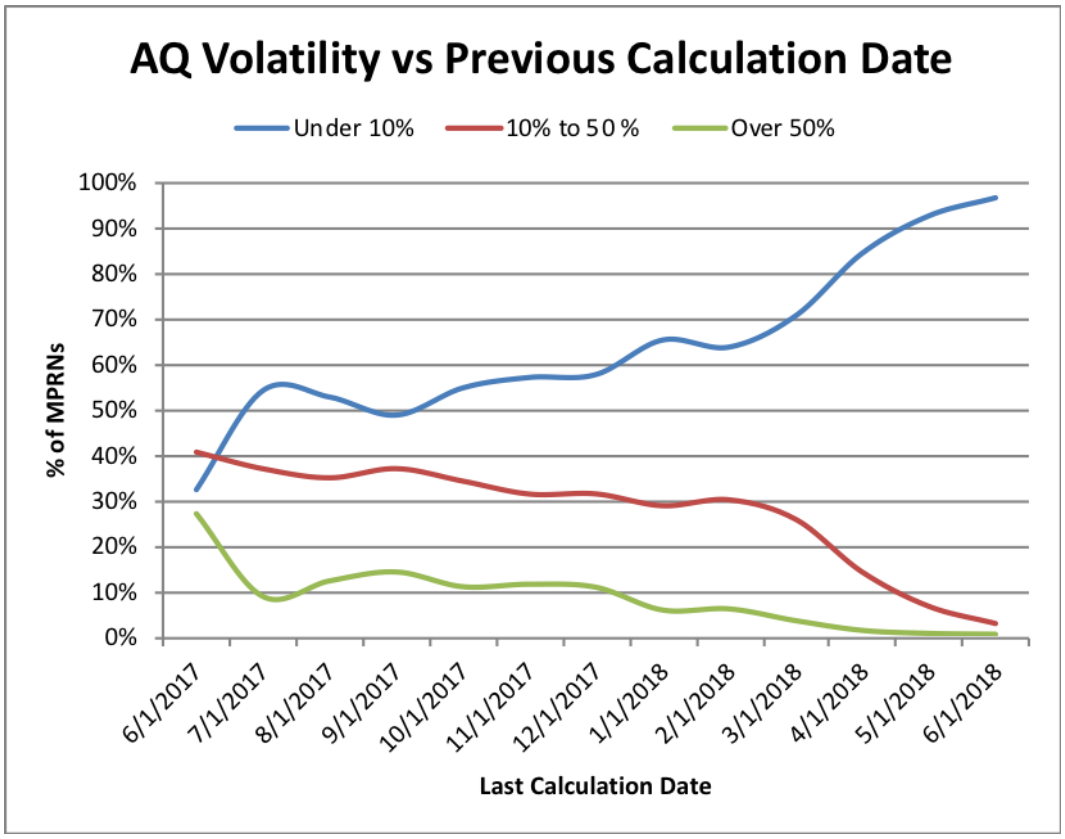
The data was then grouped into 3 categories based on PERCENTAGE_AQ_CHANGE on 01/07/2018:

- Where the AQ has moved under +/- 10% - low volatility to the AQ, pre-01/07/2018 AQ would still have been accurate
- Where the AQ has moved between +/- 10% to +/-50%
- Where the AQ has moved over +/- 50% - high volatility with AQ movement, pre-01/07/2018 AQ not have been accurate

The % of MPRNs calculating in each of the 3 categories based on the last calculation date:

The 01/06/2017 date is used as a default, as an AQ had not calculated since Project Nexus Go-Live but last calculation date could be any time pre-01/06/2017.

Fig2) Graph below highlights the link between the AQ % movement and the time between read submissions.



Key points are:

- Low volatility where the last AQ was calculated within the last 3 months as 84 – 96% of MPRNs moved by <10%
- There is some volatility where the last AQ calculated within the last 4 -12 months as 50 – 70% of MPRNs moved by <10%, though only C10% of MPRNs moved by >50%
- Much higher volatility where the last calculation date is > 12 months as 27% of MPRNs moved by >50%. Only 32% of AQ's moved by <10%.

If the new AQ's on 1st July had not calculated, the meter points that had not calculated > 12 months ago would have caused higher UIG volatility than a site calculated more recently.

It is anticipated that Xoserve will be able to produce UK-wide analysis to back up SCP analysis and this could be included in the Workgroup Report.

4 Code Specific Matters

Reference Documents

UNC Transportation Principle Document (TPD) Sections M & S https://www.gasgovernance.co.uk/TPD

5 Solution

This proposal seeks to amend UNC TPD Sections M & S.

Reporting and measuring performance

It is proposed that current Xoserve reconciliation reports will be enhanced to provide information split by:

- ⇨ Individual Product Class
- ⇨ Shipper
- ⇨ LDZ
- ⇨ SSP/LSP
- ⇨ Annually read sites
- ⇨ Monthly read sites
- ⇨ AMR
- ⇨ SMART

New reporting would be required to:

- ⇨ Calculate the shipper performance vs target by product class
- ⇨ Calculate the shipper performance by SSP/LSP
- ⇨ Calculate the shipper performance by LDZ
- ⇨ Calculate the shipper performance by annually read sites
- ⇨ Calculate the shipper performance by monthly/SMART/AMR read sites

Using these reports Shippers will be measured against a target of % of Allocation energy volume reconciled to an actual read:

a) Annual read sites - the previous 12 months period.

b) Monthly read/SMART/AMR sites – the previous 4 month period.

This target would provide shippers with 12 months to submit a read for annually read sites and 4 months for monthly/SMART/AMR sites to achieve the agreed target; if the target is not met the shipper would incur a read incentive charge.

The report is to be produced monthly for a rolling period produced the month following the end of the Incentive period.

Shippers will receive details via the Reconciliation By Month report published by Xoserve (Current reports are available: https://www.xoserve.com/wp-content/uploads/Reconciliation-By-Month-July-2018-With-Chart_v2_.xlsx)

A report of all shippers' performance will also be produced at PAC.

Examples below show the how the rolling period if reports were produced throughout 2019

Table 1

Where AQ = SSP or AQ = LSP < 293 MWh & Meter Type = Non AMR / SMART:

Incentive Month	Incentive Close Out Month	Reporting Month	Charge To Be Paid By	Credit To Be Issued By
January 2019	January 2020	February 2020	March 2020	May 2020
February 2019	February 2020	March 2020	April 2020	June 2020

March 2019	March 2020	April 2020	May 2020	July 2020
April 2019	April 2020	May 2020	June 2020	August 2020
May 2019	May 2020	June 2020	July 2020	September 2020
June 2019	June 2020	July 2020	August 2020	October 2020
July 2019	July 2020	August 2020	September 2020	November 2020
August 2019	August 2020	September 2020	October 2020	December 2020
September 2019	September 2020	October 2020	November 2020	January 2021
October 2019	October 2020	November 2020	December 2020	February 2021
November 2019	November 2020	December 2020	January 2021	March 2021
December 2019	December 2020	January 2021	February 2021	April 2021

Table 2

Where Meter Type = AMR / SMART or AQ > 293 MWh:

Incentive Month	**Incentive Close Out Month**	**Reporting Month**	**Charge To Be Paid By**	**Credit To Be Issued By**
January 2019	May 2019	June 2019	July 2019	September 2019
February 2019	June 2019	July 2019	August 2019	October 2019
March 2019	July 2019	August 2019	September 2019	November 2019
April 2019	August 2019	September 2019	October 2019	December 2019
May 2019	September 2019	October 2019	November 2019	January 2020
June 2019	October 2019	November 2019	December 2019	February 2020
July 2019	November 2019	December 2019	January 2020	March 2020
August 2019	December 2019	January 2020	February 2020	April 2020
September 2019	January 2020	February 2020	March 2020	May 2020
October 2019	February 2020	March 2020	April 2020	June 2020
November 2019	March 2020	April 2020	May 2020	July 2020

December 2019	April 2020	May 2020	June 2020	August 2020

Applying read incentive charge

The calculation for the incentive charge would be *(Actual Reconciled volume – Target Reconciled Volume)*charge p/kWh*. The initial *p/kWh* will be proposed to PAC. It is proposed that the *p/kWh* would be agreed by PAC prior to consultation based on SAP price & admin fee.

The initial reconciliation target% is for the period 12 months from the implementation of the reporting and will be agreed and set by PAC. This target% will also be set annually by PAC for the following 12month period. The charge will apply to all shippers.

The initial p/kWh & target % will be proposed based on live data requested for Xoserve to provide.

The charge *p/kWh* will then be subject to an annual review process at PAC. The charge would be set out clearly on a new ad-hoc invoice.

Incentive charge fund

Any charges levied from this incentive are to be re-distributed to shippers that met or exceeded the monthly target. Details of when Charges / Credits are expected are shown in Tables 1 & 2. Shippers will be charged or credited based on their market share.

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impacts identified.

Consumer Impacts

No direct consumer impacts identified. However, by incentivising the submission of valid Meter Reads for Product Class 4 sites, it should reduce the levels, volatility and unpredictability of UIG, reduce uncertainty in estimation and improve the accuracy of cost targeting and therefore improve competition between Shippers and Suppliers.

Consumer Impact Assessment

Criteria	Extent of Impact
Which Consumer groups are affected?	• Domestic Consumers • Small non-domestic Consumers • Large non-domestic Consumers • ~~Very Large Consumers~~
What costs or benefits will pass through to them?	No direct costs or benefits will pass through to customers.
When will these costs/benefits impact upon consumers?	Not applicable
Are there any other Consumer Impacts?	No identified.

Cross Code Impacts

There may be IGT UNC impacts to be considered by the workgroup.

EU Code Impacts

No impacts identified

Central Systems Impacts

To be advised

Workgroup Impact Assessment *(Joint Office to complete)*

Insert text here

Rough Order of Magnitude (ROM) Assessment *(Cost estimate from CDSP)*

Cost estimate from CDSP where the Modification relates to a change to a CDSP Service Document

Insert text here

OR

Rough Order of Magnitude (ROM) Assessment *(Workgroup assessment of costs)*	
Cost estimate from CDSP	Insert text here
Insert Subheading here	Insert text here

7 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

This Modification proposes that by incentivising the submission of valid Meter Reads for Product Class 4 sites, it should reduce the levels, volatility and unpredictability of UIG, reduce uncertainty in estimation and improve the accuracy of cost targeting and therefore further Relevant Objective d) Securing of effective competition between Shippers and Suppliers.

8 Implementation

No implementation timescales are proposed; however, implementation could be as soon after an Authority decision to implement has been received. This would allow for the reporting to be implemented and the first incentive charges to be applied 12 months from first report for annual read sites and 4 months for monthly read sites.

9 Legal Text

Legal Text has been provided by [name] and is [included below/published alongside this report]. [The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution].

Text Commentary

Insert text here

Text

Insert text here

10 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- be further assessed by a Workgroup.

The workgroup concluded that an additional 3 month's assessment is required to analyse charge information from Xoserve, add Business Rules to the Modification, review the corresponding amendments to be Modification, review the legal text and finalise the Workgroup Report.

11 Appendix – Worked Example

Worked example - *for the p/kWh to be attached to the charge is illustrated below*

Fig2 – potential gas meter reading incentive calculation

		Shipper 1	Shipper 2	Shipper 3	Shipper 4	Shipper 5	Shipper 6	Shipper 7	Shipper 8	Shipper 9	Shipper 10	Total
Product Class 4 Volumes	GWh	100	200	300	400	500	1,000	1,000	1,500	2,000	3,000	10,000
Target %	% actual at 12M	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%	93%
Target Vol	GWh	93	186	279	372	465	930	930	1,395	1,860	2,790	9,300
Actual Vol	GWh	90	190	285	360	490	920	940	1,400	1,750	2,700	9,125
Actual %	% actual at 12M	90%	95%	95%	90%	98%	92%	94%	93%	88%	90%	91%
Incentive Volume	GWh	- 3	4	6	- 12	25	- 10	10	5	- 110	- 90	- 175
System Average Price	p/kWh	2.12	2.12	2.12	2.12	2.12	2.12	2.12	2.12	2.12	2.12	2.12
Incentive price%	% of SAP	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Incentive price	p/kWh	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21
Charges	£	-£ 6,360	£ -	£ -	-£ 25,440	£ -	-£ 21,200	£ -	£ -	-£ 233,200	-£ 190,800	-£ 477,000
Recovered amount as % of total energy cost		-0.30%	0.00%	0.00%	-0.30%	0.00%	-0.10%	0.00%	0.00%	-0.55%	-0.30%	-0.23%
Credit volume (if Redistribu	GWh	-	4	6	-	25	-	10	5	-	-	50
Credits (if Redistributed)	£	£ -	£ 38,160	£ 57,240	£ -	£ 238,500	£ -	£ 95,400	£ 47,700	£ -	£ -	£ 477,000

In the illustration above:

Product Class 4 Volumes	Initial Allocation Volume
Target %	Incentive Target – currently set at 93%
Target Vol	= Product Class 4 Volumes x Target %
Actual Vol	Volume reconiled by shipper at end of Incentive period
Actual %	= Actual Vol / Product Class 4 Volumes
Incentive Volume	= Actual Vol - Target Vol
System Average Price	Average system price for p / kwh. Currently set at 2.12p/kwh for all Product Class 4
Incentive price%	Incentive will be calculated as a % of the System Average Price. Currently set at 10% for all Product Class 4
Incentive price	= System Average Price x Incentive price%
Charges	= Incentive price x Incentive Volume (if Incentive Volume is less than 0)
Recovered amount as % of total energy cost	= Charges / (Product Class 4 Volumes x System Average Price)
Credits (if Redistributed)	= Incentive Volume (if Incentive Volume is greater than 0)
Credits (if Redistributed)	= Incentive price x Incentive Volume (if Incentive Volume is greater than 0)