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| UNC Workgroup Report | At what stage is this document in the process? |
| UNC 0862:  Amendments to the current Unidentified Gas Reconciliation Period arrangements |  |
| **Purpose of Modification:**  This Modification proposes amendments to the current Unidentified Gas Reconciliation Period arrangements to reconcile UIG to the same months that the energy originated from (instead of smear over previous 12 months). | |
| **Next Steps:**  The Workgroup recommends that this Modification should not be subject to Self-Governance.  The Workgroup asks Panel to agree that this Modification should proceed to consultation.  The Panel will consider this Workgroup Report on [dd month 2024]. The Panel will consider the recommendations and determine the appropriate next steps. | |
| **Impacted Parties:**  High: Shippers, Distribution Network Operators, Consumers, Central Data Services Provider (CDSP)  None: Independent Gas Transporters and National Gas Transmission | |
| **Impacted Codes:** Retail Energy Code (REC) [verify REC impact with WG] | |

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Summary

#### What

Currently UNC states that the UIG Reconciliation Period is the period of 12 months ending with (and including) the Reconciliation Billing Period. (UNC TPD Section E - 7)

As a result, a Shipper is responsible for a percentage (%) of the UIG amendment for a site for 12 Months for the period of its ownership

This was put in place originally, because it was believed the majority of reconciliations would flow within 12 months, and rather than continue to share out the reconciliations over a long period, using 12 months would be less of a barrier to exiting the market.

In practical terms if a site is taken over by a new Shipper or a Shipper leaves the market, the outgoing Shipper will still be responsible for the UIG charge on the amendment invoice for the site for 12 months, although this will gradually decrease over the 12-month period.

This arrangement does mean that UIG reconciliation is smeared equally across the previous 12 months (equally divided into 1/12 per month) rather than reconciling against the same month the energy originated from. If a change is not made, then the Unidentified Gas Reconciliation will continue to be smeared to the last 12 months instead of to the same months that the energy originated from.which is inherently more accurate and fairer than the existing arrangements

#### Why

If a change is not made, then the Unidentified Gas Reconciliation will continue to be smeared to the last 12 months instead of to the same months that the energy originated from.

An increased number of supply meter points are being read on a monthly basis which means that the 12 monthly smear of UIG is now less accurate than it was historically.

When a party does seek to leave the market, the current 12 monthly smear of UIG means that their share of UIG does not always match their original allocations.

This Modification seeks to resolve the above points by amending the UIG reconciliation period to ensure that UIG is reconciled in the same month that the energy originated from, potentially mitigating the above discrepancies in how UIG is currently allocated.

**How**

The Proposal is therefore to reconcile UIG to the same months that the energy originated from (instead of smearing to the last 12 months) which is inherently more accurate and fairer than the existing arrangements

Governance

#### Justification for Authority Direction

This change is material as it has a significant commercial impact on parties, consumers, or other stakeholder(s); and therefore warrants Authority Direction

#### Requested Next Steps

This Modification should be considered a material change and not subject to Self-Governance.

#### Workgroup’s Assessment

The Workgroup agreed with the Proposers assessment that Authority Direction is warranted for this Modification [validate with Workgroup].

Why Change?

If a change is not made, then Unidentified Gas Reconciliation will continue to be smeared to the last 12 months instead of to the same months that the energy originated from. Due to the increase in monthly read sites, reconciling UIG in the month the energy originated from, means UIG reconciliation will be more accurate.

Code Specific Matters

#### Reference Documents

UNC TPD Section E – 7 <https://www.gasgovernance.co.uk/index.php/TPD>

#### Knowledge/Skills

Understanding of current UIG reconcilliation process. [Include link to Xoserve e-learning].

Solution

The Business Rule(s) (BRs) are set out below:

**BR1**: Reconcile UIG to the same months that the energy originated from.

**BR2**: This change is to the UIG reconciliation period and **will not** result in changes to meter point reconciliation calculations and associated processes.

Clarification points/for the avoidance of doubt:]

BR1 Note 1:The solution would not expect invoicing to be at Meter Point Level and the current invoicing format would be simply extended to cover the additional months.

BR1 Note 2: The solution expects that UIG would continue to be reconciled back to Line in the Sand to ensure that no UIG is left unaccounted for.

BR1: Note 3: For the avoidance of doubt other than an amendment to the UIG reconciliation period as set out in BR1, meter point reconciliation calculations and all other processes associated with UIG reconciliation are to remain the same.

BR1: Note 4: For the avoidance of doubt, UIG will be reconciled across the **whole** of the month that the energy originated from. Reconciliation **will not** be limited to the exact dates that month that the energy originated from.

Impacts & Other Considerations

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

No.

#### Consumer Impacts

The existing arrangements lead to the smearing of UIG over the last 12 months despite it relating to a different period and this is a difficult concept to explain and to forecast for Consumers.

[Workgroup views]

[Add workgroup statement re agreement/disagreement with proposers view]

#### What is the current consumer experience and what would the new consumer experience be?

As noted above, the outcome should be a more logical process with an outcome that is more accurate and easily understood by Consumers.

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| Impact of the change on Consumer Benefit Areas: | |
| Area | Identified impact |
| Improved safety and reliability | None |
| Lower bills than would otherwise be the case | None |
| Reduced environmental damage | None |
| Improved quality of service  [Makes process more accurate and easier to explain to consumers – workgroup view?] | None [Negligible? – workgroup view] |
| Benefits for society as a whole | None |

**Performance Assurance Considerations**

Workgroup participants did not believe there was any settlement impact that the PAC would need to consider. [Verify with Workgroup.]

#### Cross-Code Impacts

[The front page of the proposed Mod highlights a potential impact on the Retail Energy Code (REC) – validate with the Workgroup / Proposer whether it considers that there is a cross code impact on the REC or not, and if so, what that perceived impact is.]

#### EU Code Impacts

None.

Workgroup agreed with the proposer’s statement above. [verify with workgroup]

#### Central Systems Impacts

From a system perspective, the CDSP will be required to reconcile UIG to the same months that the energy originated from (instead of smearing to the last 12 months).

**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

The Workgroup noted that a preliminary ROM had been produced given the early stage of the request. A further ROM may be produced after the Modification has undergone more development at the Workgroup. [Verify with CDSP / Workgroup whether a further ROM is required?]

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

**Initial Representations**

None Received.

#### Panel Questions

None raised.

#### Workgroup Impact Assessment

The Modification has been discussed at the following Workgroup meetings:

* <https://www.gasgovernance.co.uk/0862/231123>
* <https://www.gasgovernance.co.uk/0862/250124>
* <https://www.gasgovernance.co.uk/0862/220224>
* <https://www.gasgovernance.co.uk/0862/280324>
* [Add April / May links as necessary]

**November Workgroup Meeting (23 November 2023)**

The Proposer observed that the Modification was simple in concept and just had the one Business Rule (BR) – to amend the current UIG reconciliation arrangements to reconcile UIG to the same months that the energy originated from (instead of smearing over the previous 12 months).

However, both the Proposer and Workgroup noted that the complexity of the change was likely to be in the execution. The Proposer noted that the current arrangements are likely a legacy of the arrangements from Nexus, with the complexity at the time likely to be one of the reasons why the approach was taken to smear the UIG charge over the last 12 months.

The CDSP had reviewed the BR in advance of the meeting and the ‘Clarification Points’ in the ‘Solution’ section above are a result of this review.

The Workgroup noted that further analysis would be needed to determine the potential impact of the Modification on Central Systems and processes and that December would likely be to soon for the CDSP to undertake this analysis. The Workgroup agreed that the next meeting should be deferred to January with an action placed on the CDSP to consider the best delivery path for this Modification and any transitional arrangements likely to be required.

The Workgroup also considered if there would be impacts resulting in additional costs for the DNOs to be passed on to Shippers and suppliers. It was noted that UIG is an energy only cost, without Transportation elements and the same amount of UIG would be attributed, so any costs would be just central system expenditure.

**January Workgroup Meeting (24 January 2024)**

A change tracked version of the Modification was shared with the Workgroup, incorporating some further ‘Clarification Points’ to BR1.

The Workgroup reviewed the updated Modification, noting that there did not appear to be any material changes. The Business Rules remained relatively simple and the Proposer noted that the plan was that further detail will be provided in the form of a presentation at the February Workgroup meeting, looking at the ‘As-is’ and ‘To-be’ process.

The CDSP advised that a preliminary ROM had been produced, noting that a further ROM may be required after the Modification had undergone further development at Workgroup.

The CDSP noted that currently, the way in which UIG is reconciled involves taking it and splitting it into 12 periods, each month there is a UIG reconciliation. Under the change proposed by the Modification, the UIG reconciliation would occur from a meter read occurrence, not necessarily within the 12-month process. The CDSP advised that on the surface the change should be relatively simple as Modification 0862 seeks to change the period that the Unidentified Gas Reconciliation is allocated against but does not seek to change any other element of how Unidentified Gas is reconciled.

In relation to the implementation of the Modification, the CDSP advised they were looking into whether this would be a big-bang approach or whether a transitional arrangement will need to be put in place. The big-bang approach is considered the best and easiest route as there would be no requirement for transitional rules. Further, in relation to implementation, there is wide range for the costs. This is because CDSP does not anticipate ongoing costs. Further information relating to costs will be confirmed during the Detailed Design.

Further BR development was deferred until the February Workgroup meeting.

**February Workgroup Meeting (24 February 2024)**

The main focus of the February Workgroup meeting was a set of slides presented by the CDSP, providing some worked examples of the “As Is” and “To-be” UIG Reconciliation Apportionment process.

Workgroup participants recommended that the presentation slides be included as an Annex to the Modification, to provide context and to aid understanding. **A copy of the slides has been included as an appendix to this document (Appendix 1 – 0862 UIG Reconcilliation Apportionment examples).** [Add updated CDSP slides as an appendix following completion of Action 0201.]

The CDSP began by providing some background to the current process and how it is carried out, noting that under the current business rules, UIG Reconciliation (charge type “UGR”) is shared out in a standard 12-month “pot” in each LDZ.

The CDSP provided an overview of the changes to the process being proposed by Modification 0862, noting that the Modification seeks to move away from the standard 12-month pot for normal UIG reconciliation. Instead, UIG Reconciliation would be apportioned across the same whole months as the meter point reconciliation that caused it, which could be anything from one month to 48 months.

The CDSP then presented a worked example of a fictional reconciliation for a weather-sensitive site for an 18-month period. This example showed how reconciliation processes assign the actual energy in proportion to the original allocation. I.e. proportionally more reconciled energy is associated to winter months than to summer months.

The CDSP also presented a further worked example of a fictitious LDZ with just two customer groups, one with weather sensitive data and the other with weather insensitive data. This example compared how UGR would be shared under the current arrangements, and under the approach proposed by Modification 0862. The example demonstrated how, under the proposed approach, the UGR would be shared out over 18 months, with monthly UGR amounts varying in line with the original meter point reconciliation.

The Proposer and Workgroup participants thanked the CDSP for presenting the examples, noting that they are very useful in aiding understanding of the process. The Proposer suggested that inclusion of an additional, 4-month example could also be useful to highlight the difference between the current and the proposed process. The CDSP agreed and took an action to provide an updated presentation with a new, 4-month example included.

The Workgroup agreed that the proposed Business Rules are ready for the development of Legal Text and the Joint Office took an action to submit a formal Legal Text request to Cadent at the March UNC Panel meeting.

**March Workgroup Meeting (28 March 2024)**

[Add commentary post meeting]

**April Workgroup Meeting (25 April 2024)**

[Add commentary post meeting]

#### Reference Documents

None.[verify with workgroup]

Relevant Objectives

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| Impact of the Modification on the Transporters’ 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 |

**Proposer’s view**

The Modification furthers Relevant Objective 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.

As it reconciles UIG to the same months that the energy originated from (instead of smearing over the previous 12 months) it better reflects the Shippers actual position thereby furthering effective competition.

#### Workgroup Assessment of Relevant Objectives

Workgroup participants agreed with the Proposers assessment above in relation to Relevant Objective d). [Validate with Workgroup.]

Implementation

No implementation timescales are proposed. However, this Modification should be implemented as soon as reasonably practicable following Authority direction to do so. [verify with workgroup at the appropriate point]

Legal Text

*Insert Proposers Suggested Legal Text where provided and not superseded by Transporters Text.*

*Legal text will be drawn up by the relevant Transporter at a time when the modification is sufficiently developed in line with the* [Legal Text Guidance Document](http://www.gasgovernance.co.uk/sites/default/files/Legal%20Text%20Guidance%20Document%20Revision%20v2.0.pdf).

Legal Text has been provided by Cadent and is [included below/published alongside this report].

#### Workgroup Assessment

[The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution. – verify with workgroup at the appropriate point]

#### Text Commentary

[Insert text/link here.]

#### Text

[Insert text/link here.]

Recommendations

#### Workgroup’s Recommendation to Panel

The Workgroup asks Panel to agree that this Modification should proceed to consultation.

Appended Representations

Initial Representations – none