

UNC Modification

At what stage is this document in the process?

UNC 0635:

Reforms to incentivise accurate and timely DM reads to improve the accuracy of Unidentified Gas allocation

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

Purpose of Modification:

This modification proposes to reform the daily metering settlement mechanism in two areas:

- Increase the scheduling charge to incentivise accurate submission of daily metered nominations.
- Implementation of financial incentive to ensure shippers and transporters provide daily read for 97.5% of DM sites in their portfolio.



The Proposer recommends that this modification should be:

- considered a material change and sent for Authority Direction;
- proceed to a Workgroup for assessment.

This modification will be presented by the Proposer to the Panel on 19 October 2017. The Panel will consider the Proposer's recommendation and determine the appropriate route.



High Impact:
Shippers, Suppliers



Medium Impact:
Consumers, Transporters, Xoserve



Low Impact:
None

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Timetable	
The Proposer recommends the following timetable:	
Initial consideration by Workgroup	26 October 2017
Workgroup Report presented to Panel	21 December 2017
Draft Modification Report issued for consultation	21 December 2017
Consultation Close-out for representations	12 January 2018
Final Modification Report available for Panel	15 January 2018
Modification Panel decision	18 January 2018 (short notice)

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1 Summary

The proposer had been waiting for the final UIG out-turn for September before raising this modification and was therefore unable to discuss this as a pre-modification at the distribution workgroup held on 28 September 2017. However, based on the high level of UIG experienced in September, and because the modification should proceed to a workgroup it is believed that any potential issues can be flushed out as part of the normal workgroup process.

What

The new settlement mechanism, introduced by Project Nexus on 01 June 2017, places great emphasis on obtaining an accurate view of a site's consumption as soon as possible, in particular for those largest consuming sites that are daily metered. Where these sites have their consumption estimated, this error is passed through to the rest of the market via Unidentified Gas, which is currently standing at around 5% of total consumption at the LDZ level at Exit Close-out. This is 4-5 times higher than current estimates. In the period between the initial nominations for a given settlement day, Exit Close-out levels of UIG is frequently much higher than previous estimates and sometimes goes negative, resulting in much higher costs to shippers.

Why

It is important that shippers seek to ensure that their daily metered sites are consistently settled on actual reads as failure to do so means that the rest of the industry is subject to volatile and unpredictable swings in Unidentified Gas (UIG) as estimates are used and then corrected. This results in substantial balancing costs (around £20-40m a month across the industry) as well as the associated credit cover costs. There is, however, no mechanism to pass these costs onto those who cause them, resulting in little, if any incentive at present to address these problems.

How

It is proposed that two new processes are incorporated into the UNC to incentivise shippers to ensure that daily metered sites are settled on accurate and timely metered reads, and that any errors or issues are resolved promptly. The proposed changes are:

- Implementation of an incentive mechanism to ensure accurate nominations for daily metered sites by strengthening the current scheduling charge regimes.
- Implementation of financial incentive to minimise the number of daily meters that are settled on estimates.

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2 Governance

Justification for Authority Direction

This change may have a material impact on all shippers as reducing the level of settlement error associated with daily metered sites should reduce the level of UIG in the market. This modification requires an authority direction, because it is estimated to be costing the industry around £20-40m a month in wrongly apportioned costs.

As the level of UIG has not dropped substantially since the implementation of Project Nexus it is anticipated that failure to address this issue promptly is likely to result in some shippers continuing to pay excessive UIG costs. Whilst urgency has not been requested, this modification should proceed through the process in a timely manner.

Requested Next Steps

This modification should:

- be considered a material change and be sent for Authority direction;
- proceed to a workgroup for assessment.

3 Why Change?

Project Nexus made a number of significant changes to how the gas settlement regime operates. In particular, the removal of the scaling factor in settlement, changes to individual reconciliation for all sites (with the retirement of RbD process) and the use of actual weather data, has meant that the settlement error and losses that arise in LDZs are the responsibility of shippers and are now concentrated into a single published volume - Unidentified Gas or UIG.

Settlement losses from energy theft and other causes that are not accounted for at some point in the reconciliation process (permanent UIG) have been consistently assessed by the AUGÉ since 2012 as around 1% of total LDZ throughput. DESC estimates have also indicated a permanent UIG value of around 1%.

These estimates do not tally with the current levels of UIG being experienced by the market, with average volumes of around 5% (around £20-40m a month across the industry) with many LDZs experiencing daily volumes either in double-digits or sometimes negative. Though there is a possibility that the AUGÉ and DESC estimates are incorrect, it is highly unlikely that this explanation would account for the scale of the error that has consistently existed since 1 June 2017(Nexus go live).

Settlement error can come from a number of sources, such as algorithm errors, inaccurate AQs or the use of estimates for settling daily read sites. An assessment of the current settlement algorithm will take considerable time, and whilst we believe there may be some benefits in doing so (in particular looking to using more extensive datasets to model behaviour), it is uncertain that this would identify changes that materially reduce the level of UIG in the market. The automated rolling AQ process should significantly reduce the level of error within the NDM sector in the coming months as suppliers submit meter reads. In addition, the current "must read process" and recent obligations brought in by UNC Modification 0570 could support an acceptable level of accuracy in this area.

However, there is no form of corresponding obligation on the daily metered market that reflects the potential impact they can have on UIG in an LDZ, which means that shippers are not sufficiently

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incentivised to address issues at sites which are consistently settling on estimates or submitting reads several days after the settlement day in question.

There are 110 out of 1133 sites (as of 29 September 2017) that are settling on the basis of estimated reads. The resulting volatility error is being passed onto Shippers without a DM portfolio.

There are two areas where the current regime does not sufficiently incentivise shippers to correct issues in a timely manner or system processes leave the market exposed to significant pass through error: scheduling and read submission.

Scheduling Charges

At present Shippers can nominate the offtake of its daily metered sites (the Nominated Quantity) up to 03.00 on the settlement day in question, i.e. just before the start of the next gas day at 05.00. Any difference between this Nominated Quantity and either the resulting meter readings for that site (if it is a Registered DMC Supply Point) or the aggregate metered demand for all of the supply in that exit zone (if they are DMA Supply Points) is potentially liable to a charge, informally termed scheduling charges. There will only be a charge levied if this volume (the Output Scheduling Quantity) is greater than a generous tolerance (Output Tolerance Quantity), namely 20% for DMA sites and 25% for DMC sites other than for a VLDMC site, where the tolerance is 3%.

If the Shipper exceeds the tolerance, the Scheduling Charge is the difference between the Output Tolerance Quantity and the Output Scheduling Quantity (the Chargeable Output Scheduling Quantity) multiplied by 1% of the System Average Price.

Current Incentives to Submit Accurate Meter Reads

Class 1 sites are obliged to have Valid Meter Readings submitted each Settlement Day by 11.00 on D+1. If the Transporters fail to do so they are required to pay a nominal sum of £3 where a Valid Meter Reading is not provided when a series of fixed payment will be made to the shipper, eventually reaching the fixed sum of £75 a day. For Class 2 sites, Shippers are required to provide meter readings every day for 97.5% of sites but failure to do so does not incur a penalty.

There is a backstop process where the relevant Transporter is required to obtain a read for the Class 2 sites for 97.5% sites through the must read process, but not for Class 1 Sites.

4 Code Specific Matters

Reference Documents

UNC TPD Section M Supply Point Metering

Knowledge/Skills

Not relevant

5 Solution

The following solutions are proposed for discussion at the workgroup.

Scheduling Charges

- It is proposed to increase the multiplier used to derive the scheduling charge from 1% of the applicable System Average Price to 10% of the applicable System Average Price.

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- It is also proposed to harmonise current Output Tolerance Quantity for all daily read sites to that of VLMDC sites, namely 3%.

Current Incentives to Submit Accurate Meter Reads

- Class 1 sites will be subject to the same performance threshold as Class 2 sites. We recognise that there may be times when the Transporter is unable to deliver Valid meter Readings to the CDSP owing to circumstances outside of its control, owing to the nature of the monopoly service. To allow the standard to operate as intended, it is proposed where the Transporter has not met the 97.5% standard, it may appeal to the CDSP within 30 calendar days of receiving notifications it has not received this standard, setting out for each meter point it wishes to appeal as to why a Valid Meter Reading has been not been provided.

The CDSP, in its sole discretion will therefore decide [within 90 calendar days] as to whether the rationale provided is acceptable. For each site where it does decide this, it will remove that meter point from the calculation (for the avoidance of doubt this will reduce the total number of meter included in the calculation for that day's assessment only). The Transporter and relevant Shippers will be obliged to assist the CDSP with this investigation.

The current obligations set out in TPD Section M regarding payments to Shippers when reads are not delivered will remain.

- It is proposed to introduce an incentive payment linked to the performance levels for Class 1 and Class 2 sites, whereby the Shipper or the Transporter pays to the industry (via the same route as Scheduling Charge payments are redistributed to the market if feasible) compensation, derived by the following formula:

$$\text{Incentive Payment} = (\%DM \text{ target} - \% DM \text{ performance}) \times DM \text{ AQ}/365 \times 10\%SAP$$

Example

Shipper A manages to submit Valid Meter Reads for 96.2% of its sites for a given settlement day, where SAP is 2.5p/kWh. The total AQ for its daily read sites is currently 400GWh. The payment liable is therefore:

$$\begin{aligned} \text{Payment} &= (97.5 - 96.2) \times (400,000,000/365) \times (0.1 \times 2.5) \\ &= \text{£}3,561.64 \end{aligned}$$

6 Impacts & Other Considerations

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

This modification should not impact any current Significant Code Reviews or significant industry change projects.

Consumer Impacts

This modification should reduce the scale and variability of UIG in the market. This will reduce balancing costs for all Shippers, which should allow accurate consumer pricing. For daily metered customers, it is expected that there will be a short-term impact as Shippers correct long-standing issues that prevent valid meter reads being obtained.

Cross Code Impacts

There may be an impact on iGT UNC which should be considered as part of the Workgroup assessment.

EU Code Impacts

There are no anticipated EU Code Impacts.

Central Systems Impacts

This solution may require an amendment to the multiplier used in calculating scheduling charges. There may also be the need to develop a new calculation process for determining the incentive payments for when Shippers or Transporters fail to hit their meter read performance targets.

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 should improve the accuracy of settlement by incentivising Shippers to ensure that daily metered sites are settled on actual daily reads in a consistent manner. This should reduce both the scale and variability of UIG in the market, so reducing costs. This may lead to more accurate cost apportionment, so furthering competition and relevant objective (d).

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8 Implementation

Implementation of this Modification should incentivise Shippers who supply daily metered customers to ensure nominations are accurate. In addition, Shippers with Class 2 sites should have an increased incentive to ensure reads are loaded and used in settlement. All shippers should benefit as the levels of UIG in the market reduce and become more stable.

No formal implementation timescales are proposed, but it is desirable for this modification to be implemented as soon as possible after authority decision to limit the continuing negative impact of continuing high levels of UIG.

9 Legal Text

To be provided.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply
- Refer this proposal to a Workgroup for assessment.

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