

Representation - Workgroup Report

UNC 0642 (Urgent) 0642A (Urgent) - Changes to settlement regime to address Unidentified Gas issues

UNC 0643 (Urgent) - Changes to settlement regime to address Unidentified Gas issues including retrospective correction

Responses invited by: **5pm on 08 February 2018**

To: enquiries@gasgovernance.co.uk

Representative:	Jeff Whittingham
Organisation:	Orsted
Date of Representation:	8 February 2018
Support or oppose implementation?	0642 – Qualified support 0642A - Oppose 0643 – Support
Alternate preference:	<i>If either 0642, 0642A or 0643 were to be implemented, which would be your preference?</i> 0643
Relevant Objective:	d) Positive (0642/0643), Negative (0642A)

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

UNC Modifications 0642 & 0643

Whilst Orsted supports Modification 0643 ahead of 0642, we consider that both return transparency and some certainty to UIG costs as was the case pre-Nexus. They mitigate the volatility and unpredictability of UIG costs that contribute to increased prices and billing complexity for customers as suppliers seek to cover or pass on this additional risk. They should also prevent UIG cost from becoming a significant negotiation point for large gas contracts. It should also be noted that a significant majority of large I&C gas consumers are contracts that pass-through this charge.

Modifications 0642 and 0643 introduce D+5 Settlement allocation for true UIG (leakage, theft, unregistered sites and metering error) at a level determined by the independent industry appointed Allocation of Unidentified Gas Expert (AUGE) and a fairer allocation of the remaining LDZ input demand across Class 3 & 4 End User Categories. Based on Xoserve data it is generally the most weather sensitive sites that have experienced the greatest level of under allocation at D+5 at around 1.4TWh to date. This is only slowly

being rectified as infrequent readings are processed as positive Energy Reconciliations (see additional analysis for more detail). This has been caused by the limitations of the current bottom up weather application to the algorithm. It uses a low granularity of weather data (1 location per LDZ and 1 value per day), a limited set of sample consumption data amongst a population with varying demand responses. The current AUGÉ (DNV GL), believe that such an algorithm is likely to have an average daily error of greater than 5% (see UNC Workgroup Report, 11 Annex 1 – DNV GL Paper page 3). Modifications 0642 and 0643 use the pre-Nexus scaled Weather Correction Factor methodology smooth out these limitations.

UIG is also now the only pricing component rate with a routine retrospective element which is disliked by customers and suppliers. Modifications 0642 and 0643 also offer a reduction in the continual reconciliation of UIG by restricting that to sites without reconciled readings. This also incentivises the provision of more readings and increased understanding of true UIG.

UNC Modification 0643

We prefer Modification 0643 because:

- a) It offers retrospective correction of the misallocation of energy ahead of the slow energy reconciliation process, especially for small Volume Band 01 sites that have seen the largest reconciliation volume to date. If this does not happen it is uncertain when the final UIG position will become clear. For example, it could take 12 months from implementation of 0642 for the last month in the current regime to be finally reconciled.
- b) Whilst the reconciliation methodology has been simplified in order to reduce the complexity of system delivery by Xoserve versus that originally proposed, 0643 has been simplified to a lesser degree to retain a UIG reconciliation regime across 12 months of throughput shares and Class 1 & 2 unread sites rather than the simplification to 1 month and Class 3 & 4 unreconciled sites only under 0642. This is done at low additional development cost (approximately 10%).

UNC Modification 0642A

Orsted opposes Modification 0642A because it has the net effect of further misallocating NDM demand away from Volume Band 01 sites to the larger volume bands with no evidence being shown to justify this. In addition, it sets UIG allocation at a level 5 times higher for Class 1 sites than under Modifications 0642 & 0643 and sets the level of UIG at a flat and high percentage across the volume bands for Classes 1 to 3. This is contrary to the analysis and factors developed by the independent Allocation of Unidentified Gas Expert (AUGE) appointed by the industry and introduces in its place the Demand Estimation Sub-Committee (DESC) which is comprised of industry participants. 0642A also requires significant Xoserve system change.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

UNC Modifications 0642 & 0643

For Modifications 0642 & 0643 Xoserve have provisionally indicated a much longer lead time than we would like which extends the period of uncertainty and cost that we face. We therefore propose that:

- a) The technical solution for changes to Nominations & D+5 Settlement allocations is reviewed. We believe that it is only the NDM algorithm that needs to change (albeit incorporating the percentage of UIG for each LDZ) and that the calculation and allocation of UIG itself can remain unchanged.
- b) The possibility of implementing the Nominations & D+5 Settlement allocation changes ahead of the UIG reconciliation changes as they would be a step forward in themselves.

UNC Modification 0642A

Modification 0642A would complicate the solution for Nominations & D+5 Settlement by replacing the single LDZ UIG percentage in LDZ UIG percentage for Class 1 that is different to the other Classes.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

UNC Modifications 0642 & 0643

Modifications 0642 and 0643 would require some small development cost to handle the new reconciliation regime being introduced but these are far outweighed by the benefits gained in terms of UIG stability and transparency for shippers and customers.

UNC Modification 0642A

Modification 0642A has the following negative impacts on costs and pricing versus the current and pre-Nexus regimes at a development cost similar to that of 0642 and 0643:

- a) 0642A fixes UIG for Class 1 sites at a level 5 times that 0642 and 0643 would produce. Even if the higher % for UIG were to be used with the AUGE factors 0642A would double the level of UIG allocation for Class 1 volumes.
- b) 0642A applies a simple balancing factor to the NDM allocation algorithm when it is the most weather sensitive sites that have been under allocated under the current algorithm versus more over allocations for the least weather sensitive.
- c) 0642A also replaces the AUGE UIG factors with a flat percentage for the other Classes and volume bands. This effectively re-distributes UIG and settlement error from the smaller and more weather sensitive bands to the higher and less weather sensitive bands – the opposite to the pattern of Energy Reconciliations seen so far.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

We have reviewed and are satisfied with the legal text for Modifications 0642 and 0643. We have not reviewed the legal text for Modification 0642A.

Are there any errors or omissions in this Workgroup Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No.

Please provide below any additional analysis or information to support your representation

The post-Nexus NDM demand allocation algorithm has under allocated demand to the most weather sensitive EUC bands shown by the volume of Energy Rec. provided by Xoserve:

Volume Band	WAR Band	Market kWh Energy Rec. Jun - Dec 2017
VB01	B (mostly weather sensitive domestic)	1,442,699,601
VB02 to VB08	W04 (the most weather sensitive WAR band)	108,376,567
	W03	54,235,698
	W02	-138,733,586
	W01 (the least weather sensitive WAR band)	-365,604,858
VB02 to VB09	B	-320,461,679
<i>No band</i>	<i>No band</i>	33,524
Total	All	780,545,267

(Data source XoServe, <http://www.xoserve.com/wp-content/uploads/Reconciliation-By-Month-December-2017-.xlsx>)