

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:	Andrew Green
Organisation:	Total Gas & Power Ltd
Date of Representation:	
Support or oppose implementation?	0642 – Oppose 0642A - Comments 0643 - Comments
Alternate preference:	<i>If either 0642, 0642A or 0643 were to be implemented, which would be your preference?</i>
Relevant Objective:	d) Positive

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

General Comments on all three urgent Modification proposals

Following Project Nexus implementation in June 2017, high and volatile UIG, which includes NDM estimate error, is a serious issue for the industry and TGP welcomes action from the industry that would improve the situation for suppliers and customers. However the Nexus settlement functionality took many years to develop and this should not be discarded lightly and without proven justification. Any reform / demonstrable improvement of gas settlements should be backed with a robust business case and impact analysis so that an informed decision can be taken across the industry rather than a reactionary response to implement a compromised solution.

The urgent Status of these three modifications has meant that the proposed changes have been developed to compressed timescales which has not given sufficient time for the industry to fully assess the impacts. The impacts were also not fully modelled or considered prior to the modifications being raised. This means that the impact of any of the three modifications is not sufficiently understood and therefore there could be

significant negative financial implications if a new regime were to be implemented (with or without any form of retrospective). None of the three modifications provide the certainty that the market requires, and retrospective causes prolonged uncertainty throughout the period that it would take Xoserve to develop the new functionality in their systems. TGP believes that the optimal solution should, as a priority, provide cost-base certainty and be equitable and acceptable to all sectors. TGP note that modification 0644 can be progressed and implemented in addition to these three urgent modifications (particularly 0642A) and would support the progression of 0644 with urgent status as this modification seeks to address the root cause of the problems.

We should be aware that as a reasonably limited amount of time has passed since Nexus implementation there is a limited data set for consideration. Therefore with each month that passes further information becomes available giving new information to help inform any modification.

0642

- This modification discards the post nexus allocation regime and returns to the system in operation before Project Nexus implementation. However TGP believes that the post Nexus allocation regime is more flexible and based on initial post Nexus data it suggests that it is more accurate (closer to invoiced volume) than the pre Nexus allocation system. The post Nexus allocation model would allow for further improvements, for example, under 0644 and other annual reviews. It would be a mistake to go back to the old system of allocation under this modification. This point is also applicable to Mod 0643 but not to 0642A.
- This modification incentivises suppliers to submit meter readings for all sites each month and consequently those that do not submit readings, and therefore cause estimate error, pay for contributing to that error. However the implications on all parties have not been modelled sufficiently to know if this is overly penalistic on those suppliers that do not provide a monthly read (and who are not required to under Network Code rules)
- This solution was intended as a compromise to accommodate existing Xoserve system functionality (monthly reconciliation snapshot) in order to expedite quicker delivery than an optimal solution. The current Xoserve delivery estimates are at least 46 weeks which will most likely be extended as requirements are understood in more detail and current cost estimates of £2m. Therefore this is proven not to be the quick and easy solution that it was meant to be.
- The proposed implementation date of April / May 2018 is not able to be met by Xoserve system delivery timescales without some form of retrospective which would require a further UNC modification; to be applied on completion of Xoserve system build. This adds uncertainty for a period of at least 12 months as the implications of re-running settlements with retrospective are not modelled and understood therefore this represents a significant risk to the industry. Also at a further cost and time to the ROM estimate that Xoserve has provided.
- There is also a risk of unintended consequences which may lead to the need for further modifications and reform adding more cost to the industry

- A period where the systems are generating different numbers to what will be recalculated in x months' time opens the markets up to confusion as different participants will be working to different information based on their stance. This could well lead to increased costs for the end customer.
- This modification requires amendments, not only to Gemini, but also to the invoicing files which are still stabilising following Project Nexus implementation. This is likely to elongate delivery timescales. There has been no view as to whether the modifications would delay further improvements and stabilisation of the current reporting.
- 1.1% given by the AUGE appears to be very low given the levels of UIG through to reconciliation that the industry have experienced so far.

0642A

- UIG as a proportion of nomination and allocation should be closer to the correct number under this modification. Another benefit is that UIG would be fixed at point of nomination and would only change following reconciliation if there are material differences between the agreed level and the real UIG number.
- This modification would be able to be implemented as well as all of Modification 0644 which seeks to correct the NDM estimation algorithm due to its similarity to the current models
- The AUGE as independent industry expert would be better placed to administer the setting of the UIG fixed level rather than the CDSP / DESC who are not an independent party. If this were not possible due the AUGE no longer being in place, we would advocate a clear, agreed, replicable, calculation based approach.
- TGP does not support the ability of DESC to revisit the historic Class one UIG % in reconciliation at its discretion because this would add to the uncertainty in the market.

0643

- The inclusion of retrospection adds uncertainty for shippers and customers as the impacts are not understood and therefore there is a risk of "shock" to the industry and customers when retrospection is applied. Retrospection would also add complexity to the Xoserve system changes and be difficult for suppliers to forward price into customer contracts. The model and development for this have not been costed
- This modification allows meter reads and reconciliations up to 12 months (rather than in each month under Mod 0642) which is preferable and more logical than the solution under 0642 which was designed to align with existing Xoserve system functionality, this does raise the importance of setting the UIG level as close to final number as possible to avoid bias in the industry.
- Allocations would be harder to improve in the pre Nexus models than in the current models. This would impact on to future improvements that could be done

which is a concern. Future modifications would be likely to then enhance the calculations at further cost.

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

Implementation should only be after the MOD's have been subject to robust analysis to quantify the impact of implementing any of the modifications and some amendments based on the comments suggested above. We wish the implementation date to be AFTER Xoserve's system development and industry testing.

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

Internal process and IT systems would need to be reviewed as some changes would be required. Given the compressed timescales associated with these Mods, TGP has not yet undertaken this impact analysis.

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

TGP has not reviewed the legal text

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.*

Lack of supporting modelling and analysis of the impact of implementing any of the modifications and any unintended consequences

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

None