

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:	Carl Whitehouse
Organisation:	First Utility
Date of Representation:	8 February 2018
Support or oppose implementation?	0642 - Oppose 0642A – Oppose 0643 - Oppose
Alternate preference:	None
Relevant Objective:	d) Negative

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

The timing of the urgency process means that one month has not provided enough time to develop a number of complex industry changing modifications. A high level assessment by the CDSP also highlights the significant development resource required to implement these under developed proposals (0642 – 46 weeks, 0642A – 35 weeks, 0643 – 50 weeks).

Modifications 0642 & 0643:

These proposals are positioned to address unidentified gas issues, however we believe they simply move the volatility from initial allocation to a new final reconciliation stage and onto Shippers who are active in the Class 4 market and who are not obligated to provide regular monthly Valid Meter Readings into settlement (following the implementation of UNC 0570 in November 2017).

Modification 0642 proposes a rigid implementation date of 1 April 2018 despite the CDSP requiring 46 weeks to develop the full system solution. This introduces a retrospective element to the modification with the CDSP highlighting at the final

workgroup that two methods of allocation cannot be run concurrently in one system. The proposal does not articulate a resolution to this fundamental issue.

The intention of modification 0643 is to retrospectively apply the changes described in 0642 to Project Nexus implementation of 1 June 2017. Bearing in mind that this is the most costly option to implement along with this being the riskiest approach for the industry and a rewind of allocation and reconciliation for up to two years means we strongly oppose this modification. The proposer has not made any data available to suggest benefits exist as a result of retrospective rewind of code. We would expect to have seen a full impact assessment from the CDSP detailing the benefits and impacts to substantiate the benefits stated.

Modification 0642A:

The proposer has determined that a Fixed UIG value of 2.5% is more justifiable based on analysis conducted on their portfolio. We believe the CDSP should conduct a full analysis across all industry participants for review before this modification is considered further. Inaccurate determination of Fixed UIG would have significant impacts on the remaining Balancing Quantity for which reconciliation will be distributed to Shippers by market share. This modification does not go far enough and should consider Shipper performance of submitting Valid Meter Readings into settlement. For example, a Shipper that provides Valid Meter Readings for 100% of their portfolio will still receive additional UIG volumes at reconciliation if the original Fixed UIG was erroneous.

Conclusion

These proposals either retain the current methodology and/or attempt to move levels of Unidentified Gas to other market sectors. We do not see any value in distracting the CDSP by investing time and money developing central systems over the next 12 months that will not improve allocation and not reduce Unidentified Gas.

The new UK Link system has been in place for less than 9 months and we believe it is too early to define a figure for Fixed UIG. There has not been an opportunity for UNC 0570 to fully take effect through the submission of more Valid Meter Readings into settlement and the subsequent adjustment of Rolling AQ's that should have a positive effect on the underlying data. Fluctuations of Unidentified Gas could also be related to data cleansing activities, which we would expect to be realised 12 months from implementation (November 2018).

The continuing rollout of smart meters along with the implementation of UNC 0638V (Mandate monthly read submission for Smart and AMR sites from 1 April 2018) will also help to improve the allocation and settlement position and thus reducing Unidentified Gas.

We support the intentions and development of UNC 0644 to improve the nomination and reconciliation processes.

We believe that the industry should be focusing their efforts on ensuring Valid Meter Readings for traditional and smart meters across **ALL** Product Classes are submitted into settlement correctly and within the timescales specified in UNC with robust reporting to support individual and industry wide performance with an unbiased incentive scheme

monitored by the Performance Assurance Committee. This in itself would assist with reducing Unidentified Gas through exposure of unusual read submission trends.

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

The CDSP has not received adequate time to conduct a Rough order of Magnitude (ROM) during the restricted urgency timetable. Their high level assessment highlights a minimum development time of 35 weeks for either modification. We believe central systems must be fully updated; some form of market trial conducted and be fully operational before implementation is considered. The urgent nature of these modifications has taken precedent over the industry's ability to prepare for large scale changes within financial forecasting and could be detrimental to the overarching operational cost to participate in the industry.

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

Modifications 0642 / 0643

Domestic shippers would face significant costs from additional smearing of Unidentified Gas as a result of implementation of these proposals. Domestic shippers may attempt to alleviate such concerns by attempting to obtain and submit Valid Meter Readings for Class 4 supply points more frequently than outlined in UNC 0570. The associated costs would impact competition in the market.

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

The full extent of the legal text has not been reviewed.

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