

## 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**

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<b>Representative:</b>	Kirsty Dudley
<b>Organisation:</b>	E.ON
<b>Date of Representation:</b>	06 February 2018
<b>Support or oppose implementation?</b>	0642 – Oppose 0642A – Support 0643 – Oppose
<b>Alternate preference:</b>	<i>If either 0642, 0642A or 0643 were to be implemented, which would be your preference?</i>  0642A
<b>Relevant Objective:</b>	<b>d)</b> Negative for 0642/0643  <b>d)</b> Positive for 0642A

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

Although we recognise the challenges put forward in the modifications we are concerned the allocation of urgent status has resulted in parties including Shippers, DNs and the CDSP being unable to fully complete a detailed low level impact assessment for all the modifications. This presents a risk to the market if the option chosen (if an option is chosen) doesn't deliver the intended stability to UIG or it moves the exposure to a different area of the market, which is being discussed today. Nexus was 9 years in development / implementation and all of these modifications are seeking a 2018 implementation; this offers little to no time for parties to conduct the level of impact assessments required for a regime change like this. It offers parties no safety net if the option chosen doesn't deliver as intended and actually makes the UIG issue worse.

We believe the root cause of UIG should really be parties focus and we shall continue to analyse this through the work we are doing for modification 0644, which we believe will

continue the work that Nexus initiated and would see a natural evolution of the process and a more stable and forecastable UIG position.

We have comments on all modifications included in this consultation, these are:

### **0642/0643**

We do not support the implementation of 0642 or 0643.

Although there are similarities between 0642 and 0643, our immediate concerns are the implementation date vs the expected CDSP delivery date, and the retrospective elements within both modifications. Only in 0643 has the proposer explicitly referenced retrospective adjustments, however, unless the CDSP solution for UK Link/Gemini is aligned with the modification implementation date there will also be a retrospective/transitional element for 0642. We have reviewed the modifications and there is very limited justification and no clear analysis on why either solution should have retrospective or why such challenging and potentially market damaging timescales are being proposed.

The application of a retrospective approach could in fact penalise parties who have successfully implemented the current Nexus regime. It may also have seen different behaviours applied had the solution been drafted as 0642 or 0643 at Nexus Go-Live. It could result in an unfair approach applied to some Shippers without thorough analysis being completed on the impact retrospective would have across the market.

The industry has heavily invested financially through years of development to produce a new settlement model to complement the progressive energy market; the modelling suggested for both 0642 and 0643 does not build on this investment, but actually seeks to unpick it. The justification being some market participants are seeing unexpected post Nexus positions, however, it is worth noting that these concerns were not presented prior to, or during, Nexus development/implementation.

We recognise the new settlement regime is still in its infancy and may require some elements of further refinement; however, there is no clear evidence by the proposer that Nexus modelling isn't working in a manner in which it was predicted. Some parties have seen it behave exactly as expected so therefore we do not recommend the roll back to the old methodology. There is no overwhelming evidence to show the market will find it beneficial.

The AUGE 1.1% is based on estimates using a methodology which determines a subjective estimate. One of the benefits of Nexus was to implement a methodology which provided a view of the absolute energy remaining, so if the methodology is rolled back to either 0642 or 0643 it would also reduce transparency. The variability and the balancing risk would all be pushed into the NDM market with 0642 and 0643. There should be a fair distribution rather than pushing it towards any one market sector.

It is not clear if the proposed 1.1% would also include areas such as site specific correction factors as these can also be a contributing element to UIG.

A difference in modification and system implementation dates would cause a high level of confusion over the approach the market will need to follow; the modification doesn't have clear transitional rules so the actual 'how' is unknown. If parties apply different

balancing approaches it could lead to National Grid having to take additional system balancing actions. With such challenging timescales and a very complex solution the clarity on the 'how' is just as important, if not more so than the 'when'.

The implementation of rolling back of the solution will be challenging in many ways, including:

- There are no profiles created e.g. no DAFs
- There are no clear transitional rules so multiple approaches could be applied
- Unclear how the proposal would apply to days which haven't closed out
- Neither 0642 nor 0643 have non-effective days proposed unlike the Nexus approach
- No historic data or a clear understanding on how this model will work to enable parties to deliver the solution or to be able to forecast from day 1
- Largest ROM costs based on initial information from the CDSP
- Longest implementation periods based on the initial information from the CDSP

The proposed modifications do not address 'bouncy' nominations; they just focus on reconciliation, however the 0642 and 0643 solutions would not allocate the energy into the correct periods and it is likely to reduce transparency on UIG or make it too complex to determine. Further impacts of these modifications would be that any measurement error which is beneath the mandated thresholds will be included within the energy reconciliation and are likely to be included in incorrect periods.

If Shippers successfully have a reading accepted every month for all their sites, they still might become exposed to apportioning of financial smearing due to other parties performance. This means parties have to work with a constant risk which they have no visibility of or control over. There will be requirements for all class 4 sites to have a reading accepted on a monthly basis to avoid any exposure but this is proposed prior to Smart Rollout completion. This introduces read performance criteria above and beyond any regulatory requirements in place today. Although we advocate accurate reconciliation we believe that restrictions on a class which is still going through metering transformation is unfairly impacting that sector of the market, especially when DCC still hasn't been properly delivered. There are known issues with the DM/Class 1 market but no additional business rules to obligate improvements in their sector have been included.

The solution doesn't provide information on how it would be applied to re-recs; will it be inclusive or exclusive of DM errors? This is a further invoicing complexity which this solution introduces without a detailed benefits case. If implemented due to the urgent status it would impact delivery of other current modifications, such as RAASP. This change has already seen delays due to the de-scoping from Nexus and could see further delays without any overwhelming benefits for 0642 and 0643 delivery.

We are concerned the retrospective elements may generate an increased amount of cash calls which could impact cash flow significantly for some parties e.g. smaller residential Shippers. This has an increased likelihood for 0643 due to the retrospective

nature; however, if any retrospection is applied to 0642 we also believe this would be of concern.

The legal amendments see activities currently with DESC being withdrawn; there is no justification within the modification for this.

Due to the limitations on impact assessments we are unable to confirm Rolling AQ will be impacted by this solution, but we believe there could be unforeseen/unexpected implications in this area.

### **0642A**

We are fully supportive of the implementation of 0642A.

The benefits of this solution are:

- Builds on the approved Nexus regime
- Simpler drafting amendments
- Shorter implementation period (could be further condensed with minimising the testing window)
- Lowest implementation costs (based on the CDSPs ROM)
- Improved transparency on the remaining unidentified gas (based on actual data rather than estimates)
- The creation of %s per category will give a clear fixed position for Shippers to forecast to
- Reduced volatility and increased transparency
- Removal of the AUGÉ – strategy required but if the decision is prior to 01/04/2018 it could be done this year

We support the initial %s proposed in 0642A but we recognise for some Shippers this will be an increase, however, based on current data we are satisfied it accurately reflects the true UIG position. Currently there are still issues within category 1 and we do not perceive it to be 0% at this time.

We have conducted a review of the AUGÉ proposed weighting factors for 2018/2019 and converted them into %'s. This has concluded that for categories 1 and 4 the proposals average the same as 0642A.

Category 1	Category 2	Category 3	Category 4
0.4	56.9	67.0	100.0

There is not enough current evidence for category 2 and 3 to vary our proposals, but we expect that if implemented, 0642A would have an increased data set (between development and implementation) to allow future amendments to the %s to be applied with greater accuracy for each category, as early as the subsequent gas year. This also supports our view that 0642A would introduce greater UIG transparency.

The creation of the annual assessment will proactively ensure appropriate apportionment in the event the %s are not accurate for any category. This acts as a fair mechanism and also will build on future year's %s, increasing the accuracy further.

We support the removal of the AUGÉ and replacing it by an industry led initiative via DESC, whilst utilising data provided from the CDSP. This approach allows parties to have greater involvement in the creation of the %s for both categories and LDZs, which could really spearhead identification of the root cause by parties, DESC and PAC.

The development of 0644 could further compliment 0642A if the Authority were to choose to implement this alternative.

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

Our preference is 0642A with an implementation date of 01/10/18 to align with the gas year, however, we recognise the need to deliver the modification and the CDSP changes at the same time. The ROM provided would see this date being challenging, and for this reason we recognise another date maybe proposed by the DSC Change Managers. If the date was not the 01/10/18 then the 1<sup>st</sup> of the month would be required. The solution for 0642 requires detailed analysis and design to understand the impacts but based on our initial view, 6 months implementation would be sufficient (not including market trials which we believe are necessary).

Relating to 0642 and 0643 the ROM provided does not align with the modification proposal date; we do not believe this approach is sensible especially due to the complexity of the changes and we would require both dates to be aligned. The solutions still require detailed analysis and design to understand the impacts but based on our initial view, 9-12 months (minimum) with a preference for 12 months implementation (not including market trials or Gemini testing which we believe are necessary).

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

We have been unable to do a thorough impact assessment due to the urgent timings, for 0642 and 0643 however we anticipate costs will be incurred to complete a full system IA analysis on the Nexus solution to change the design to the new settlement modelling proposed. This would be a significant IT project, there would also be costs to then develop and implement the solution which would require a large programme level delivery.

There would also be increased field costs to obtain readings which are greater than our current read frequencies to limit the exposure of the smearing applied in this solution.

We perceive significant resource will be required for development of the REC invoicing process and to monitor during a warrant period post implementation.

For 0642A our initial assessment has been limited due to the urgent timings but there wouldn't be the requirement for any full system impact assessments, there would be a potential project delivery required but this would be dependent on the final Gemini solution.

All modifications would require developers, testers and market trials.

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

0642/0643

Cover page

24.2.4 – should this be 30 September 2019 rather than 01 October 2019 (as this could be perceived to be in place until the end of that gas year in 2020).

Section E

1.5.5 a ii – the term ‘measured’ is not clear if this relates to volume or energy. Without clearly defining this, it is possible that Settlement Error also contains elements of Unidentified Gas. Also 1.5.5 (a) doesn’t capitalise unidentified gas and (b) doesn’t capitalise settlement error – should it?

7.1.1 (a) and (b) - doesn’t capitalise settlement error – should it? (d) and (e) does see it capitalised.

The legal amendments see activities currently with DESC being withdrawn; there is no justification within the modification for this, it is inconsistent for the methodology to come from the industry expert group when the activities have been disbanded.

0642A

We are satisfied with the proposed amendments.

**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.*

The report mainly focussed on the CDSP costs, however as referenced in the Costs and Impacts section there are also Shipper costs in delivering any changes for all proposed options.

0642A has a lower implementation costs compared to 0642 and 0643 because, for example, there are no file format changes.

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

Analysis regarding 0642A %’s will be provided confidentially and separately to the Authority.