Joint Office of Gas Transporters

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:	James Murphy & Benji Martin
Organisation:	Stark Software International Ltd
Date of Representation:	08 February 2018
Support or oppose implementation?	0642 - Oppose 0642A - Oppose 0643 - Oppose
Alternate preference:	*If either 0642, 0642A or 0643 were to be implemented, which would be your preference?* None
Relevant Objective:	**d)** None ** delete as appropriate*

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

Whilst we recognise that all three Mods attempt to mitigate some of the volatility experienced by shippers around Unidentified Gas (UIG), we do not feel that any of them address the root cause. Furthermore, they all attempt to take the industry backwards in some respect, which should be avoided as contrary to the goals of Project Nexus, the energy market overall and consumer interests. We provide a more detailed rationale below followed by select comments on each Mod.

A fundamental issue with gas settlement is the estimation process used for NDM sites, which account for ~70% of throughput[1]. Doing away with Reconciliation by Difference (RbD) and moving to a bottom up allocation has made the errors in this process more transparent at reconciliation, which industry is experiencing as high volumes and

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[1] National Grid Data, Stark analysis

volatility of "UIG"[2]. To complement this bottom up allocation, industry needs more actual data, more regularly to reduce the overall level of estimation going into settlement, which in turn will improve the accuracy of initial allocation and diminish the occurrence of associated error. The means for this already exists in the form of the Product Classes implemented as part of Project Nexus, which there are no barriers to shippers making use of.

We therefore believe that the simplest and most efficient way to fundamentally reduce UIG is to increase the number of Daily Metered (DM) sites. Besides the clear benefits to industry, the increased granularity of data would support innovative new products and tariffs, which would benefit consumers and improve competition in supply.

We note that the CMA considered UIG to be an enduring inefficiency post Nexus and that rolling AQs and individual meter point reconciliation would not provide enough of an incentive to increase read frequency to a point where UIG was entirely reduced[3]. Their assessment almost seems prophetic. Ofgem are also of the view that UNC modification may not be the appropriate means of addressing the issue, suggesting instead it could be resolved through the voluntary actions of shippers[4]. In light of this, we consider these Mods will be of little benefit to tackling the root cause of UIG and ultimately be an expensive mistake for industry if implemented.

0642

We understand the logic in fixing permanent UIG to the figure proposed by the AUGE (1.1% for 2017/18) but ultimately feel this is inconsequential, given that the average is significantly higher (4.65%). The far more volatile element is Settlement Error, which this Mod addresses through an additional set of weighting factors and a convoluted reconciliation process. Whilst we agree with the incentive to read meters more frequently we believe it should go further. We cannot support a Mod that seeks to roll-back the gas settlement model to a pre-nexus one, which was shown to have an adverse effect on competition and consumers.

0643

Further to the concerns raised above, we do not support the retrospective element of 0643. This would set a dangerous precedent and create uncertainty around settlement arrangements going forward.

0642A

We struggle to understand the proposed Fixed UIG percentages for each Product Class;

- o Class 1 is settled on time critical, actual data; we therefore cannot understand why it has any UIG attributed

- o Class 2 is broadly equivalent (Daily Metered) and should not have the same fixed percentage as Classes 3 and 4

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[2] As both proposers identify, "UIG" actually consists of two elements; permanent unidentified gas and settlement error

[3] CMA, *Energy Market Investigation: Final Report*, p583

[4] Ofgem, *UNC642 and UNC643 decision on urgency,* 21 December 2017, p3

A tiered system of fixed UIG that recognises the innate differences between Classes would be far more appropriate.

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

We do not support implementation of any of these Mods so do not wish to propose a lead-time. However, the ROM Assessment estimates anywhere from 35-50 weeks, which will expose industry to the same levels of UIG for another winter (2018).

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

As a MAM we are unlikely to face any costs. However, we note that industry would face considerable costs in implementing any of these Mods with little or deferred benefit.

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

We do not support any of the solutions so have no comments on the legal texts.

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.*

N/A

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

N/A