

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:	Mark Jones
Organisation:	SSE Supply
Date of Representation:	08 February 2018
Support or oppose implementation?	0642 - Oppose 0642A - Support 0643 - Oppose
Alternate preference:	<i>If either 0642, 0642A or 0643 were to be implemented, which would be your preference?</i> 0642A
Relevant Objective:	d) Positive for 0642A Negative for 0642 and 0643

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

SSE is strongly opposed to Modification 0642. It would create a cross subsidy in favour of larger sites that are more likely to be read monthly, as they have a monthly read requirement, and so would disadvantage smaller, mainly domestic meter points, at least in the interim, whilst there is not a large smart meter population as it is impractical to read these sites on a monthly basis. This would put a lot of cost uncertainty on these shippers, many of whom have a focus on the domestic market, due to the potential for non-monthly read sites to be allocated up to 100% of UIG for those sites, which could have a massive cost impact on some shippers.

One of the main justifications for Modification 0642 is that the current level of UIG causes cost uncertainty for customers, and so it would appear that a lot of the issues are fundamentally caused by shippers and suppliers backing their cost elements directly via contracts to customers. It must be remembered that Nexus was a project to amend shipper settlement processes and this perceived UIG issue is being classed as a

customer issue, which it is not. It is as a result of certain shippers who have taken commercial decisions to back off costs directly via contracts to customers, rather than pricing in a premium for an expected level of UIG, and who may have been able to gain a commercial advantage over other shippers who have priced it into their tariffs. As a result of this decision, for possibly a few thousand customers, this modification is trying to unwind around 9 years of Project Nexus development that affects the settlement rules for over 20 million sites.

The new Nexus arrangements took in the region of 9 years to develop, with a broad representation of shippers at the meetings, which were all open, as was all of the Project Nexus documentation. Shippers were well aware of the rules and were part of the process of development, and this modification would throw away much of this development, and would be a retrograde step for the new arrangements, which have only been in place for around eight months. The industry doesn't yet know where UIG will end up as an average level as the new rules have not been in place for long enough to allow a vast majority of sites to have been reconciled back to actual meter readings. UIG has been falling in recent months and was exacerbated in the early months after Project Nexus implementation by the DM read issue and the AQ of 1 problem, which have yet to work themselves fully through the settlement process and which, hopefully, will not be repeated in future years. It is also recognised that the settlement calculations could be improved under Modification 0644 which would improve the initial levels of UIG without requiring changes to the settlement process.

Modification 0642 would also entail very significant Industry development costs and timescales, and would push other key industry deliverables down the line. From modelling done by some shippers and by Xoserve for periods prior to Nexus, UIG has always been at a level and a volatility as experienced since Nexus implementation, but it is now more transparent as it is a separate item rather than being hidden within the daily balancing factor as it was prior to Nexus implementation.

Due to the urgent nature of this modification, it is very unclear how the rules within Modification 0642 would be able to accommodate the RAASP rules that are due to be delivered under Modification 0434, and it is our view that the modification takes no real account of these future changes.

SSE also opposes Modification 0643 for all of the above reasons and also because it has retrospection, which is an additional reason to oppose it as shippers have based their decisions on hedging, trading positions, etc., since Nexus implementation on the rules that are in place and to reallocate gas settlements based on this modification would create a huge amount of uncertainty and, potentially, lead to financial hardship for some shippers due to their increased indebtedness positions within the market.

Both of these modifications are a knee jerk reaction to a potential short term perceived problem, largely of some shippers' own making that are experiencing these problems. There has also been a lack of time available to complete a full analysis of the impacts of the modifications due to their urgent status and the timetable that has resulted from this. Furthermore, with the rollout of smart meters, levels and volatility of UIG should naturally reduce over time with more meter readings going into settlement, and which should also have the effect of reducing the level of the theft of gas.

SSE is in favour of Modification 0642A because it keeps in place the fundamental elements of the Nexus settlement regime principles, factors in an assessed level of

permanent UIG and splits out the difference between initial settlement allocation error and genuine UIG. It also places the determination of the level of UIG under the auspices of the DESC, which we believe is in a better position to model this data than the AUGGE, and will also result in industry costs being reduced as the function of the AUGGE will no longer be required. We do, however, believe that DESC should assess the level of permanent UIG prior to implementation to determine the accuracy of the initial proposed level of 2.5%.

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

Modification 0642A should be implemented as soon as practicable and ideally in time for the commencement of the October 2018 gas year.

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

We have not had the time to assess the costs as yet, but we believe they would be significant for modifications 0642 and 0643. The costs for 0642A would be a lot lower as we believe implementation of this modification would not lead to any file format changes.

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

We do not believe the legal text for modifications 0642 and 0643 takes account of the impacts of the delivery of the RAASP functionality.

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.*

We believe that the analysis to justify modifications 0642 and 0643 has not been fully carried out and also that if Modification 0642A is implemented that DESC should undertake its own analysis to validate the initial level of UIG at 2.5%.

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