

**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](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Emily Wells
<b>Organisation:</b>	Corona Energy
<b>Date of Representation:</b>	8 February 2018
<b>Support or oppose implementation?</b>	0642 - Support 0642A - Oppose 0643 - Support
<b>Alternate preference:</b>	<i>If either 0642, 0642A or 0643 were to be implemented, which would be your preference?</i>  0643
<b>Relevant Objective:</b>	<b>d)</b> Positive (0642/0643), Negative (0642A)

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

As proposer of UNC Modification 0642, we raised this change as we were concerned regarding the very high levels of Unidentified Gas that were present in the market since the implementation of Project Nexus. This issue still exists as evidenced by the latest industry information, with multi-million pound costs being incurred each month by the industry. We still believe that a solution is urgently required to avoid irreparable damage to the market.

**UNC Modifications 0642 & 0643**

Both of these modifications will address the current problem of UIG by reverting back to the pre-Nexus settlement regime from D-1 to D+5. Doing so preserves the competitive gas market whilst reducing the current balancing costs being experienced by the market and so furthering competition by ensuring appropriate cost targeting.

Both modifications propose an improvement to the current reconciliation regime by targeting settlement error costs to those sites that create it. As proposer of UNC

Modification 0642 we originally proposed this change to ensure a more rapid delivery compared to UNC Modification 0643, so protecting the industry whilst accepting a less developed solution.

In light of the information recently provided by Xoserve regarding development timescales for both modifications, we recognise that the difference between UNC Modification 0642 and 0643 is comparatively small. Whilst we believe that both changes further the relevant objectives, we recognise that UNC Modification 0643 is a more complete solution and so prefer this modification over UNC Modification 0642.

This view is not impacted by the proposed retrospective correction. The proposed retrospection regime set out in UNC Modification 0643 will simply realign the settlement regime currently in place with that in existence prior to 1 June 2017. We believe that this is an appropriate course of action existing market contracts for non-domestic customers were set on the basis that UIG costs would not be at the levels currently experienced. Domestic tariff rates will have been set at the same level of risk and so a retrospective correction will simply remove windfall gains and losses.

### **UNC Modification 0642A**

There seems to be little merit to this modification. It does not address the causes of the large and unpredictable UIG volumes. The modification will simply create a uniform smear process for UIG, with the limited exception of Class 1 sites. This was the original proposal for Project Nexus, before being replaced with the AUGE regime via UNC Modification 0473. This modification is therefore a return to a discredited process where no differentiation between the origins of market losses are attempted. By recasting UIG as a uniform cost we expect that the industry will lose all incentive to attempt to reduce these volumes. In addition this proposal will shift UIG from their source (EUC Bands 1-3) towards higher EUC Bands. This will also generate a windfall profit to large domestic suppliers.

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

Xoserve has indicated that both UNC Modifications 0642 and 0643 have a significant lead-time for development and implementation. We acknowledge that both of these changes need to be fully developed, but believe that change is urgently needed to address this critical issue. We therefore support the ambitious implementation timetable of UNC Modification 0642, and once the modification has been approved we believe that the industry can work to this revised framework as the system changes are developed. We therefore support a Spring/Summer 2018 implementation date for UNC Modification 0642.

UNC Modification 0643 does propose a retrospective element to the proposal, but this should not delay implementation of the solution to give certainty to the market on the rules that will be followed.

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

### **UNC Modifications 0642 & 0643**

Both of this modification will significantly reduce our balancing costs by reducing UIG volatility. We currently obtain meter reads on a monthly basis from customers, so we do not anticipate any substantial increase in our balancing costs.

We will have to undertake some system changes to realign our balancing and forecasting processes with the reinstated regime, but as these will be familiar we do not anticipate this will be a significant change. We will not need to revisit our existing contractual framework as this modification simply realigns the settlement framework with our current assumptions. In a similar manner, we do not believe that we will incur a significant cost from handling any retrospective calculations as proposed under UNC Modification 0643.

### **UNC Modification 0642A**

This modification is a significant shift from the current regime and so will represent a significant development cost as we realign our contracts and forecasting processes. Longer term we expect that there will be additional costs incurred in having to handle increased volumes of Unidentified Gas.

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

The legal text for UNC Modifications 0642 delivers the solution as intended. We have not reviewed the legal text of UNC Modification 0642A & Mod 0643.

**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**

NA