

Joint Office of Gas Transporters  
[Enquiries@gasgovernance.co.uk](mailto:Enquiries@gasgovernance.co.uk)

6 February 2018

Dear Joint Office,

**Re: UNC Modification Proposals 0642U, 0642A and 0643U - Amendments to the Unidentified Gas Settlement Regime**

Thank you for the opportunity to provide representation on the above noted Modification Proposals. Please find below Northern Gas Networks' (NGN) comments in respect of this Modifications.

**NGN opposes all three modifications.**

**Reasons for Support/Opposition:**

Project Nexus brought significant change to the settlement regime by introducing individual meter point reconciliation for all sites which meant the aggregate 'Reconciliation by Difference' (RbD) process was removed. It also introduced an industry-wide smear, based on daily throughput and weighting factors, of unallocated energy termed 'Unidentified Gas' (UIG). Industry agreed that these changes had the purpose of bringing better accuracy into settlement, as well as making unallocated energy more visible. The goal was to improve the identification and resolution of the causes and reduce UIG overall, which would in turn improve competition.

NGN cannot support any of the three proposed modifications even though certain concepts contained within the proposals may contain merit. This is because these proposals go against the reasoning for the changes made to settlement to begin with. The aim of the changes to the settlement regime was to improve accuracy and transparency, so we feel the industry should not approve any amendment which would negatively affect this objective.

NGN believes that the modifications go against the original reasoning for amending the settlement regime in the following ways:

0642U and 0643U look to include a universal scaling factor by introducing a fixed UIG percentage of 1.1%, which would be re-evaluated by the AUGGE each Gas Year. When Nexus Modification 0432 was approved in Feb 2014, Ofgem commented that they were pleased that a universal scaling factor was not included as it could possibly reduce the accuracy of

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allocating UIG. Ofgem also advised, and NGN agrees, that the main focus should be to reduce UIG, not simply target its allocation, and that a universal scaling factor could dilute any existing incentives to do so.

0642A seeks to introduce fixed scaling factors based on Product Class, 0.01% for Class 1 and 2.50% for Classes 2, 3 and 4; along with a 'Balancing Quantity' which would be used to distribute any leftover UIG. The modification also proposes the inclusion of an annual reassessment of actual UIG. NGN believes the proposal of a balancing quantity and the annual reassessment has merit as it seeks to keep the proportion paid in alignment with the amount of unallocated energy per Product Class; however, NGN also believes that more focus should be placed on the root causes of UIG, and not just on its allocation. .

0643U proposes a full retrospective assessment going back to the Project Nexus Implementation Date, 1 June 2017. Multiple parties have advised that the new regime is working as they had expected, but that incremental improvements may be required. The modification did not provide any justification for the requirement of the retrospective exercise, and NGN feels that any retrospective action does not allow for the mitigation of any impacts beforehand. Ofgem noted in their decision letter for Modifications 0335 and 0335A that they have always held the view that retrospective modifications should be avoided, particularly in their published guidance on urgency criteria. They stated that "It is a general principle that rules ought not to change the character of past transactions, completed on the basis of the then existing rules. To do so may be considered unreasonable, or at best undermine market confidence". NGN does not believe that the current issues with the settlement regime outlined in the modifications meet the criteria for them to be considered an exceptional circumstance.

### **Self-Governance Statement:**

NGN agrees that these modifications should be subject to Authority Consent.

### **Relevant Objectives:**

NGN disagrees that any of the modifications positively impact Relevant Objective d) the Securing of effective competition. None of the proposals address the root causes of UIG, choosing to only concentrate on its allocation.

### **Impact and costs:**

Xoserve would be required to perform analysis and make amendments to both UK Link and Gemini in order to deliver any of the three proposals. The main difference is that fewer

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processes would be affected if Modification 0642A was implemented, with varying degrees of complexity. Xoserve have estimated the costs for this work to sit between £1 and £2.2 million, depending on the solution chosen, and that development could take anywhere between 35 to 50 weeks.

### Implementation:

There are two options for the delivery of these modifications, were any to be implemented: an extraordinary release outside of the main release schedule, or as part of one of Xoserve's upcoming major releases. Both options would need to consider any changes which may need to be deferred or de-scoped from already agreed release scope if UIG is determined as taking priority. The extended delivery times associated with these proposals would only add complexity to any retrospective action which would need to be completed.

### Legal Text:

Yes, NGN believes that the legal texts reflect the solutions set out in these modifications.

**Errors or Omissions in the Modification Report:** None identified.

**Any additional comments:** None.

I hope these comments will be of assistance and please contact me should you require any further information regarding this response.

Yours sincerely,



Shanna Key  
Industry Codes Officer

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