

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:	George MacGregor
Organisation:	Utilita Gas Distribution Limited
Date of Representation:	08/02/2018
Support or oppose implementation?	0642 - Oppose 0642A – Oppose 0643 - Oppose
Alternate preference:	0642A
Relevant Objective:	d) Negative

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

As stated in the Workgroup Report, none of the modifications seek to resolve core UIG issues and instead shift and reallocate volatility, simultaneously shifting the costs associated with UIG from one market sector to another. Regardless of which modification is implemented, none of them seek to address the underlying unpredictability and therefore we believe that these modifications deal with symptoms rather than root causes. We have not found UIG volatility to be unmanageable, so urgent resolution is not a priority for us, however 0642 and 0643 will have significant negative consequences for us and we strongly oppose their implementation. Given the choice, we would prefer resource and effort is assigned to dealing with root causes, rather than implementation of any one of these proposals. Our alternate preference has been marked as 0642A; the Project Nexus bottom-up NDM demand estimation methodology offers greater transparency than the pre-Nexus calculation and ultimately the system is doing what it was designed to do by doing a better job of making all cost elements visible, including the volatile levels of unaccounted gas. This best reflects the reality of the market and offers the best foundation upon which future improvements can be made.

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

We acknowledge the estimated implementation timescales and costs provided by Xoserve for each proposal. For the avoidance of doubt, we acknowledge some of the financial impacts of UIG volatility and would look more favourably on a cheap, quick modification to alleviate some of the challenges however the cost and timescales are too great for us to support even the cheapest and quickest solution

35 weeks, Circa £1million – 642a

46 weeks, circa £2 million – 642

50 Weeks, circa £2.2million – 643

We note that all proposals come with a high level of implementation time. We question whether the implementation of any of these modifications will delay alternate modifications being proposed/implemented and conclude that this is not an economic trade-off. We also note that the effectiveness of any implemented modification could not be fully known for almost two years (one year of implementation, one year of operation.)

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

Given that we have only had a few months of Nexus arrangements, it is hard to do proper analysis against actual outturn. There has not yet been the opportunity for 12months' worth of reconciliation.

0642A presents the lowest level of required system change reduced as it is the closest to current arrangements. It is almost identical to current arrangements however a higher base percentage of UIG is assumed.

We anticipate that ongoing costs post-0642A will be largely similar to those we currently incur. We would expect to see a lower average, yet more stable, level of UIG. We anticipate the balancing factor to exhibit the greatest levels of volatility, however the total volumes within this factor to be lower than those previously seen in UIG. The factors causing unpredictability, specifically the inaccuracy of calculations of initial allocations, will remain unchanged, however the volatility will now be expressed through the balancing factor rather than UIG. The removal of UIG weighting factors from reconciliation may have a minor impact on final outturns (i.e. after 12 months and full reconciliation has occurred)

Implementation of 0642 or 0643 will take longer and require greater levels of internal testing. We have serious concerns with applying the retrospectivity proposed in 0643. Parties act based on the rules in place at the time and would have made different decisions had said rules been different. This means that some Parties may be unfairly penalised for performing in, what was at the time, the most efficient and correct manner. Applying retrospectivity now may cause a long-term loss of faith in the gas market, as it would be harder to have confidence that your correct actions may not be negatively reassessed in the future.

The long-term impacts of 0642 and 0643 would be highly detrimental to us, as they would be for any Shipper who predominantly serves the SSP market place. These modifications would disproportionately impact the cost to serve SSPs and would be a detriment to the market as well as to future SSP market place competition.

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

Yes

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 agree with the statement in the report that none of the modifications seek to resolve core UIG issues and believe this point should be emphasised further. Each modification proposes to shift the associated risk and costs by factoring in a higher baseline percentage of unpredictability.

We believe more should have been included in the report about the underlying cause of the issue and potential future areas of investigation that may improve the fundamental accuracy of the means and methods of gas measurement.

We also believe that further numerical analysis would have been beneficial to the workgroup report, however we note that this may have been very challenging to provide. However, if it could not be provided by the CDSP then we question how smaller impacted Parties are going to assess the impacts of these modification proposals their own organisations.

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

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