





UNC Modification		At what stage is this document in the process?
<h1>UNC 0XXX:</h1> <p><i>(Code Administrator to issue reference)</i></p> <h2>Incentivise Product Class 4 Read Performance</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p><b>Purpose of Modification:</b> This Modification seeks to reduce Unidentified Gas (UIG) volatility by incentivising read submission performance for Product Class 4 sites. This Modification seeks to derive UIG allocation to Shippers based on their read submission performance against agreed threshold targets.</p>		
	<p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> <li>considered a material change and not subject to self-governance</li> <li>assessed by a Workgroup</li> </ul> <p>This Modification will be presented by the Proposer to the Panel on <b>20 September 2018</b>. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>	
	<p>High Impact: Shippers</p>	
	<p>Medium Impact: CDSP</p>	
	<p>Low Impact: Transporters</p>	

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Timetable	
<b>The Proposer recommends the following timetable:</b>	
Initial consideration by Workgroup	27 September 2018
Workgroup Report presented to Panel	20 December 2018
Draft Modification Report issued for consultation	20 December 2018
Consultation Close-out for representations	15 January 2019
Final Modification Report available for Panel	28 January 2019
Modification Panel decision	21 February 2019



Any questions?

Contact:

Joint Office of Gas Transporters



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



0121 288 2107

Proposer:

Chris Faulds

ScottishPower



[chris.faulds@scottishpower.com](mailto:chris.faulds@scottishpower.com)



0141 614 3376

Transporter:

Insert name



email address



telephone

Systems Provider:

Xoserve



[UKLink@xoserve.com](mailto:UKLink@xoserve.com)

# 1 Summary

## What

There has been excessive volatility in Unidentified Gas (UIG) since the implementation of Project Nexus 01 June 2017. To ensure the accuracy of energy calculations it is extremely important that regular meter reads are submitted for all Supply Points. Supply Points with no read accepted by Xoserve in 12+ months increase the risk of inaccurate deemed energy charges, which drive volatility in UIG allocation and reconciliation.

This volatility could be reduced by ensuring that Shippers are submitting as many regular and valid meter reads as possible for sites within Product Class 4. Incentivising Shippers on read Submission performance will result in a more cost-reflective allocation based on the level of material risk that the respective Shipper has created throughout their gas allocation.

Ofgem have highlighted in response to previous Modifications, (notably UNC 0619 & 0642/0643) that they consider meter read submission performance is a significant influencing factor in UIG.

## Why

This Modification seeks to create a link between meter read submission and reduced levels of UIG exposure. At present there are read submission performance reports and targets set out in the UNC but there is no other incentive to achieve these targets.

The benefit of this change would be to increase confidence in the accuracy of nominations, reconciliations, energy charges and UIG attributed to Product Class 4 sites, which should reduce volatility across the market.

## How

It is proposed that current Shipper read performance reports will be enhanced to provide information for Product Class 4.

Using these reports Shippers will be measured against their share of sites with no accepted read >12 months.

New reporting will need to be developed to

- ⇒ Measure the volume of sites per Shipper with no reads accepted in the last 12 months. This will be used to determine market & shipper performance.
- ⇒ Overall UIG allocation within the Product Class 4 portfolio will be amended to include the “No Read UIG share” calculated based on the shipper’s performance vs the Industry % read performance
- ⇒ This amendment to UIG will apply both when UIG is positive and negative

Market no read performance will set the monthly baseline for how much share of no read UIG will be allocated to shippers. This value will be calculated monthly. This is calculated as:

- Market Product Class 4 Meter Points with no read > 12 months / Total Market Product Class 4 Meter Points
- E.G. If the market has 100K Meter Points & 5K have no read > 12 months, the Market no read share =  $5,000 / 100,000 = 5\%$
- *This value will be scaled based on the expected volume of AQ error in the sites with no read over 12months. (Internal analysis estimates this AQ error at 67%)*
- *The proposer requests that Xoserve provide analysis to confirm industry AQ error in sites with no read over 12 months*

- E.G. Market no read share = 5%, UIG No Read Share = 5% x 67% = 3.35%

Shipper share of UIG will be calculated as:

- Shipper Product Class 4 Meter Points with no read > 12 months / Market Product Class 4 Meter Points with no read > 12 months
- E.G. If the market has 5K Meter Points with no read > 12 months & shipper X supplies 1K, then shipper X no read share = 1,000 / 5,000 = 20%

Shipper no read UIG share will be calculated as:

- UIG No Read Share x Shipper No Read Share
- E.G. 3.35% x 20% = 0.67%

Remaining UIG is shared as per current process, minus the UIG No Read Share now allocated

- Remaining UIG = Market Share x (100% - UIG No Read Share)
- E.G. If shipper X has 15% of market, remaining UIG = 15% x (100% - 3.35%) = 14.50%

New shipper UIG share will then be:

- Shipper no read UIG share + Remaining UIG
- E.G. Shipper X = 0.67% + 14.50% = 15.17%

## 2 Governance

### Justification for Authority Direction

This Modification will have a material impact on Shippers and so should be sent to the

Authority for decision because it seeks to apportion elements of UIG based on Shipper read performance over the previous 12 months, this would be reallocating costs and could therefore have a material impact on competition.

### Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance
- be assessed by a Workgroup

## 3 Why Change?

There has been excessive volatility in nominations, reconciliations and UIG since implementation of Nexus. Supply Points with no read accepted by Xoserve in 12+ months are at high risk of having inaccurate deemed energy charges & is therefore a factor in UIG volatility.

Change is required as there is no current performance incentive to ensure Shippers are submitting reads and maintaining a level of read submission performance for Product Class 4 sites.

## Why implement read incentive?

By incentivising read performance this will ensure Shippers submit reads in timely manner, ensuring accurate energy calculations take place. This will help reducing volatility of nominations, reconciliations and UIG. The change will also provide confidence in nomination, reconciliation and UIG volumes for Product Class 4

If this change is not implemented then UIG volatility will remain and confidence in the volumes attributed to Product Class 4 sites will remain a concern.

## Analysis

Working from the following assumption:

- The more recent the read, the more recent the Annual Quantity (AQ) Calculation
- The more recent the AQ Calculation, the more accurate the AQ
- The more accurate the AQ, the more accurate the commodity
- The more accurate the commodity, the less volatile the UIG

Analysis was carried out on AQ's which calculated on 1<sup>st</sup> July 2018 to confirm the volatility of AQ movement based on the last time the AQ calculated.

The data was all Product Class 4 Meter Point Reference Numbers (MPRN) taken from T04 records which met the following criteria:

- REVISED\_SUPPLY\_METER\_POINT\_AQ\_EFFECTIVE\_DATE = 01/07/2018
- CONFIRMATION\_EFFECTIVE\_DATE < 01/07/2017 - to ensure supply period > 1 year
- AQ\_CORRECTION\_REASON\_CODE = null

The MPRN list was then compared against T04 records from July17 – June 18 to confirm the previous calculation date.

NOTE: October / April list only included meter points where REVISED\_SUPPLY\_METER\_POINT\_AQ\_EFFECTIVE\_DATE was populated.

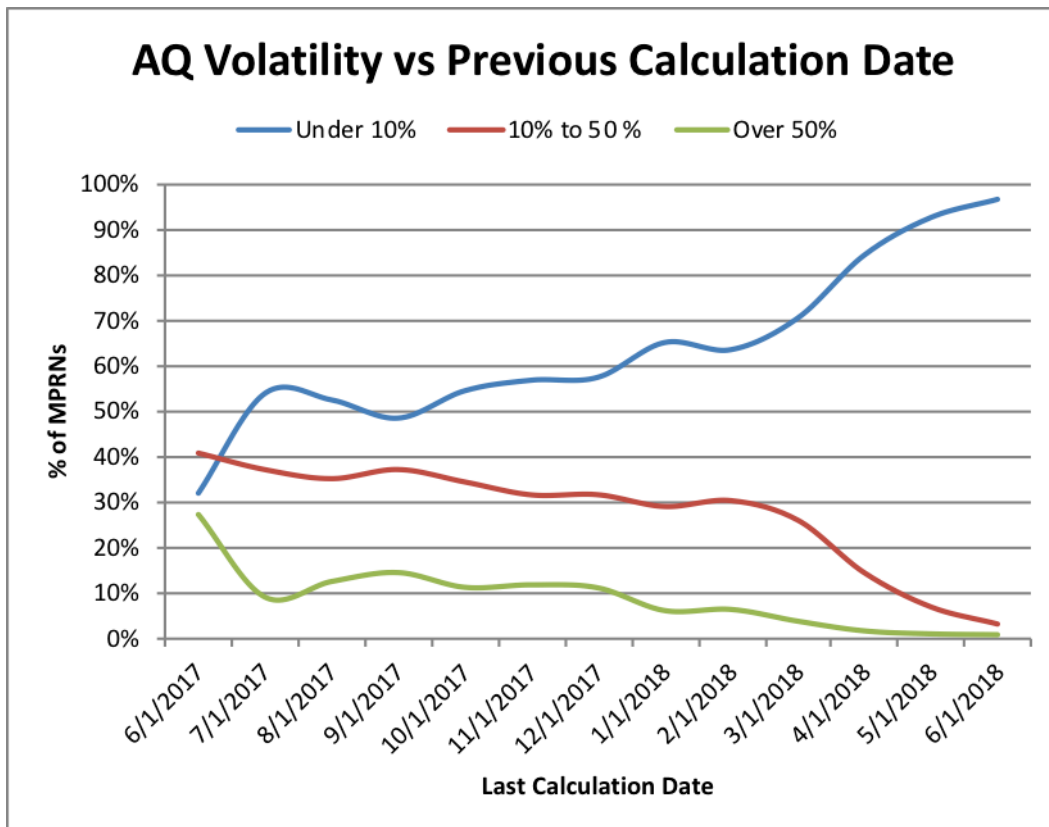
The data was then grouped into 3 categories based on PERCENTAGE\_AQ\_CHANGE on 01/07/2018:

- Where the AQ has moved under +/- 10% - low volatility to the AQ, pre-01/07/2018 AQ would still have been accurate
- Where the AQ has moved between +/- 10% to +/-50%
- Where the AQ has moved over +/- 50% - high volatility with AQ movement, pre-01/07/2018 AQ not have been accurate

The % of MPRNs calculating in each of the 3 categories based on the last calculation date –

The 01/06/2017 means the AQ had not calculated since Porject Nexus Go-Live.

**Fig1)** Graph below highlights the link between the AQ % movement and the time between read submissions.



Key points are:

- Low volatility where the last AQ calculated within the last 3 months as 84 – 96% of MPRNs moved by <10%
- There is some volatility where the last AQ calculated within the last 4 -12 months as 50 – 70% of MPRNs moved by <10%, though only 10% of MPRNs moved by >50%
- Much higher volatility where the last calculation date is > 12 months as 27% of MPRNs moved by >50%. Only 32% of AQ's moved by <10%.

If the new AQ's on 1<sup>st</sup> July had not calculated, the meter points that had not calculated > 12 months ago would have caused higher volatility with UIG than site calculated more recently.

- Request for Xoserve to produce UK-wide analysis to back up SCP analysis

## 4 Code Specific Matters

### Reference Documents

UNC Transportation Principle Document (TPD) Sections M & S <https://www.gasgovernance.co.uk/TPD>

## 5 Solution

This proposal seeks to amend UNC TPD Sections M & S.

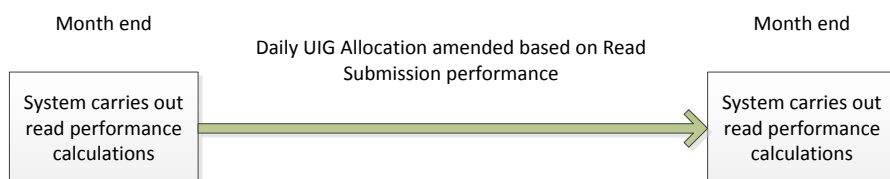
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It is proposed that current Shipper read performance reports will be enhanced to provide information for Product Class 4.

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- ⇒ This amendment to UIG will apply both when UIG is positive and negative
- ⇒ It is proposed that the performance reporting be carried out at the end of each month and amendments applied to the following months UIG



Market no read performance will set the monthly baseline for how much share of no read UIG will be allocated to shippers. This value will be calculated monthly. This is calculated as:

- Market Product Class 4 Meter Points with no read > 12 months / Total Market Product Class 4 Meter Points
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## 6 Impacts & Other Considerations

**Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

None identified

### Consumer Impacts

No direct consumer impacts identified. However, the workgroup should take into consideration any possible consumer impacts during the assessment of this Modification.

### Cross Code Impacts

There may be IGT UNC impacts to be considered by the workgroup

### EU Code Impacts

None identified

### Central Systems Impacts

There should be limited central systems impact other than the provision of new reporting

## 7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of <ul style="list-style-type: none"> <li>(i) the combined pipe-line system, and/ or</li> <li>(ii) the pipe-line system of one or more other relevant gas transporters.</li> </ul>	None
c) Efficient discharge of the licensee's obligations.	None



d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None
<p>This modification proposes that by incentivising the submission of valid Meter Reads for Product Class 4 sites, it should reduce the volatility and unpredictability of UIG, improve the accuracy of cost targeting and therefore further Relevant Objective d) Securing of effective competition between Shippers and Suppliers.</p>	

## 8 Implementation

No implementation timescales are proposed, however implementation could be soon after an Authority decision to implement has been received.

## 9 Legal Text

### Text Commentary

To be provided by Transporters

### Text

To be provided by Transporters

## 10 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority direction should apply
- Refer this proposal to a Workgroup for assessment.