

## Stage 02: Workgroup Report

# 0473 0473A:

## Project Nexus – Allocation of Unidentified Gas

At what stage is this document in the process?



These modifications two of a series seeking to implement the requirements identified under Project Nexus. These modifications identify changes to the UNC to enable determination in the proposed energy allocation process to enable an appropriate distribution of Unidentified Gas.



The Workgroup recommends that these modifications require further assessment.



High Impact:  
Shippers

0473









Workgroup Report

16 August 2014

Version 1.0

Page 1 of 11

© 2014 all rights reserved

Contents		?
1	Summary	3
2	Why Change?	5
3	Solution	5
4	Relevant Objectives	9
5	Implementation	10
6	Legal Text	10
7	Recommendation	10
8	Appendix one – AUGE Framework	11
9	Appendix two – UGIE Framework	11
About this document:		 <b>Any questions?</b>
<p>This report is incomplete and requires further assessment. To comply with the Modification Rules it will be presented by way of an update to the panel on 18 September 2014.</p> <p>The panel will consider whether the modification should proceed to consultation or be returned to the workgroup for further assessment.</p>		<b>Contact:</b> <b>Code Administrator</b>  <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
		 0121 288 2107
		<b>Proposer:</b> <b>Steve Mulinganie</b> <b>Gazprom</b>  <a href="mailto:stevemulinganie@gazprom-energy.com">stevemulinganie@gazprom-energy.com</a>
		 07590 245256
		<b>Transporter:</b> <b>Northern Gas Networks</b>  <a href="mailto:jferguson@northernngas.co.uk">jferguson@northernngas.co.uk</a>
		 0113 397 5323
		<b>Systems Provider:</b> <b>Xoserve</b>  <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>

# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that these are not self-governance modifications because they may have material effect on competition.

## Why Change?

Following the decision to implement Modification 0432 - Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform<sup>1</sup>. The Business Requirements Documents (BRDs) which constitute the business rules currently provide that no manual intervention in the distribution of Unidentified Gas<sup>2</sup> between relevant market sectors would occur as might be a consequence of the determination of an Allocation of Unidentified Gas Expert (AUGE)<sup>3</sup>. Notwithstanding this, Modification 0432 and associated legal text identifies a mechanism whereby, should such determination be deemed necessary, this could be readily incorporated within the proposed regime.

The use of a single scaling factor proposed in Modification 0432 could offer a less accurate means of allocating unidentified gas than is currently offered by the Allocation of Unidentified Gas Expert (AUGE). As the aim should be to reduce unidentified gas, not simply target its allocation, and a universal scaling factor would seem to dilute any existing incentives to do so. Modifications 0473 and 0473A offer two different approaches to the allocation of unidentified gas.

## Solution

Modification 0473 0473A propose arrangements to determine the allocation of unidentified gas between markets by the use of an appointed expert in readiness for the Project Nexus go live date. The expert will be responsible for the development of a methodology for allocating unidentified gas on a equitable basis.

Modification 0473 proposes that an Allocation of Unidentified Gas Expert be appointed so that a methodology can be developed and used to populate the AUG table prior to the Project Nexus Go live date.

Modification 0473A proposes that a new Independent Expert be appointed in readiness for Project Nexus go live Day 1. The Expert will be responsible, if required following assessment and analysis of evidence/data, for the development of a methodology for correcting Project Nexus allocation arrangements, which subject to consultation and approval processes will be modified and applied on an annual basis.

## Relevant Objectives

Implementation of the changes identified within these modifications could be expected to facilitate the securing of effective competition between Users. The changes are expected to lead to more accurate allocation of Unidentified Gas costs between Users.

---

<sup>1</sup> Modification Proposal 0432: <http://www.gasgovernance.co.uk/0432>

<sup>2</sup> TPD Section E10.1.1(a): <http://www.gasgovernance.co.uk/TPD>

<sup>3</sup> TPD Section E10.1.1(f): <http://www.gasgovernance.co.uk/TPD>

## Implementation

No implementation timescales are proposed. However, implementation as soon as possible after an Authority decision to do so would allow the maximum time for the AUGE tender process to be completed in time for the Project Nexus implementation date.

## 2 Why Change?

The proposed energy allocation framework identified within Modification 0432 presently does not identify a methodology for the redistribution of Unidentified Gas between the Smaller Supply Point (SSP) and Larger Supply Point (LSP) market sectors over and above the simplistic approach which would occur as part of the proposed 'Allocation Scaling Adjustment' mechanism.

For the purposes of avoiding unnecessary delay to the development of Modification 0432, separate modifications have been raised to propose mechanisms by which the allocation of unidentified gas can be shared should the industry determine that this be necessary. The benefits of this approach is that the Transporter's agent (Xoserve) can proceed to develop relevant supporting systems and processes with certainty and with sufficient flexibility to accommodate determination in Unidentified Gas allocation should this ultimately be required.

The new individual supply point reconciliation arrangements being introduced by Project Nexus are significantly different to the incumbent RbD arrangements; therefore it is not appropriate to take a simplistic approach to settlement as proposed in Modification 0432 and both Modifications 0473 and 0473A offer options for the allocation of unidentified gas.

## 3 Solution

### Modification 0473

The purpose of this Modification Proposal is to develop an Unidentified Gas determination and sharing methodology utilising the services of an AUGE.

Modification of the UNC is required to incorporate appropriate arrangements to permit the sharing of Unidentified Gas between market sectors by an AUGE post Nexus implementation. Rather than as an 'after the event' adjustment process as is presently the case, this would occur as part of the process of deriving and applying the 'Allocation Scaling Adjustment' developed within the remit of Modification Proposal 0432.

### Business Rules

- 1) A person, the Allocation of Unidentified Gas Expert (AUGE), shall be appointed and engaged by the Gas Transporters through an AUG Expert Contract for the purposes of:
  - a) developing an AUG Statement or (as the case may be) a modification of the prevailing AUG Statement and recommending it to the Committee; and
  - b) by applying the AUG Statement, preparing and recommending to the Committee an AUG Table;
- 2) The AUG table, is incorporated into the UNC, which shall be used by the transporters in determining the allocation factors applicable to each meter point class and band by LDZ.

Supply Meter Point Classification	Allocation Factor			
	Class 1	Class 2	Class 3	Class 4
EUC Band 1				
EUC Band 2				
EUC Band 3				
EUC Band 4				
EUC Band 5				
EUC Band 6				
EUC Band 7				
EUC Band 8				
EUC Band 9				

- 3) The Transporters be required to publish a Framework Document “Framework for the Appointment of an Allocation of Unidentified Gas Expert”.
- 4) The initial content of the Framework Document be that which is provided as an Appendix to this modification proposal.
- 5) The Framework Document may be modified if The Committee votes by majority vote in favour of a proposed change.
- 6) For the avoidance of doubt, the current AUGÉ process will continue until the implementation of Project Nexus.

### **Modification 0473A**

The purpose of this modification is to introduce a new Independent Expert (Unidentified Gas Independent Expert) in readiness for Project Nexus Go Live Day 1. They will be responsible for assessing the quantity of Unidentified Gas, based on the actual evidence/data following the replacement of the UK Link system.

The output of the UGIE will be to make a recommendation, as to whether any further intervention over and above the ‘Allocation Scaling Adjustment’ is required. If required the UGIE will recommend an appropriate mechanism for allocating Unidentified Gas across industry participants. During the transitional period between Project Nexus Go Live Day 1 and the new Independent Expert’s findings and recommendations, transition arrangements will be used to make an “offline” amendment to the Allocation Scaling Adjustment.

The overall aim of this proposal is to introduce an independent, evidenced-based assessment, for the correct allocation of Unidentified Gas cost, to ensure that all industry participants are equally incentivised to reduce it.

## **Business Rules**

- 1) The Unidentified Gas Independent Expert (UGIE), shall be appointed and engaged by the Gas Transporters through an UGIE Contract for the purposes of:
  - a) accessing the current arrangements to recommend if further invention to Mod 432 is required
  - b) developing an Unidentified Gas Allocation (UGA) Methodology, based on actual evidence/data
  - c) developing an Unidentified Gas Allocation Statement (UGAS)
  - d) preparing and recommending the UGA Methodology and UGAS to The Committee
- 2) The UGAS is incorporated into the UNC, which shall be used by the transporters in determining the appropriate allocation factors to Users.
- 3) For the purpose of Transition arrangements, (which is the period between Nexus Go Live Day 1 and the implementation of the UGIE's recommendations), there will be an offline adjustment to correct for the Directly Measured Components, as identified by the most recently published AUG Table. This adjustment will be applied to Users by market sectors as defined by EUC in the proportions identified by the most recently published AUG Table.
- 4) The process for appointing the UGIE is set out in a new UNC Related Document "Framework for the Appointment of an Unidentified Gas Independent Expert (UGIE)".
- 5) The Transporters shall be required to publish a Framework Document "Framework for the Appointment of an Unidentified Gas Independent Expert (UGIE)" and the provision (where required) of an Unidentified Gas Allocation Statement".
- 6) The initial content of the Framework Document shall be that which is provided as an Appendix to this modification proposal.
- 7) The Framework Document may be modified if The Committee votes by majority vote in favour of a proposed change.
- 8) For the avoidance of doubt, the current AUG process will continue until the implementation of Project Nexus

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
These modifications propose to introduce new arrangements for the introduction of a new allocation of unidentified gas expert, which will result in Xoserve incurring costs associated with procurement and appointment, thus resulting in User Pays charges.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
100% Users
Proposed charge(s) for application of User Pays charges to Shippers.
Modification 0473 - The proposed process for allocating Unidentified Gas post Project Nexus is to do so in proportion of total system throughput. It therefore is appropriate for the charge for managing the process to be allocated in the same way, namely in proportion of shipper AQ, as of the 1 April each year. <a href="#">Modification 0473 – TBC</a>
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
TBC



## 4 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 (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	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

- 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.

Implementation of the changes identified within these modifications would be expected to facilitate the securing of effective competition between Users. The changes are expected to lead to more accurate allocation of Unidentified Gas costs between Shipper Users by implementing the recommendations of an industry expert rather than is currently proposed using an allocation scaling adjustment.

Modification 0473

Modification 0473A

0473

Workgroup Report

16 August 2014

Version 1.0

Page 9 of 11

© 2014 all rights reserved

## 5 Implementation

No implementation timescales are proposed for Modification 0473 0473A. However, implementation as soon as possible after an Authority decision to do so would allow the maximum time for the AUGÉ tender process to be completed. Xoserve have indicated that they will need at least two months between the modification being approved before any tender can be issued.

## 6 Legal Text

Text

## 7 Recommendation

The Workgroup invites the Panel to:

- AGREE that these modifications should be returned to Workgroup 0473 for further assessment.

## 8 Appendix one – AUGE Framework

### Modification 0473

Framework for the Appointment of an Allocation of Unidentified Gas Expert and the provision of the Allocation of Unidentified Gas Statement (separate document)

## 9 Appendix two – UGIE Framework

### Modification 0473A

Framework for the Appointment of an Unidentified Gas Independent Expert and the provision of the Allocation of Unidentified Gas Statement (separate document) - – see “Framework for the Appointment of an Unidentified Gas Independent Expert (UGIE)”