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:	Mark Rixon
Organisation:	ENGIE
Date of Representation:	08/02/2018
Support or oppose implementation?	0642 – Comments 0642A - Comments 0643 - Support
Alternate preference:	*If either 0642, 0642A or 0643 were to be implemented, which would be your preference?* 0643
Relevant Objective:	**d)** Positive

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

Modification 0642

While we support the intent of this mod, which tries to allocate enduring UIG (Based on the independent estimate provided by the AUGE) and apportion the transient UIG, mainly NDM modelling error, back to supply points which contribute to this component of UIG (infrequently metered sites, estimated readings). Our reservations are mainly based on the reconciliation methodology.

We are not completely comfortable with the reconciliation quantities being apportioned using a single monthly allocation. This could unfairly expose new entrants or those shippers who have inadvertently experienced a dip in read submission performance for a short period to an unusually large reconciliation quantity/cost.

Additionally, there may be unintended consequences of changing the UIG regime prior to Xoserve being able to implement robust changes to the IT systems, necessary to support the change in the business rules. This may lead to confusion in the balancing market.

Modification 0642A

There are positive elements to this mod, and we agree that the split between enduring UIG and transient UIG (referred to in the mod as balancing quantity) needs to be more transparent.

High levels of volatile UIG, mainly comprised of transient modelling error, were introduced as a result of project Nexus. We believe the current rules unfairly discriminate smaller shippers and those whose portfolio is comprised of daily/monthly read sites. This modification does not address this primary problem in our opinion.

Whatever business rules are introduced, enduring UIG estimation will be inherently subjective. As such the industry requires a truly independent entity to try to estimate enduring UIG and work with the industry to ensure that the UIG allocation process reflects enduring UIG estimates as closely as possible. We do not support DESC having this responsibility and we believe that the AUGE should continue to undertake this role.

Modification 0643

We support this modification which retains the important principle of an independent AUGE to set the enduring level of UIG. We also consider that the allocation mechanism under this modification is fair to all market participants as it allows for a twelve month reconciliation assessment and avoids the risks associated with a one month reconciliation. (See our comments to mod 0642 above.)

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

This is a matter for Xoserve.

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

Given the urgency of the modification timescales we haven't been able to conduct an internal analysis of system costs necessary to support the modifications.

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

Given the urgency of the modification timescales, we haven't had time to fully assess the legal text. However we note that the existing legal text is at odds with current business practice with respect to reconciliation. Nexus split the reconciliation energy into 12 equal monthly shares, while the code suggest the energy is shared according to an aggregated 12 monthly share of consumption energy. This area should be addressed outside of these modifications.

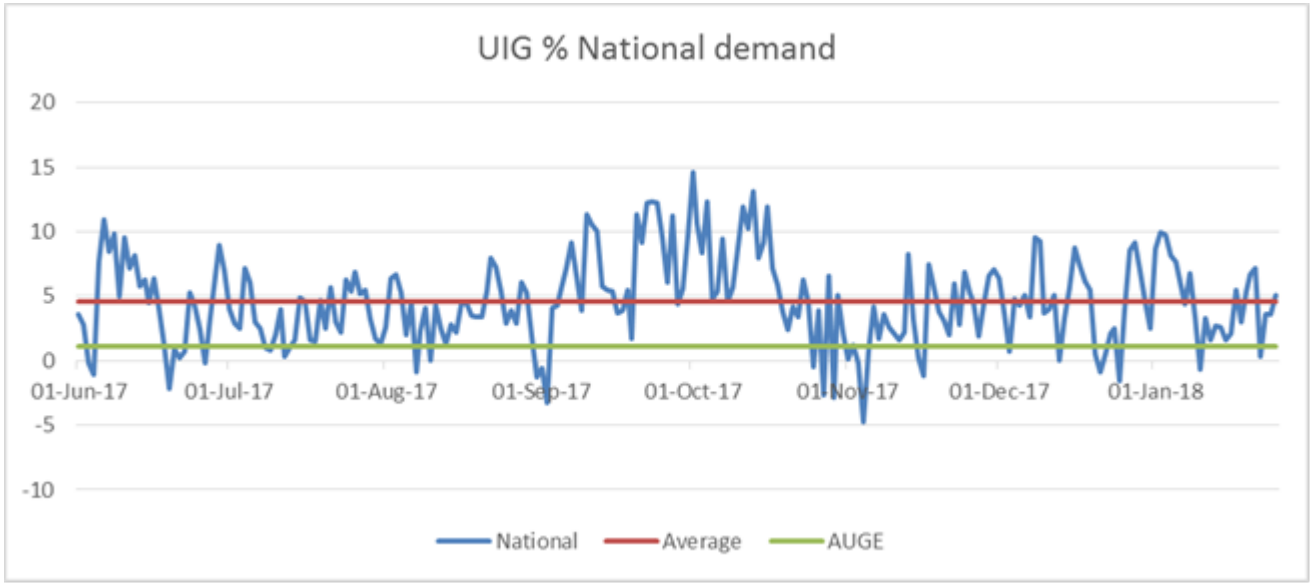
Are there any errors or omissions in this Workgroup Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

We consider the report to be adequate considering the short timeline available.

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

LDZ Demand volatility hasn't changed post Nexus, but a significant proportion of this volatility has migrated into the initial allocation of Un-identified Gas. (UIG) Post nexus, initial UIG allocations are exceptionally volatile, difficult to predict and well above the levels predicted by the independent AUGE. (See chart 1-3) Initial allocations of UIG has averaged 4.5% of total LDZ demand compared with the 1.1% enduring UIG predicted by the AUGE. The initial allocation of UIG includes a significant level of NDM algorithm modelling error as well as enduring UIG.

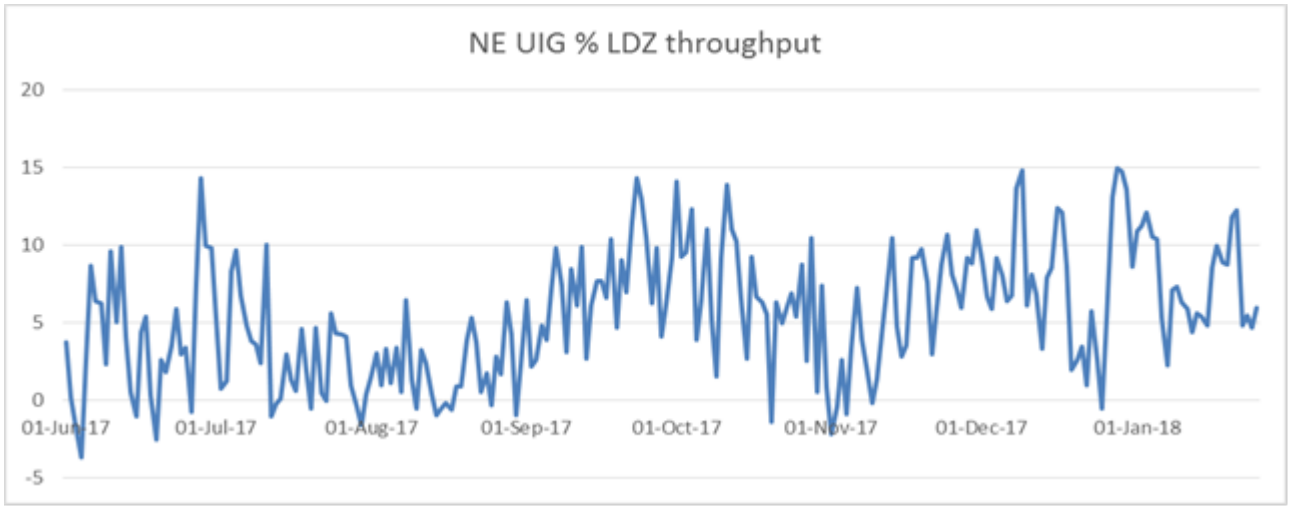
Chart 1



Source UIG Data: http://www.xoserve.com/index.php/our-systems/extranet-secured-sites/

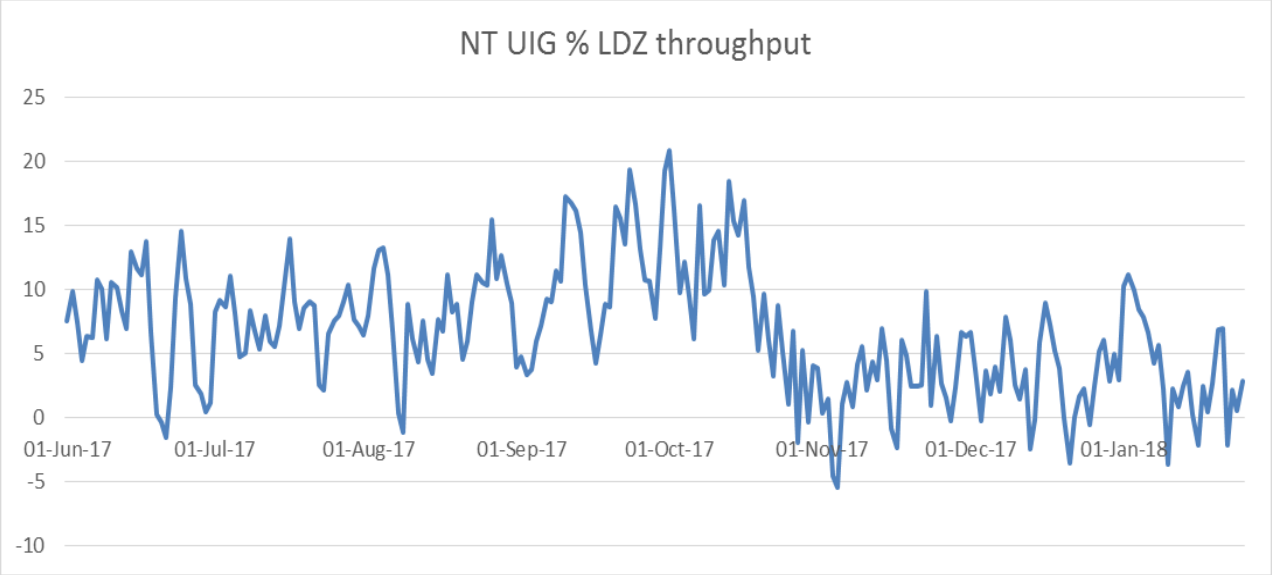
UIG levels and volatility in a particular LDZ is significantly different (often higher) than the national picture which Xoserve have tended to present in their workshops. For example:

Chart 2



Source UIG Data: http://www.xoserve.com/index.php/our-systems/extranet-secured-sites/

Chart 3



Source UIG Data: http://www.xoserve.com/index.php/our-systems/extranet-secured-sites/

If you are a shipper/supplier with a large diversified portfolio of supply point categories in the LDZ, then the combined volatility of your demand and UIG allocation is unlikely to have changed significantly, as your overall portfolio will approximate LDZ demand volatility.

However, for smaller players, particularly those which specialise in particular market segments (I&C/Domestic market) it is very likely that the combined volatility of the portfolio (demand + UIG) has significantly changed post Nexus.

This is reasonable if the initial allocation of UIG to smaller shippers reflects the enduring UIG and modelling error uncertainty associated with their portfolio. However, given the arbitrary nature of the initial UIG allocation, a small I&C portfolio with monthly meter reads (with a high level of validated reads) is facing high levels of UIG volatility, much of which is caused by modelling error from sites in other portfolios with less frequent reads or high levels of estimate readings, which is clearly discriminatory.

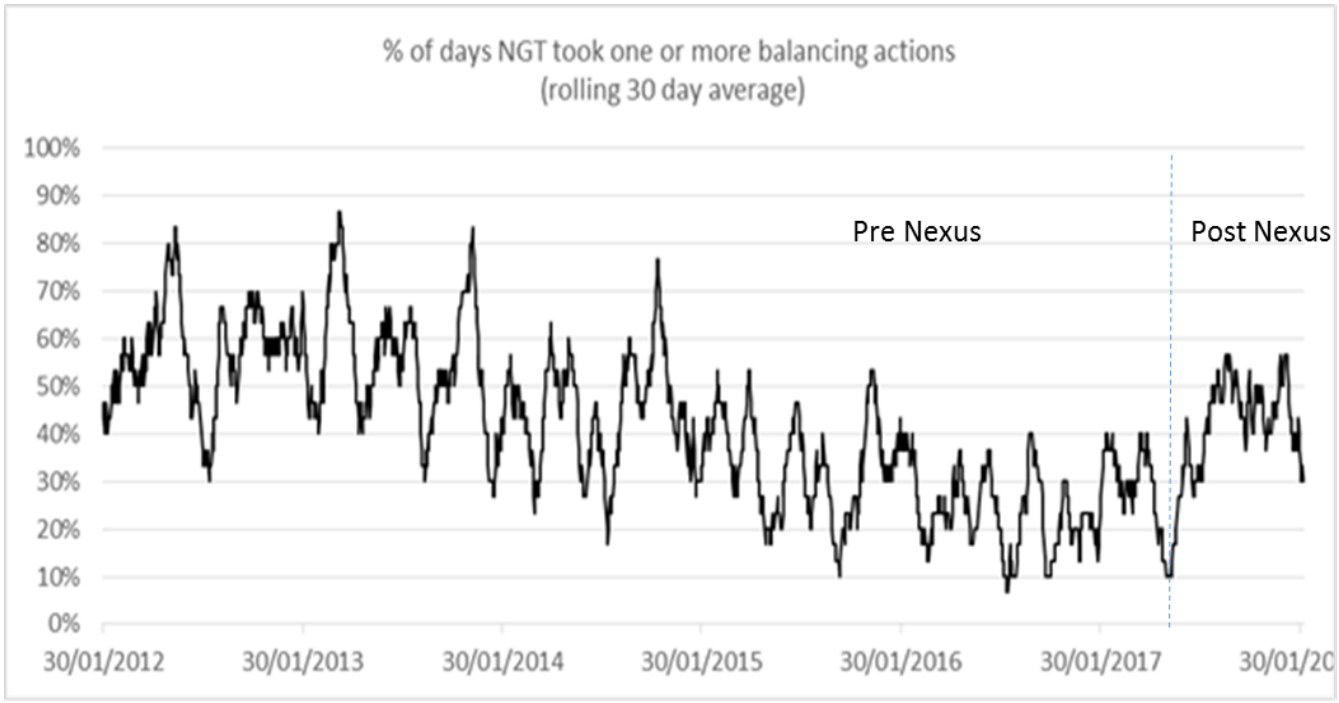
It is also worth noting that the UIG forecast is published later than the corresponding NDM forecasts, and while the time lag has improved, this can still lead to shippers/suppliers experiencing difficulties balancing their portfolio particularly where UIG is volatile and changes occur late in the gas day. Again this issue would likely impact smaller players more severely.

It is interesting that since the Nexus go live, NGT have undertaken far more frequent balancing actions, reversing to some extent a long term trend which saw NGT reducing its intervention in the market (Chart 4). In particular, there has been a notable increase in balancing activity later in the gas day. (Chart 5)

NGT have suggested they have found no correlation between UIG volatility and the increase in residual balancing activity, stressing they haven't changed their approach. However to date, NGT haven't provided any compelling reasons why they have been forced to undertake more frequent residual balancing actions, particularly late in the gas

day. NGT should investigate if smaller shippers in particular, are struggling to balance their portfolios due to UIG volatility.

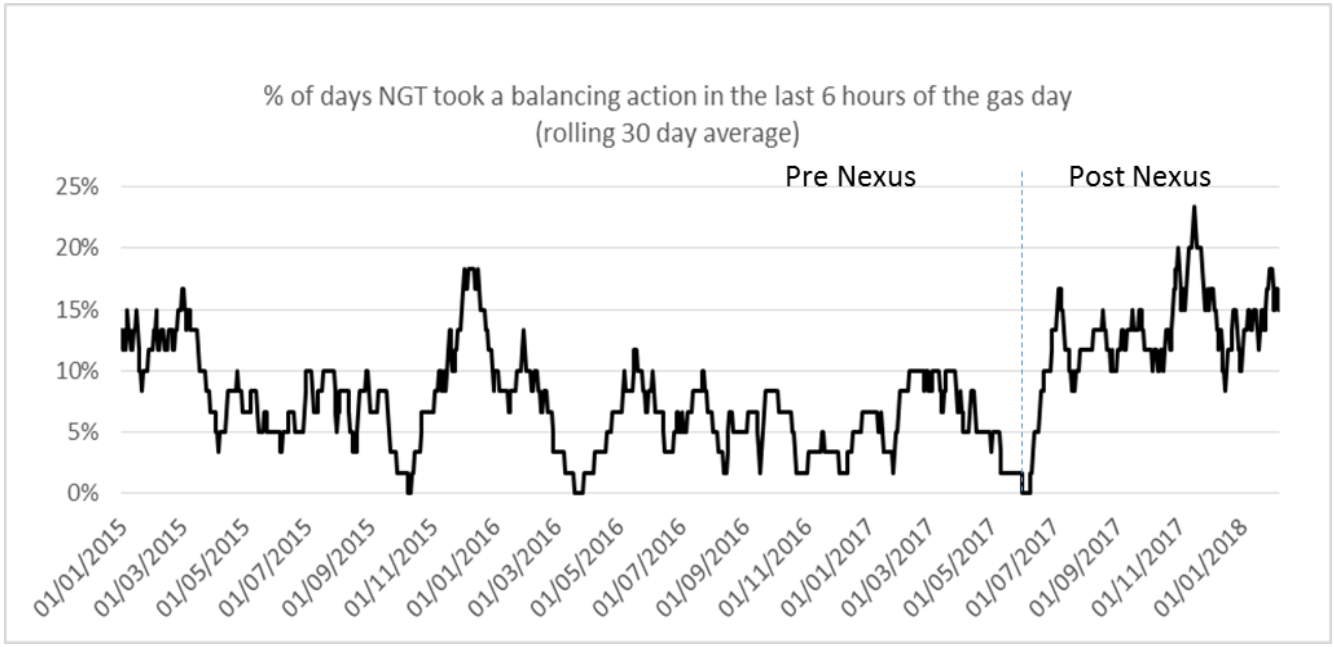
Chart 4



Source: NGT trade data taken from the National Grid MIPI database

http://mip-prod-web.azurewebsites.net/DataItemExplorer/Index

Chart 5



Source: NGT trade data taken from the National Grid MIPI database

http://mip-prod-web.azurewebsites.net/DataItemExplorer/Index