

Representation 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

Modification Workgroup Report

1. **Consultation close out date:** 8th February 2018
2. **Respond to:** enquiries@gasgovernance.co.uk
3. **Organisation:**
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4. **Representative:**
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5. **Date of Representation:** 8th February 2018
6. **Do you support or oppose Implementation:**
We **Support** implementation of Modification 0642

We **Do Not Support** implementation of Modification 0642A

We **Support** implementation of Modification 0643
7. **Alternative Preference**
We **prefer implementation of Modification 0643**
8. **Please summarise (in 1 paragraph) the key reason(s) for your position:**
Following implementation of project NEXUS the non-domestic market has experienced both unexpectedly high levels of UIG as well as material day to day volatility. Whilst some action has been taken to address some specific issues e.g. DM migration issues, the **overall level of risk has not reduced significantly** and ICoSS (I&C Shippers & Suppliers Trade Association) estimate this conservatively to be in the region of **£120m p.a.** based on Xoserve data.

Please summarise (in 1 paragraph) the key reason(s) for your position (Continued):

On behalf of independent I&C Shippers & Suppliers who continue to be detrimentally impacted by these unintended consequences ICoSS has developed two proposals. These have been developed taking into account the paper by DNV GL, **who also undertake the independent AUGE role**, and seek to address this critical market failure:

In its paper, dated 31st October 2017, DNV GL noted:

“The current approach to the calculation of daily UIG contains a key weakness that results in very high levels of variation in the day to day estimate, in addition to UIG with an unrealistically high order of magnitude”

“It is known from DNV GL’s work as the AUGE that **UG is a stable figure of approximately 1% of throughput**, a figure that has remained relatively stable throughout the AUGE period. The most recent estimate available, from the AUG Statement for 2017/18, put the overall level of Unidentified Gas at 1.1% of throughput”

“It should be borne in mind that these **Unidentified Gas figures are calculated independently at an annual rather than a daily level, using far more sophisticated data and methods than the daily UIG calculation”**

“It is clear, therefore, that the **current UIG calculation is not fit for purpose**, and a solution must be found to ensure that it returns accurate and consistent values that reflect the true level of Unidentified Gas”

Whilst we support implementation of both modification 0642 & 0643 we would note that 0642 was developed to deliver a **more timely solution** to the market whilst 0643 was seen as being a more complex solution thus likely to require longer to deliver. However at the final meeting of the Workgroup and just ahead of the consultation commencing Xoserve provided updated information on the timing and cost of the proposals. This identified that there was in reality only a minor difference in delivery (4 weeks) and cost (£200k) between the two proposals. **Thus based on this updated information our preference would be to implement 0643**

We do not support implementation of modification 0642A and would note that it does not address the concerns over the unintended increase in market risk and actually **generates a windfall profit to large domestic suppliers**. This is due to the fact that this modification proposes to shift UIG from domestic suppliers to non-domestic, going against the work undertaken by the independent AUGE which has consistently identified that the majority of Unidentified Gas originates from the smaller supply point market

9. Are there any new or additional Issues for the Modification Report:

No

10. Self-Governance Statement Do you agree with the status?

NA

11. Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

We **agree** with the proposer that **modification 0642** is positive in respect of Relevant Objective (d)

We **disagree** with the proposer that modification 0642A is positive in respect of Relevant Objective (d) as this modification effectively represents a return to the process prior to the AUGÉ where system losses are smeared uniformly across all shippers (with the limited exception of the very largest sites).

We **agree** with the proposer that **modification 0643** is positive in respect of Relevant Objective (d)

12. Impacts & Costs:

What analysis, development and on-going costs would you face if this modification was implemented?

We **have not** identified any significant costs associated with modification 0642 & 0643

We would note modification 0642A modification **will represent a significant change** to our current arrangements as it implements a new regime of applying an effective uniform smear of Unidentified Gas across all customers, except the very largest. This will result in additional gas being allocated to medium and larger I&C customers and will require us to review our pricing of our customers contracts.

13. Implementation:

What lead times would you wish to see prior to this modification being implemented, and why?

We would like to see either Modification 0642 or 0643 **implemented as soon as reasonably practicable.**

14. Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

We have **no** comments on the Legal Text provided.

15. Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or you wish to emphasise.

No