Joint Office of Gas Transporters

<table>
<tr><td colspan="2" align="center">**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</td></tr>
<tr><td colspan="2" align="center">**Responses invited by: 5pm on 08 February 2018**

To: enquiries@gasgovernance.co.uk</td></tr>
<tr><td>**Representative**:</td><td>Mark Bellman</td></tr>
<tr><td>**Organisation:**</td><td>ScottishPower</td></tr>
<tr><td>**Date of Representation:**</td><td>7th Feb 2017</td></tr>
<tr><td>**Support or oppose implementation?**</td><td>0642 - Oppose

0642A – Support

0643 - Oppose</td></tr>
<tr><td>**Alternate preference:**</td><td>*If either 0642, 0642A or 0643 were to be implemented, which would be your preference?*

0642A</td></tr>
<tr><td>**Relevant Objective:**</td><td>**d)** Positive (642a) / Negative (642 / 643)</td></tr>
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Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

ScottishPower accepts that costs would arise from trading a small proportion of volatile volume (i.e. UIG nominations) late in the day in an illiquid market but has not seen evidence that Mod proposals 642 and 643 are proportionate to the impact.

In addition none of the mods address the underlying causes of UIG, whereas 631, 644 and initiatives to incentivise performance have the potential to reduce UIG.

However ScottishPower accepts that a fixed UIG % and smaller 'balancing figure' could reduce uncertainty and trading costs, but any solution must be proportionate and simple.

Of the 3 proposals, 642a is by far the simplest [1] to build and test; and retains the essential elements of Nexus that the industry through consultation approved as the platform for smart metering, more frequent reads and performance assurance regime.

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[1] from slide 8 of XoServe's "Mod HLIA" 29th Jan 2018 ..... 15 weeks development cf. 26 & 30 weeks for Mods 642 & 643

If OFGEM are minded to approve Mods642/3, ScottishPower would like OFGEM to confirm first formally that:

⇨ over £2m (on CDSP costs alone) is a <u>proportionate</u> and <u>effective</u> response to reduce what the proposers of Mods 642 and 643 <u>assert</u> is the financial impact of Nexus UIG; and

⇨ these parties could not reasonably have used the industry information made available in the years prior to Nexus to <u>predict</u> and <u>mitigate</u> the impact (as many parties have done)

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

Lead time needs to be sufficient to allow adequate market-wide testing and trialling. The Mod implementation date should not be before the required systems and processes to deliver it have been developed and tested and accepted for implementation.

The proposer of 642/3 suggests that the mod could be implemented earlier than system delivery. This leaves shippers in position of knowing that their position will change through reconciliation following a future implementation and with an indeterminate period before which they know how accurate their assumptions on that movement; this unknown exposure seems to run counter to the underlying principle of the mods to increase certainty.

642/643 could not realistically be brought in for start of the next gas year, and would likely miss most of the next winter period even with aggressive timescales.

642a could very easily be implemented before the next gas year (and winter period) commences.

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

ScottishPower and all shippers would be faced with unwinding certain elements of Nexus algorithms (validation and forecasting systems and processes).

They would also face another round of market testing and trialling less than 2 years after the pre-Nexus market testing and trialling had finished. It would be critical to ensure this results in accurate settlement and as expected per specification (which ScottishPower believes is not yet sufficiently robust or fully defined to build).

Furthermore under Mods 642/643 shippers would be faced with an additional uncertainty that currently does not apply – that of how much Settlement Error and whether debit or credit associated with the shipper's unread portfolio each month and how that might move as reads progress.

642a would involve less change for shippers and retains the essential Nexus platform to ensure the industry can continue to develop more granular, equitable and efficient settlement processes.

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

ScottishPower do not believe that the intent of the Solution is even certain, given that there were still some questions of detail in the 3rd and final Mod Workgroup. Insufficient time has been afforded to fully develop the solutions, and less sufficient still to ensure that is correctly and unambiguously incorporated into the legal text.

> **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.*

The question of what transition arrangements would be required was not entirely resolved for 642 and 643.

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

642 and 643 would allocate all Settlement Error to unreconciled PC 3 – 4 meters. The CMA, after consideration, did not mandate daily reads for all NDM meters. It would seem unnecessarily penal therefore to approve a mod that allocates all Settlement Error from whatever source, to those meters that legitimately continue to be periodically read, less frequently than monthly.

It is asserted by AUGE that the magnitude and volatility of UIG is due to NDM algorithm error [1]. This is an unsubstantiated statement and is the subject of industry debate, and so is not a reliable basis to impose such charges on unreconciled NDM meters (whose AQs in many cases may well result in a reasonably accurate allocation).

This statement also does not acknowledge the many other factors that contribute to Settlement Error and which under these Mods could be misallocated (e.g. LDZ error reconciliation allocated to unreconciled meters, whereas the original LDZ error allocated to reconciled meters) so that error and correction are in different segments.

Mods 642/643 contain an extra test, such that if the reconciliation energy is more than the unreconciled energy (the Reconciliation Target) then reconciliation will revert to a smearing across all NDM meter points. ScottishPower believes that this creates a number of effects that would undermine a central objective of the mod (allocation of NDM algorithm error to unread meters):

⇨ could be triggered frequently, given that Settlement Error is c. 2 - 3% and read performance for smaller NDM sites would be c. 70%

⇨ unknown potential for perverse incentives on read performance, in order to artificially trigger the smearing of Settlement Error to read as well as unreconciled meters

⇨ introduces further uncertainty after many months of 642/643 reconciliation to unread meters, Settlement Error could be smeared back to read meters

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[1] UIG actually contains error due to the inaccuracy of the NDM algorithm. This error is the cause of the large magnitude and the volatility of the values that are being returned