





UNC Modification	At what stage is this document in the process?
<h1>UNC 0658 (Urgent):</h1> <h2>CDSP to identify and develop improvements to LDZ settlement processes</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; display: flex; align-items: center; justify-content: space-between;">01 Modification</div> <div style="border: 1px solid blue; padding: 5px; display: flex; align-items: center; justify-content: space-between;">02 Workgroup Report</div> <div style="border: 1px solid purple; padding: 5px; display: flex; align-items: center; justify-content: space-between;">03 Draft Modification Report</div> <div style="border: 1px solid orange; padding: 5px; display: flex; align-items: center; justify-content: space-between;">04 Final Modification Report</div> </div>
<p>Purpose of Modification: To authorise the CDSP to assign resources and incur costs related to a task force to investigate the causes and influencers of Unidentified Gas (UIG), with a target of reducing the volatility and scale of UIG and developing a robust predictive model for daily UIG for use by all parties.</p>	
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> treated as urgent and should proceed under a timetable approved by the Authority.
	<p>High Impact Shippers, CDSP</p>
	<p>Medium Impact: None</p>
	<p>Low Impact: Transporters, DMSPs</p>

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Timetable		
The Proposer recommends the following timetable:		
Panel Recommendation on Urgency	07 June 2018	
Ofgem Decision on Urgency	08 June 2018	
Consultation Commences	08 or 11 June 2018	
Consultation Close-out for representations	21 June 2018	
Final Modification Report available for Panel	22 June 2018	
Modification Panel recommendation	29 June 2018	
Ofgem Decision	02 July 2018	

 Any questions?

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1 Summary

What

Since the implementation of Project Nexus the accuracy of the LDZ settlement regime has been identified as a primary cause of the large volumes and volatility of UIG being experienced in the market. The accuracy of the NDM estimation algorithms has been identified as a particular area of concern. Since Project Nexus implementation in June 2017, there has been a fragmented approach to UIG investigations and this has not delivered any noticeable improvements in daily UIG levels, as evidenced by the continuing level and volatility of national and LDZ UIG. Investigations and discussions have taken place in multiple industry committees including DESC (Demand Estimation Sub-Committee), PAC (Performance Assurance Committee), UNC Workgroups, including Distribution and UIG, and under the banner of a number of individual UIG related UNC Modifications. A new, centralised and more focused approach is required, with the CDSP empowered to take on a leadership role on behalf of the industry which would enable them to proactively address the problem in a more controlled manner.

Why

The ongoing level, volatility and unpredictability of UIG is causing considerable commercial difficulty to Shippers across both domestic and non-domestic sectors. Workgroups and industry committees are demanding considerable resource within Xoserve. Impacts are being felt before and during the Gas Day in procurement decision-making, after the Gas Day in Energy Balancing costs, and beyond D+5 close-out in extended reconciliation periods which create the need for Shippers to account for UIG until eventually reconciled. The timing and extent of the eventual reconciliation is still not quantified or understood. This is leading to a detrimental impact on consumers with additional cost and risk premia.

There needs to be a step-change in the focus and level of investment in investigative and corrective analysis. If not then this situation will persist and the severe commercial issues will not be resolved. The CDSP are uniquely positioned to lead this work and should not be constrained by industry committees which are diverting valuable CDSP resource.

Following Ofgem's indication that they are minded to reject UNC Modifications 0642, 0642A and 0643, it appears that the current post Nexus business rules will remain in place for the foreseeable future and therefore the industry needs to urgently take pro-active steps to make the existing arrangements work better for all parties and the CDSP is the optimal body to lead this piece of work

How

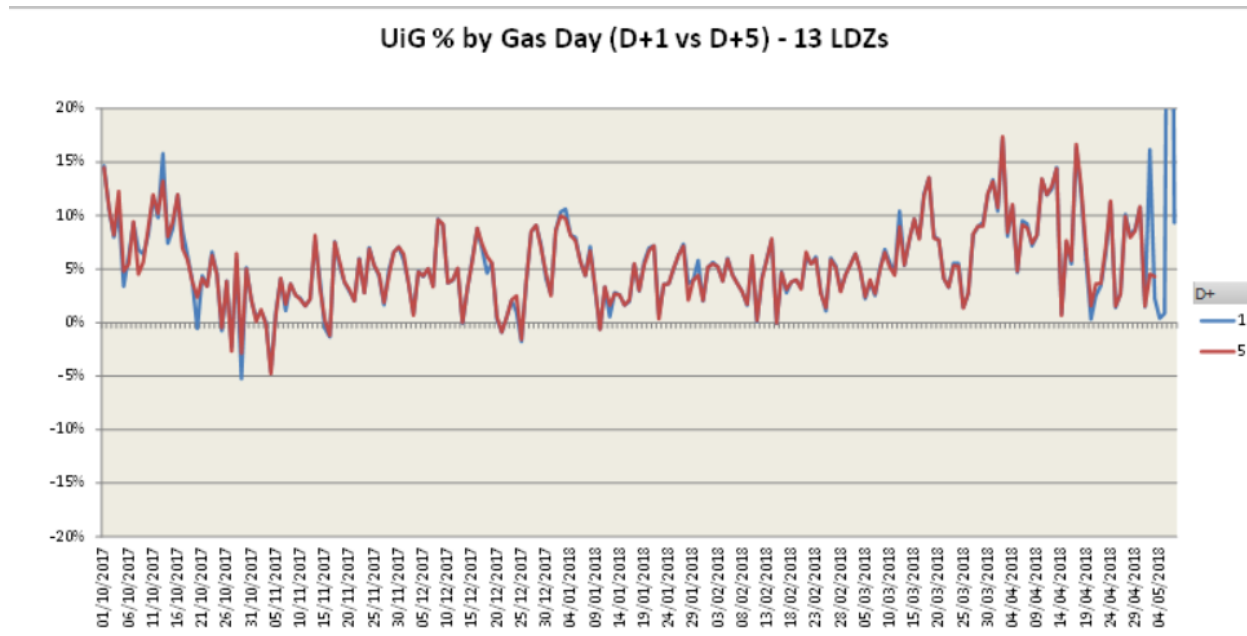
This modification proposes that the CDSP will be given the mandate to assign resources to a CDSP task force to investigate the causes and influencers of UIG, with a target of reducing the volatility and scale (absolute levels) of UIG and developing a robust predictive model for daily UIG for use by all parties.

This CDSP task force would identify process and system improvements that would be effective in reducing UIG levels and volatility. The CDSP would be asked to develop clear solutions that could either be implemented directly or, where necessary, would be sponsored by the industry through UNC modifications that would be taken forward through existing UNC rules and change management bodies.

2 Governance

Justification for Authority Direction

The material impact of the UIG problem was estimated in UNC Modifications 0642 & 0643 as of December 2017 averaging around 4.65% with a cost of around £18m a month. The latest information published by Xoserve on 11th May 2018 demonstrates that the volatility has not reduced:



It is clear that the material impact of UIG has not diminished since December and so this modification requires authority decision and should follow an Urgent timetable. The inequitable allocation of costs from the settlement error is around £13.5m a month or over £160m a year. This issue has a clear and material impact on the market and competition.

In light of this we believe that this modification satisfies the Ofgem urgency criteria as it attempts to address the current problems of UIG, which is a current issue that if not urgently addressed will continue to cause a significant commercial impact on parties, consumers and other stakeholders.

The UNC Modification process was chosen in preference to the DSC change process, due to the materiality of the UIG issues being addressed.

Requested Next Steps

This modification should:

- be treated as urgent and should proceed under a timetable approved by the Authority

3 Why Change?

The industry has expended significant time and effort since Project Nexus go-live in attempting to understand the causes of the highly volatile and unpredictable UIG volumes being experienced in the market.

Though there have been a number of industry initiatives to try and address this issue, they have been raised in an uncoordinated manner, without full understanding as to their likely effectiveness and whether they represent the optimal and complete solution. The inability to properly evaluate the suitability of some of the more complex solutions that have been proposed is primarily due to a lack of focus by those individuals from various

parties with detailed knowledge of the workings of the LDZ settlement regime. The industry has so far failed to implement solutions that address the fundamental causes of inaccuracy in the existing regime.

The issues around UIG are affecting all industry parties commercially, through uncertainty of daily quantities, fluctuating buying signals, and increased resources required to manage daily UIG. Whilst the primary burden falls on Gas Shippers, many other parties are also reporting adverse effects including Traders, Suppliers, Consumers, Transporters, DMSPs and the CDSP.

CDSP expert resource needs to be optimised to allow a more efficient focus on this area, and there needs to be a single impartial and independent central point of management of the investigation and resolutions. The only organisation that can realistically undertake such an assessment is the CDSP as they currently operate the LDZ settlement regime on behalf of the industry.

Delivery route

The CDSP would only be able to effectively undertake this work to the level required if it had an explicit requirement to assign resource to a dedicated task force with the remit to propose solutions that would be implemented directly by the industry or taken forward through the UNC modification process. None of the existing mechanisms for contract management of the CDSP have the powers to organise and run such a significant piece of work and the CDSP are uniquely placed to take the lead in improving the UIG situation. For the avoidance of doubt this modification proposes changes to the CDSP Service Document in line with provisions in the CDSP service document change management procedures, which allow for changes to the DSC through the UNC Modification Rules.

4 Code Specific Matters

Reference Documents

NDM demand estimation methodology, though as this modification simply requires the mobilisation of a UIG Task Force and proposed solutions to be developed by the CDSP, no changes to any existing Code documents will be progressed via this change.

Knowledge/Skills

We are confident that the CDSP can manage their resource requirements appropriately, contracting with third parties for additional support if it feels that is required. In addition, the use of CDSP resources in a more centralised manner will mean a more holistic and centralised approach, so discouraging multiple and conflicting modifications.

5 Solution

This modification proposes to create a new Service Line in the Service Description Table to investigate causes and contributors to levels and volatility of Unidentified Gas. The purpose of the investigation is that the CDSP is to:

- make recommendations to allow actions to be taken that aim to reduce levels of Unidentified Gas to less than 4% of LDZ by 31st December 2018, and

- report on absolute levels and propose measures which aim to reduce variation of Unidentified Gas to plus/minus 0.5% of absolute levels by 31 October 2019 and

The CDSP is to undertake the investigation and report to the industry in a transparent manner and at regular intervals with a centralised industry UIG plan.

Any activities being undertaken at other industry committees could continue but the priority of Xoserve expert resource with regard to UIG investigations would be assigned to the centralised programme. This would give a single, efficient area of focus and prevent conflicts in interests or priorities across multiple parties in multiple committees. For the avoidance of doubt, any existing UNC modifications would continue and would not be impacted by the establishment of the CDSP UIG Task Force.

Xoserve shall brief the whole industry on its progress at regulator intervals (at a minimum monthly) to determine progress made what UNC/DSC changes might be required to achieve the targets (for the avoidance of doubt this would include detail on specific code and system changes required) and whether any refinement is needed in light of new information. The CDSP could request information directly from industry participants (or request this information through Ofgem) where information is required to support its work.

Industry parties (Shippers, Transporters, IGTs) would be required to use all reasonable endeavours to provide the CDSP with all and any data requested in a very timely manner to complete the analysis required to meet the desired outcomes.

For the avoidance of doubt the CDSP will seek to undertake this work independently and will solely determine its engagement strategy and any updates to any market forums. To preserve the impartial nature of the process, there will be no form of industry steering group. Xoserve will recommend to the industry the timing of the closure of the investigation.

6 Impacts & Other Considerations

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

None

Consumer Impacts

None, though it is expected that this modification will highlight a series of solutions that can be progressed by the industry that will have a beneficial impact on the market by improving settlement accuracy and reducing UIG.

Cross Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

None, as a direct consequence of this modification, although it is anticipated that the work will identify a series of changes to central systems, but these will be progressed via subsequent changes.

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 (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

Understanding the current accuracy of the LDZ settlement regime and the root causes of UIG volatility will give Shippers a greater level of understanding of the source and materiality of costs arising from supplying LDZ customers and so promote competition. In addition, the proposed solutions to the issues identified will also further competition.

8 Implementation

No specific timeline is proposed. However, owing to the excessive costs being incurred in the market by the current levels of volatility this modification needs to be implemented as soon as possible.

9 Legal Text

Legal text to be provided.

10 Recommendations

Proposer's Recommendation to Panel

The Authority is asked to:

- Agree that this modification should be treated as urgent and should proceed under a timetable approved by the Authority.