















UNC Modification		At what stage is this document in the process?
<h1>UNC 0699:</h1> <h2>Incentivise Key Areas of Performance using additional <del>UIG</del> Charges</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #28a745; color: white; padding: 2px; display: flex; align-items: center; justify-content: center;">01 Modification</div> <div style="border: 1px solid #17a2b8; padding: 2px; display: flex; align-items: center; justify-content: center;">02 Workgroup Report</div> <div style="border: 1px solid #ffc107; padding: 2px; display: flex; align-items: center; justify-content: center;">03 Draft Modification Report</div> <div style="border: 1px solid #ffc107; padding: 2px; display: flex; align-items: center; justify-content: center;">04 Final Modification Report</div> </div>
<p><b>Purpose of Modification:</b></p> <p>To create a Shipper incentive mechanism, which encourages the achievement of key UNC targets and obligations. A <del>charge proportion of Unidentified Gas (UIG) charges</del> will be levied <u>in</u> each <u>retrospective</u> month, to Shippers where performance has not met a set of pre-determined UNC targets.</p>		
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <li>considered a material change and not subject to self-governance</li> <li>assessed by a Workgroup</li> </ul> <p>This modification will be presented by the Proposer to the Panel on <b>18 July 2019</b>. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>	
	<p>High Impact: None</p>	
	<p>Medium Impact: CDSP and Shippers</p>	
	<p>Low Impact: Gas Transporters</p>	

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Timetable	
<b>The Proposer recommends the following timetable:</b>	
Initial consideration by Workgroup	23 July 2019
Workgroup Report presented to Panel	16 January 2020
Draft Modification Report issued for consultation	16 January 2020
Consultation Close-out for representations	06 February 2020
Final Modification Report available for Panel	11 February 2020
Modification Panel decision	20 February 2020
 Any questions?	
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## 1 Summary

### What

This modification proposes a new Shipper incentive mechanism to levy a ~~charge proportion of Unidentified Gas (UIG) charges~~ each retrospective calendar month, for a pre-determined set of UNC targets, where Shipper performance has not met the UNC target.

These ~~UIG~~ charges will be re-distributed to all Shippers in each Local Distribution Zone (LDZ) using the existing UIG reconciliation process and the existing UIG Weighting Factors (as developed by the AUGE) further explanation can be seen in Appendix 2.

The list of performance targets and associated multipliers would be set out in a UNC Related Document with amendments being proposed by the Performance Assurance Committee (PAC) and approved by a majority vote of the Uniform Network Code Committee (UNCC).

### Why

The UIG Task Force (as established by *UNC Modification 0658 (Urgent) - CDSP to identify and develop improvements to LDZ settlement processes*) has identified a number of areas where Shipper performance against existing UNC obligations can significantly affect the level and/or volatility of UIG including (but not limited to):

- Valid Meter read submission levels
- Incorrect Conversion Factor
- Incorrect Meter Read Frequency

For instance, one of the UIG Task Force findings demonstrated that the longer the gap between the accepted meter readings, the greater the volatility of the re-calculated rolling Annual Quantity (AQ). As at May 2019 there are over 2million Supply Meter Points which are overdue a meter reading against their UNC obligations, and over 600,000 Supply Meter Points which have not had a valid meter reading since Project Nexus Implementation.

Some of these performance areas are impacting UIG at the point of allocation and will (eventually) be corrected by meter point reconciliation. Others (such as the volume-to-energy conversion factor) will never be corrected by reconciliation and will continue to contribute to UIG until the underlying data is corrected.

### How

This Modification proposes a new Shipper incentive mechanism to levy a ~~proportion of UIG charges~~ each retrospective calendar month, for a pre-determined set of UNC targets, where Shipper performance has not met the UNC target. Each performance area would have a multiplication rate which recognises the relative contribution to UIG. The UIG rate would be calculated as a percentage of AQ at risk, with that percentage derived from the average national UIG for the preceding gas year. The energy price used would be a flat average of the daily SAP (System Average Price) for the performance month in question.

Following the aforementioned performance assessment, the ~~revised UIG~~ charges would be re-distributed to all Shippers within each LDZ using the existing UIG reconciliation process.

The list of performance targets and the multiplication rate would be set out in a UNC Related Document, with amendments being proposed by PAC and approved by a majority UNCC vote.

## 2 Governance

### Justification for Self-Governance, Authority Direction or Urgency

This modification seeks to introduce a change to UIG charging and places an incentive for Shippers to meet key UNC performance targets. Therefore, it is not recommended for self-governance as this modification will have additional cost implications for some Shippers and has the potential to have a material impact on competition. Authority Direction is therefore suggested.

### Requested Next Steps

This modification should:

- be considered a material change and not subject to self-governance
- be assessed by a Workgroup

## 3 Why Change?

There are currently no measures within the UNC to encourage Shippers to meet their UNC performance targets. Many of those performance areas can have a significant impact on the data items which drive UIG.

Performance in areas such as valid meter reading submission, as well as some areas of data accuracy, are currently well below target levels set out in UNC.

The incentive mechanism would need to be set out in UNC to ensure that the revised UIG charges are valid and can be collected by or on behalf of the Network Operators.

Without the introduction of a formal incentive mechanism, the industry will not have any concrete levers and will have to rely on persuasion and influencing by parties such as PAFA Performance Assurance Framework Administrator (PAFA) and the Central Data Services Provider (CDSP).

## 4 Code Specific Matters

### Reference Documents

UNC obligations, especially Section M. Xoserve UIG Task Force findings and recommendations:  
<https://www.xoserve.com/services/issue-management/unidentified-gas-uig/#task-force-findings-etc>

### Knowledge/Skills

Knowledge of existing UNC obligations, appreciation of UIG drivers.

## 5 Solution

This modification proposes three elements:

- A UNC Related Document which shall include a table of performance areas and the multiplication rates for ~~applying and redistributing charges~~, ~~revising and redistributing UIG charges~~.
- Rules for calculating the ~~revised UIG~~ charges.

- Rules for sharing out the revised UIG charges via the Amendment Invoice using existing UIG weighting factors.

## UNC Related Document

### Table of performance areas and the multiplication rates for revising and redistributing of UIG charges

The following will form a UNC Related Document. Subsequent amendments would be recommended as required by PAC and approved by a majority UNCC vote.

The list of performance areas and the multiplication rate applied. The initial proposed list of topic areas, current standard and multipliers is as follows (see worked example in Appendix 1):

Obligation	UNC Ref	Reason for Inclusion in incentive	Multiplier & Justification	Calculation
Provide a Valid Meter Reading for 97.5% of all Class 1 Meter Points each day, prior to exit Close-out (D+1)	M5.6.1	Lack of meter reads delays reconciliation and can result in more UIG or greater volatility, as daily allocation is based on estimates, not actual.	<b>2 times average UIG rate</b> Good meter read submission is critical to managing UIG	[UIG rate] x [Multiplier] x 97.5% - [actual performance level for the month] x total Class 1 AQ on the first day of the month x [average SAP for the month]
Provide a Valid Meter Reading for 97.5% of all Class 2 Meter Points each day, prior to exit Close-out (D+5)	M5.7.4	Lack of meter reads delays reconciliation and can result in more UIG or greater volatility, as daily allocation is based on estimates, not actual.	<b>2 times average UIG</b> Good meter read submission is critical to managing UIG	[UIG rate] x [Multiplier] x 97.5% - [actual performance level for the month] x total Class 2 AQ on the first day of the month x [average SAP for the month]
Provide 90% of the daily Valid Meter Readings for all Class 3 Meter Points each month	M5.8.5	Lack of meter reads delays reconciliation and can result in less accurate Aqs and more UIG or greater volatility	<b>2 times average UIG</b> Good meter read submission is critical to managing UIG	[UIG rate] x [Multiplier] x 90% - [actual performance level for the month] x total Class 3 AQ on the first day of the month x [average SAP for the month]
Provide 90% of the daily Valid Meter Readings for all Class 4 Monthly Read Meter Points each month	M5.9.7	Lack of meter reads delays reconciliation and can result in less accurate Aqs and more UIG or greater volatility	<b>2 times average UIG</b> Good meter read submission is critical to managing UIG	[UIG rate] x [Multiplier] x 90% - [actual performance level for the month] x total Class 4 Monthly Read AQ on the first day of the month x [average SAP for the month]
Provide one read per annum for all Annually Read Sites	M5.9.9	Lack of meter reads delays reconciliation and can result in less accurate Aqs and more UIG or greater volatility	<b>2 times average UIG</b> Good meter read submission is critical to managing UIG	[UIG rate] x [Multiplier] x total AQ of Annually Read sites which last had a meter reading 15months ago and have not had a Valid Meter Readings since then x [average SAP for the month]
Use of standard Conversion Factors, AQ >732,000	M1.5.3	Use of the standard CF instead of a site specific value contributes to the daily UIG due to incorrect calculation of volume	<b>0.5 times average UIG</b> These are larger sites with Aqs of more than 10x average. Meter point reconciliation does not	[UIG rate] x [Multiplier] x total AQ of sites with a standard conversion factor on the last day of the month x [average SAP for

		and incorrect AQs	correct the error	the month]
Use of non-standard Conversion Factors AQ <732,000	M1.5.3	Use of a non-standard CF instead of the standard value specified in legislation contributes to daily UIG due to incorrect calculation of volume and incorrect AQs	<b>0.5 times average UIG</b> These sites contribute to UIG each day. Meter point reconciliation does not correct the error	[UIG rate] x [Multiplier] x total AQ of sites with a non-standard conversion factor on the last day of the month x [average SAP for the month]

Further lines may be added during the development of this Modification.

### Rules for calculating the revised UIG charges

The charges will be based on AQ "at risk" in each of the performance areas.

The multiplication rate will be set out in the UNC Related Document.

The monthly average rate of UIG will be the total of all daily LDZ UIG at D+5 allocation divided by the total LDZ energy (including DM, NDM and Shrinkage energy) for the previous Gas Year. The monthly value will be calculated each October and published by the end of October for use in all monthly incentive calculations for that Gas Year that has just started. This prevents the UIG incentive charge varying month on month with seasonal differences.

For the avoidance of doubt, if the total UIG for the previous Gas Year is a negative number (highly unlikely but possible) giving a negative percentage, the UIG rate used in the calculation for the following Gas Year will be multiplied by -1, i.e. the UIG rate used in the calculation will always be a positive number.

The gas price used in the calculation will be the monthly average System Average Price (SAP) for the performance month in question. This would increase UIG Incentive charges when gas prices are higher, as it is even more important to maintain performance levels when prices are high.

### Rules for sharing out the revised UIG charges via the Amendment Invoice

The incentive charges will be billed as energy charges monthly in arrears, with appropriate supporting information and a breakdown by LDZ. Payment will be made in line with existing energy payment rules.

The equal and opposite amount will be treated as UIG Reconciliation and will be included on the next available Amendment Invoice, so will be shared out using existing Reconciliation billing rules, on the basis of latest share of weighted LDZ throughput for the last 12months. Payment will be part of the payment arrangements for the existing Amendment Invoice energy charges.

As the amount being shared out would not be separately identified on the Amendment invoice, the CDSP would produce and publish (in the public domain) a monthly report of the total amount collected by LDZ against each of the incentive line items.

This Modification also proposes a confidential report to be made available to PAC the following month, of each Shipper's performance levels against the UNC obligations.

## 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. This Modification does not affect any billing arrangements to consumers; Suppliers may be billing their consumers to a different schedule than is specified in UNC. However, it could aid the accuracy of end consumer billing, if it encourages higher rates of meter reading. This would also improve system data accuracy such as meter read submission, AQ's and conversion factor accuracy, this in turn would improve cost allocation and competition.

#### Cross Code Impacts

A corresponding IGT UNC Modification would be required to allow these incentive charges to be raised against IGT Shippers; otherwise these charges would only apply to Directly Connected DNO Shippers.

#### EU Code Impacts

None

#### Central Systems Impacts

No change to Gemini is envisaged.

The aim of this change is to keep systems impact to a minimum. Daily UIG allocation rules will be unchanged.

Billing of UIG incentives will be monthly in arrears and would require a new calculation mechanism.

The use of the existing UIG Amendment invoice process for the re-sharing of the collected funds is designed to reduce the UK Link systems impact.

## 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	Positive

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	
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

These incentives are intended to increase performance levels for key Shipper obligations, which should in turn result in more accurate AQs and therefore more accurate gas allocation and reconciliation and will promote competition by reducing the barrier to entry that is currently being created by the high, unexplained levels of Unidentified Gas (UIG) (objective (d)).

## 8 Implementation

No implementation timescales are proposed. However, this Modification could be implemented prior to a system solution being ready, if industry parties supported being billed/credited incentive charges in arrears, once the system solution was available.

## 9 Legal Text

### Text Commentary

To be provided by Transporters

### Text

To be provided by Transporters

## 10 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply
- Refer this proposal to a Workgroup for assessment.

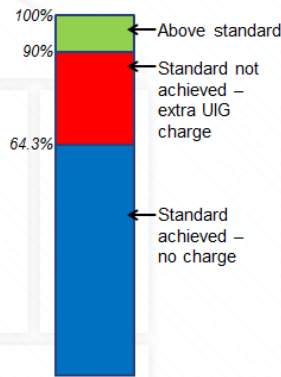


**Appendix 1**

The worked example below uses an example of actual shipper performance where Meter Read Performance did not meet UNC obligations.

**Worked Example**

- Shipper A has 11,000,000,000 kWh of AQ in Class 3
- Meter read performance target of 90%
- Actual read performance 64.3%
- UIG charge =  $11 \text{ tWh}/12 \times (0.9 - 0.643) \times 3.5\% \times 2 \times 1.62\text{p}^* = \text{£}265,151$
- Equal and opposite shared out via UIG sharing on Amendment Invoice



\* Average SAP price for February 2019

**Appendix 2**

The timeline below shows how the charging mechanism relates to UIG, specifically that the incentive does not look to impact or amend the way in which UIG is allocated.

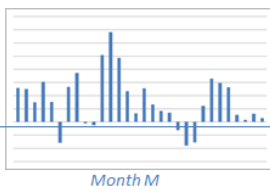
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**Mod 0699 Timeline**

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*Within Month:*

- Daily UIG calculation is unchanged
- Shared out using the UIG Weighting Factors



Month M + x

*After Month-End, in arrears*

- Measure performance against key standards (e.g. meter read submission)
- Charge each Shipper additional charge where performance is below standard
- Amount of charge is unrelated to actual UIG for the month – determined by performance levels, multipliers and historic UIG %

*After Month-End, in arrears*

- Equal and opposite of charge shared out via Amendment Invoice UIG Reconciliation process
- Shared out using UIG Weighting Factors
- Total UIG quantity is unchanged – simply re-distributing using UIG weighting factors

