



October 2021

# **UNC Modification 0781 – UIG reform options**

# UIG change options

## Uniform Allocation



Allocate UIG to all throughput equally.

- Pros:
  - Simple,
  - Reduces management costs (no AUGE, no sub-committee, etc).
- Cons:
  - Any model will create “winners and losers” compared to current process.
  - Removes incentives to reduce UIG – if current process is seen to do so.
  - Loses possible insight into UIG issues – no regular review.

# UIG change options

## Static model



AUGE process would be discontinued and replaced with a static model that Xoserve would manage which would operate unchanged except via an industry process (e.g. UNC Code change).

- Pros:
  - This proposal would add certainty, and stability to UIG charges which would allow easier forecasting of costs. Would reduce industry effort in managing annual AUGE process
- Cons:
  - Any model will create “winners and losers” compared to current process.
  - Development of a robust model would require significant work and cost.
  - A static model may also drift over time where initial assumptions become invalid.
  - Loses possible insight into UIG issues – no regular review.

# UIG change options

## Static model (with regular audit)



AUGE process would be discontinued and replaced with a static model that Xoserve would manage which would operate unchanged except via an industry process (e.g. UNC Code change). Requirement for annual audit.

- Pros:
  - This proposal would add certainty, and stability to UIG charges which would allow easier forecasting of costs. Would reduce industry effort in managing annual AUGE process.
  - Annual Audit will allow potential issues to be identified.
- Cons:
  - Any model will create “winners and losers” compared to current process.
  - Development of a robust model would require significant work and cost.
  - Annual Audit may simply result in the current process with slightly different emphasis.

# UIG change options

## Utilise existing industry datasets

Existing industry datasets would be utilised for determining levels and proportions of UIG, with data used to update the model . An example of this would be industry theft reporting which has significantly improved since the inception of the AUGE concept in 2009.

- Pros:
  - This proposal would reduce the potential subjectivity of any assessment by the AUGE and reducing the risk of radical change.
  - Allows a development of a history of UIG information that is easily verifiable.
- Cons:
  - It may create incentives on shippers to skew data to suit its UIG allocation
  - Would require robust industry data.
  - Loses possible insight into UIG issues – no regular review.

# UIG change options

## Utilise existing industry datasets (AUGE top-up)



Existing industry datasets would be utilised for determining levels and proportions of theft where appropriate. The AUGE role would then be limited to identifying areas of UIG which cannot be derived from industry datasets.

- Pros:
  - This proposal would reduce the potential subjectivity of any assessment by the AUGE and reducing the risk of radical change.
  - Allows a development of a history of UIG information that is easily verifiable.
- Cons:
  - Who determines what areas need additional assessment?
  - It may create incentives on shippers to skew data to suit its UIG allocation
  - Would require robust industry data.

# UIG change options

## Balancer of last resort



This option aggregates UIG losses for each LDZ and allocates them to a “Balancer of Last Resort” with the costs of the 3rd party recovered from the industry.

- Pros:
  - This proposal would allow aggregation of UIG management costs as the process would create a single UIG gas requirement for the market.
- Cons:
  - This would remove the ability for shippers to compete when managing UIG costs as part of their portfolio.
  - Would also require the development of a process where UIG is negative as the balancer party would have to be able to sell gas to the market to match its negative position.

# UIG change options

## Smother transition of scaling factor changes



The annual AUGE process would continue, but any changes to scaling factors would be smoothed over a period of years (say 3 years).

- Pros:
  - This proposal will have a stabilising effect on UIG charges to shippers (and therefore to consumers) leading to more predictable costs and reduced risk associated to pricing.
- Cons:
  - Any model will create “winners and losers” compared to current process.
  - Potential improvements to UIG allocation would take longer to be realised.



# UIG change options

## UIG framework responsibility of sub-committee



UIG management would be formally controlled by a sub-committee who responsible for setting values and managing the model. This could be achieved by mirroring the current DESC process.

- Pros:
  - Accountability for the process rests with shipper representatives, not a third party
  - Allow for continuity of understanding in the UIG allocation process.
- Cons:
  - Potential bias from the industry representatives on the committee.
  - May require significant input from shipper representatives – will that be sustainable?