

**UNC Workgroup 0781R Minutes
Review of the Unidentified Gas process
Thursday 28 April 2022
via Microsoft Teams**

Attendees		
Rebecca Hailes (Chair)	(RHa)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Andy Clasper	(AC)	Cadent
Clare Manning	(CM)	E.ON Energy
Dan Fittock	(DF)	Corona Energy
David Mitchell	(DM)	SGN
David Morley	(DMo)	Ovo Energy
Ellie Rogers	(ER)	Xoserve
Fiona Cottam	(FC)	Correla on behalf of Xoserve
Gareth Evans	(GE)	Waters Wye Associates
Guv Dosanjh	(GD)	Cadent
Harry Brazier	(HBr)	Ofgem
Hursley Moss	(HM)	Cornwall Insight
John Baldwin	(JB)	CNG Services Ltd
Kate Lancaster	(KL)	Xoserve
Louise Hellyer	(LH)	Totalenergies Gas & Power
Mark Field	(MF)	Sembcorp Energy UK
Mark Jones	(MJ)	SSE
Richard Pomroy	(RP)	WWU
Robert Johnstone	(RJ)	Utilita
Rhys Kealley	(RK)	British Gas
Steve Mulinganie	(SM)	Gazprom Energy
Tom Stuart	(TSt)	WWU
Tracey Saunders	(TSa)	Northern Gas Networks

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0781/280422>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 July 2022.

1.0 Introduction and Status Review

1.1. Approval of Minutes (24 March 2022)

The minutes from the previous meeting were approved.

1.2. Approval of Late Papers

RHa confirmed there was no late papers for the Workgroup to consider. **Review of Outstanding Actions**

Action 0301: Workgroup to consider the presented option assessment and share view of the top 3 options at next meeting.

Update: Workgroup discussed the list of options shown below:

1	Uniform Allocation model based on volume ("vanilla smear")
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2	Static Model
3	Static Model (with regular audit)
4	Utilise existing industry datasets
5	Utilise existing industry datasets (AUGE topup)
6	Balancer of last resort
7	Smoother transition of scaling factor changes
8	UIG Framework responsibility of sub-committee
9	Lengthen the duration of the AUGE term
10	Apply some method of smoothing/mitigation when transitioning from one AUGE regime to the next.

Mark Jones (MJ) shared the view of SSE via email to Joint Office, Option 1 - Uniform Allocation model based on volume ("vanilla smear") is their preferred option and their view is that it should be taken forward under a separate Modification proposal. RHa asked for clarification and MJ confirmed he would not expect the vanilla smear to include large DM sites.

RHa proceeded to seek views from other Workgroup Participants for their preferences. The general consensus was for **Option 1: Uniform Allocation model based on volume ("vanilla smear")** to be developed. There was some support for **Option 6: Balancer of last resort**, though this is limited because the option would be difficult to instigate due to the financial burden the balancer of last resort would have to carry until the values are smeared.

Clare manning (CM) advised she had not received anything internally, therefore has no preference and is happy with the process as it is now.

Ellie Rogers (ER) advised she was not at the last meeting and has no preference. GE advised he is comfortable with **Option 1: Uniform Allocation model based on volume ("vanilla smear")**. **With regards to Feasibility**, he said there should be an understanding of who does it and how it is managed that may need drawing out through further discussion.

When Workgroup considered the other preferred option, **Option 6: Balancer of last resort**, GE noted there is little to compare between Option 1 and Option 6, he clarified that Option 6 would entail the creation of new weighting factors and would take a lot of work to implement.

Louise Hellyer (LH) advised Workgroup that she had a recent meeting with a customer to discuss UIG, notably because the price change is quite considerable, and found that the customer wanted a good understanding of the process, something that they could understand better. She noted that it was almost impossible for the customer to understand the current process and in any case, the data required to generate the weightings is published through the AUG Workgroups where they can be discussed. She suggested that **Option 1: Uniform Allocation model based on volume ("vanilla smear")** would be the best option to explain and the best option for the customer to understand.

When asked, LH confirmed that this applies to I&C customers and Domestic customers although I&C customers expect a breakdown of how the figure is derived to be provided.

Steve Mulinganie (SM) agreed that Shippers (and Suppliers) should be able to explain the reasoning to customers to enable a better understanding. SM added that having something that is easy to explain is really important to the customer, if a more complex process were chosen, the customer would have to be able to see the workings out and how the outcome is reached.

It was noted that, a fixed figure, that would be reached if Option 1 was taken forward, not everybody may not like the figure that is reached, but at least it is understandable how that figure is reached.

GE explained that Option 1 (a vanilla smear) would be made up of a value for each Exit Zone which would then be apportioned equally for each active Shipper, everybody has a proportional share, it is not volume weighted.

DF commented that Option 1 would remove the need for an AUGE and the associated AUGE process.

MJ provided the reasoning for his preference for Option 1:

- It would be easy to implement;
- Customers would understand it;
- UIG is quite volatile at the moment
- Option 1 provides less risk for Shippers;
- There has been debate around UIG since *Modification 0229 - Mechanism for correct apportionment of unidentified gas (May 2009)*; with vanilla smear all parts of the Industry would have the same weighting.

When it was mentioned that large Daily Metered sites would require only a tiny weighting factor to be allocated for large DM sites, LH agreed and suggested it would be unfair fair to take the same scale of UIG in the same way and said that it almost puts large DM sites out of scope. Workgroup agreed that large DM sites should be out of scope for Option 1.

SM asked what the difference is between a Vanilla Smear (Option 1) and the suggestion (not part of the Terms of Reference for this Review) of “putting it through Shrinkage”, in his view utilising Shrinkage should be reconsidered in addition to putting proper theft incentives through REC.

MJ noted that making National Grid the Balancer of Last Resort (Option 6) would be part of “putting it through Shrinkage”.

SM commented that a lot of wasted time, effort and money could be saved if Shrinkage was utilised and that this is a Shipper matter which is not going to get fixed.

When it was suggested that a 2-step plan of Option 1 for 2 years, followed by Option 6 could be a transitional option, Workgroup noted that it could take two-years to setup Option 6 - Balancer of Last Resort and Shrinkage would move to a smear but that would be for Product Class 1 only.

Robert Johnstone (RJ) noted that a two-stage approach seems sensible. He also noted that the current method ranks fairly highly for polluter pays.

SM noted that a return to driving UIG through Shrinkage would have the benefit of being able to explain the process to customers in a rationale way and get in a state where it is comfortable to hand over the process as a Code Manager.

Fiona Cottam (FC) was invited to explain, prior to Nexus arrangements UIG was born in the Non-Daily Metered (NDM) market (which was not part of Shrinkage). Shrinkage costs are part of the allowed cost base for the Networks, UIG is an unknown quantity, but there would be a need to correct for that in future years so there could be more volatility seen in future prices.

GE reminded Workgroup that the Terms of Reference for this Review states that Shrinkage is out of scope. He added that as the market is evolving, it is uncertain where Shrinkage may end up.

Dave Mitchell (DM) commented that Workgroup should be looking to move on and close now.

It was explained that **Option 6: Balancer of Last Resort**, the Balancer would be a single Balancer. If Shrinkage were the mechanism for recovery of the monies utilised, that would be for each LDZ. GE said there could be one Balancer of Last Resort per Network or one Nationally which would be determined through further discussion if that option was chosen.

RK noted that if Workgroup were unable to agree the way forward, the process would stay as it is now.

In terms of recommendations, Dan Fittock (DF) suggested **Option 1 Uniform Allocation model based on volume ("vanilla smear")** could be the focus in the Workgroup Report adding that Options 1 and 6 could be taken forward plus the transitional approach for Option 1 combined with and 6 (=Option 7). He believed the other options have no support, although he acknowledged that the current system does have some support.

LH noted that a vanilla smear Option 1, could be implemented quite quickly, the calculation would still work the same as now, but everyone would be allocated the same percentage.

FC noted that in terms of handling a systems change, the weighting factors could be changed, that could be implemented through the current structure and could include no allocation to Product Class 1, but this would need approval at UNCC.

It was clarified that **Option 1, Uniform Allocation model based on volume ("vanilla smear")**, would be very easy to do with regards to a system change, this would entail just new numbers, it would be transparent to customers and would require a unanimous approval at UNCC or a new Modification.

RK referred to the recent DSC Contract Management Committee discussions that took place with regards to UIG recently being very negative. Fiona Cottam (FC) commented that it is likely to be related to over allocation because of AQs reducing very quickly, which itself is most likely due to enforced gas conservation by customers due to the increase in gas prices. March was a very warm month which also causes UIG to be less accurate when the forecast is seasonal normal. Under agenda item 12.3 in the DSC Contract Management Committee Minutes, Mark Perry has provided a commentary, here is a link to the minutes: [Minutes DSC Contract Management Committee 20 April 2022](#)

RHa suggested the next step would be for her to write up the discussions held to date into a Workgroup Report; publish the draft Workgroup Report and finalise this at Workgroup in May 2022. Workgroup Participants agreed.

Action 0301 Closed

2.0 Review of Options Definition Table

Please see the up-to-date Options Definition Table referred to during this Workgroup:

LOW
LOW/MEDIUM
MEDIUM
MEDIUM/HIGH
HIGH

	Options to consider within 0781R	Polluter pays (dynamic)	Feasibility	Drives improvement	Year on year stability	Easy to explain	Robust	Not likely to be continually challenged
-	Current situation	HIGH/MED	HIGH	MEDIUM	LOW/MEDIUM	MEDIUM	MEDIUM	LOW
1	Uniform Allocation model based on volume ("vanilla smear")	LOW	HIGH	LOW/MEDIUM	HIGH	HIGH	HIGH	HIGH
2	Static Model	LOW	HIGH/MED	LOW	HIGH	HIGH	HIGH/MED	LOW
3	Static Model (with regular audit)	LOW	HIGH	LOW/MEDIUM	HIGH	HIGH	HIGH/MED	LOW/MEDIUM
4	Utilise existing industry datasets	MEDIUM	HIGH	HIGH	HIGH	HIGH	MEDIUM	HIGH
5	Utilise existing industry datasets (AUGE top-up)	HIGH/MED	HIGH	MEDIUM	MEDIUM	HIGH	LOW/MEDIUM	LOW/MEDIUM
6	Balancer of last resort	LOW	LOW	LOW	HIGH	HIGH	HIGH	HIGH/MED
7	Smoother transition of scaling factor changes	LOW	MEDIUM	LOW/MEDIUM	MEDIUM	MEDIUM	MEDIUM	LOW
8	UIG Framework responsibility of sub-committee	MEDIUM	HIGH	HIGH/MED	MEDIUM	LOW	MEDIUM	HIGH
9	Lengthen the duration of the AUGE term	HIGH/MED	HIGH	MEDIUM	MEDIUM	LOW	MEDIUM	LOW
10	Apply some method of smoothing/mitigation when transitioning from one AUGE regime to the next.	MEDIUM	MEDIUM	LOW	MEDIUM	LOW	MEDIUM	LOW
	Improve allocation process (several)							
	Increase NDM sample size							
	use shrinkage (not in ToR)							

3.0 Next Steps

RHa advised she will document the discussions held to date into a Workgroup Report; publish the draft Workgroup Report and finalise this at Workgroup in May 2022.

4.0 Any Other Business

None.

5.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/events-calendar/month

Time / Date	Paper Publication Deadline	Venue	Programme
Thursday 10:00 26 May 2022	5pm 17 May 2022	Microsoft Teams	Standard Agenda

Action Table (as at 28 April 2022)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0301	24/03/22	2.1	Workgroup to consider the presented option assessment and share view of the top 3 options at next meeting.	All	Closed