UNC Modification 0862
Amendments to the current Unidentified Gas Reconciliation Period arrangements

Example of As-Is and To-Be UIG Reconciliation Apportionment

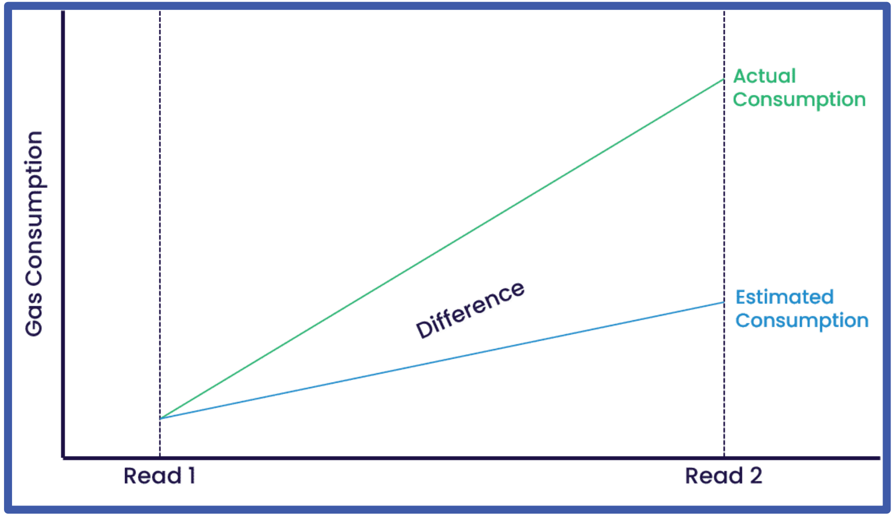
Updated Following February 2024 Workgroup Meeting

Additional Context Slide

- Unidentified Gas (UIG) is the balancing figure in each LDZ each day
- **UIG** = **Total LDZ throughput** *less* **Shrinkage** *less* **Daily Metered** (DM) actuals/estimates *less* **Non-Daily Metered** (NDM) deemed usage (using the NDM Algorithm)
- Subsequently the individual positions are refined by meter point reconciliation – e.g. DM check reads, actual readings for NDM sites
- Each time an individual meter point position changes, this must mean that the UIG position has changed, to keep the LDZ figures "in balance"
- Updating the UIG position after the initial D+5 close-out is referred to as UIG Reconciliation
- These slides describe the As-Is arrangements for UIG Reconciliation and the proposals in UNC Modification 0862

Background

- Under current "Project Nexus" business rules, UIG Reconciliation (charge type "UGR") is shared out in a standard 12-month "pot" in each LDZ.
- How is this currently carried out?
  - Each month, the CDSP carries out reconciliation activities for sites which have submitted reads in that billing month
  - The submitted reads indicate the difference between estimated and actual consumption

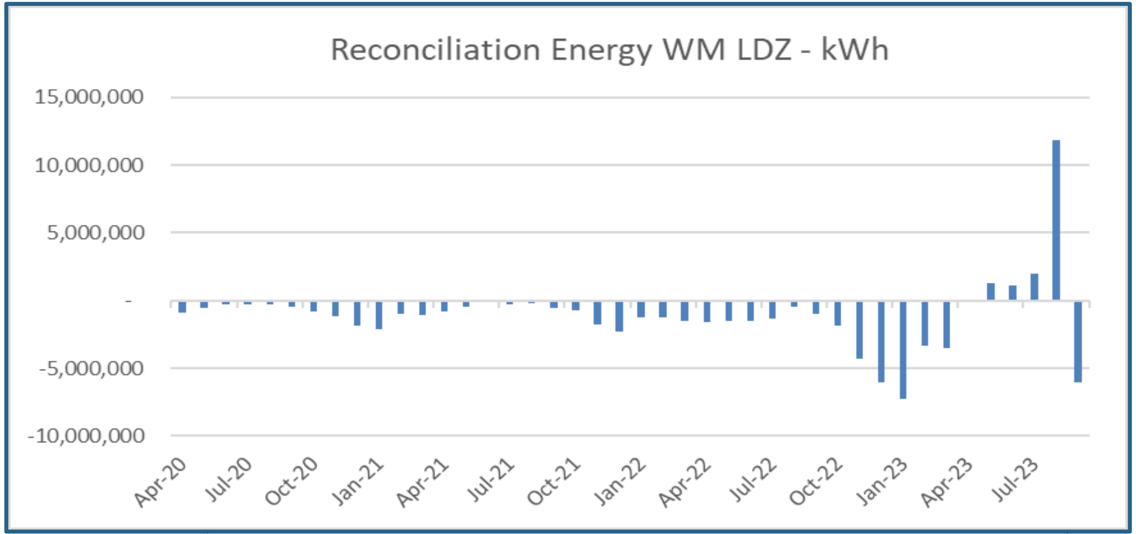


<u>**12-month pot means:**</u>

- **Total UGR divided into 12ths**
- **Then allocated to the previous 12 months in 12 separate 'chunks'**

Background cont.

- How is this currently carried out:
  - The difference in energy consumption for each site is then smeared across the reconciliation period (read date to read date) and billed/ credited to the appropriate Shipper
  - Opposite value of all the reconciliations in the LDZ for that billing month are totalled up to become UGR



Total actual meter point reconciliations for WM LDZ September 2023 = -45.48m kWh for April 2020 to September 2023

12 x 1/12th across 12 months

UIG reconciliation of +3.79m kWh applied to each month for WM LDZ from October 2022 to September 2023 inclusive (total +45.48m kWh)

Background cont.

- Whether the original rec was for 3 days, 3 months or 3 years, the UGR is currently shared out across the 12-months pot in that LDZ
- UGR is currently applied to latest share of Weighted Shipper throughput for the last 12 months in the relevant LDZ
- The only exception is Large LDZ Measurement errors (>50 GWh – *see UNC TPD E7.5*) which are applied to the actual historic months – back to Line in the Sand only (the "Code-Cut-Off Date" – *see UNC General Terms C1*)
- All UGR is shared out – none is "lost" due to the use of a 12-month pot

Modification 0862

- UNC Modification 0862 seeks to move away from the standard 12-month pot for normal UIG Reconciliation
- Instead UIG reconciliation would be apportioned – still within each LDZ – across the same whole months as the meter point reconciliation that has caused it
- That could be anything from one month to 48 months – and could be just recent months or just older historic months (e.g. for re-reconciliations)
- Most meter point reconciliation now flows in the first four months after the allocation month (“Supply Month”) – Mod 0862 would align the UIG reconciliation to original allocation months
- The Mod does not propose any changes to meter point reconciliation processes

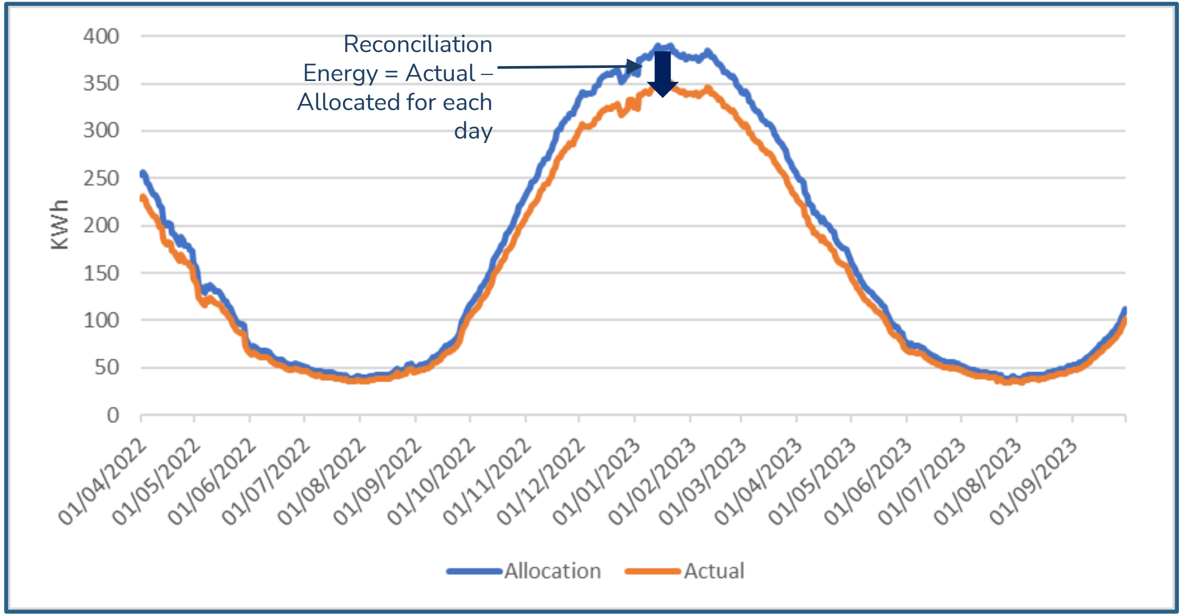
Why Was 12 Months Chosen Originally?

- Prior to Project Nexus all Smaller Supply Points were subject to "Reconciliation by Difference" in place of meter point reconciliation
- Energy sharing rules depended on the type of the original reconciliation – 12 months was the longest sharing period (except for Large LDZ measurement errors)
- 12 months was chosen by the Project Nexus Workgroup on the basis that:
  - Most sites would get a read at least once a year so 12 months would represent a typical reconciliation period
  - A single "pot" was simpler to understand
  - An outgoing Shipper would still be responsible for the UIG charge on the amendment invoice for the site for 12 months
  - It would be less of a barrier for Shippers wishing to exit the market
- UIG was expected to be a small % of throughput and UIG Reconciliation was expected to be a small proportion of the original UIG
- <u>Project Nexus UNC Workgroup stated at the time that the rules could be revisited in the future</u>

Worked Example

- We have looked at a fictional reconciliation for a weather sensitive site for an 18-month period
- Meter point reconciliation processes always assign the actual energy in proportion to the original allocation
- This means that proportionally more rec energy (plus or minus) is associated to winter months than to summer months
- In this example the site used 10% less gas than allocated

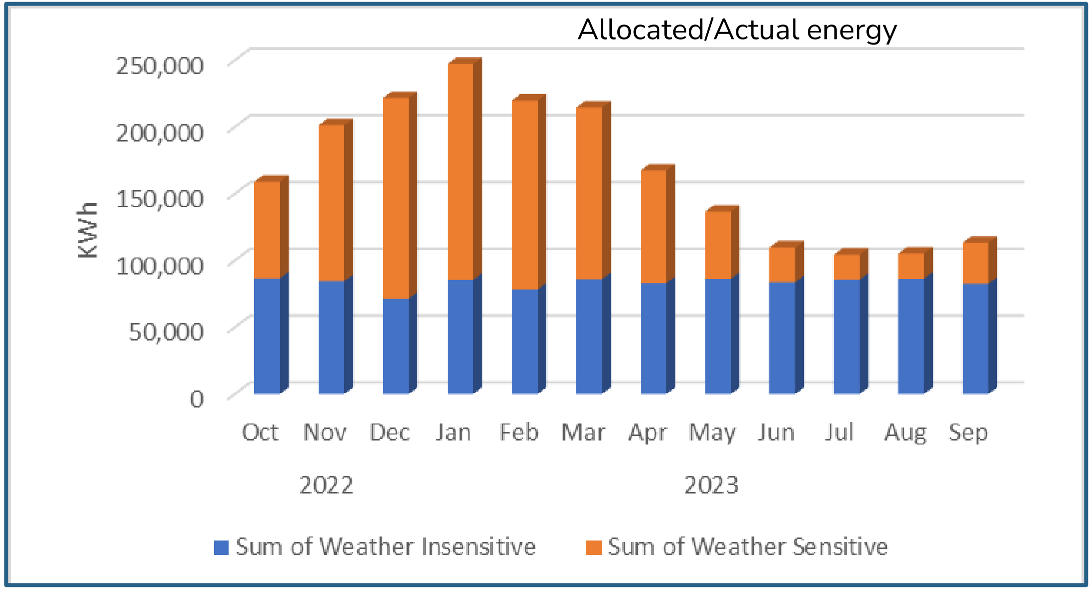
- *Reconciliation energy = Actual – Allocated*
  = -8,961 kWh in this example
- *UIG reconciliation = +8,961 kWh*
- *Higher energy volumes in high allocation months*



As-Is Processes

- Consider a fictitious LDZ with just 2 customer groups:
- 1m kWh of Weather Sensitive AQ (e.g. Domestic, small I&C with heating load)
- 1m kWh of Weather Insensitive AQ (e.g. Industrial process load)
- **For Gas Year 2022 this is the comparative allocated/actual energy position** – basis of UGR allocation

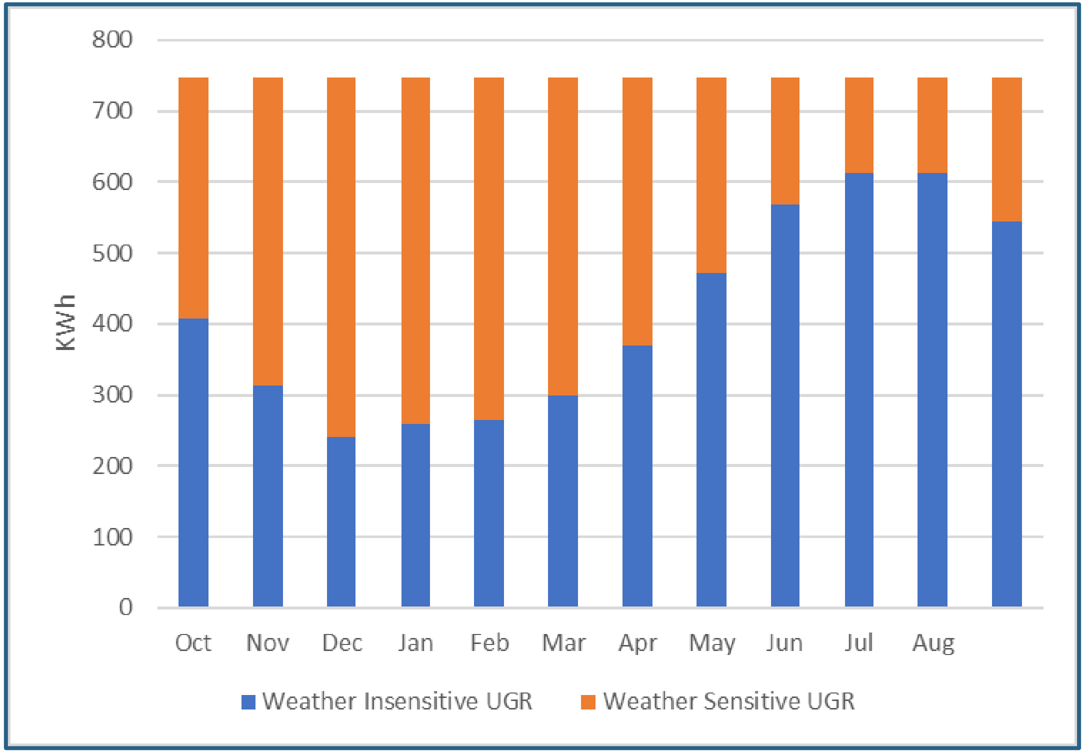
- *Weather sensitive sites use much more gas in winter v summer (up to 10x as much on cold days v warm days)*
- *Process load is largely flat – impacts of holiday periods and shorter months are slightly visible*



As-Is UGR sharing

- Under current rules the reconciliation energy is multiplied by -1 and divided by 12
- Each 1/12th portion is shared out over the latest Weighted allocation/actual energy for the month
- If our example rec is shared out in the September 2023 Amendment invoice this is how it is shared (using equal Weighting Factors)
- <u>Total UIG Rec = +8,951 kWh</u>

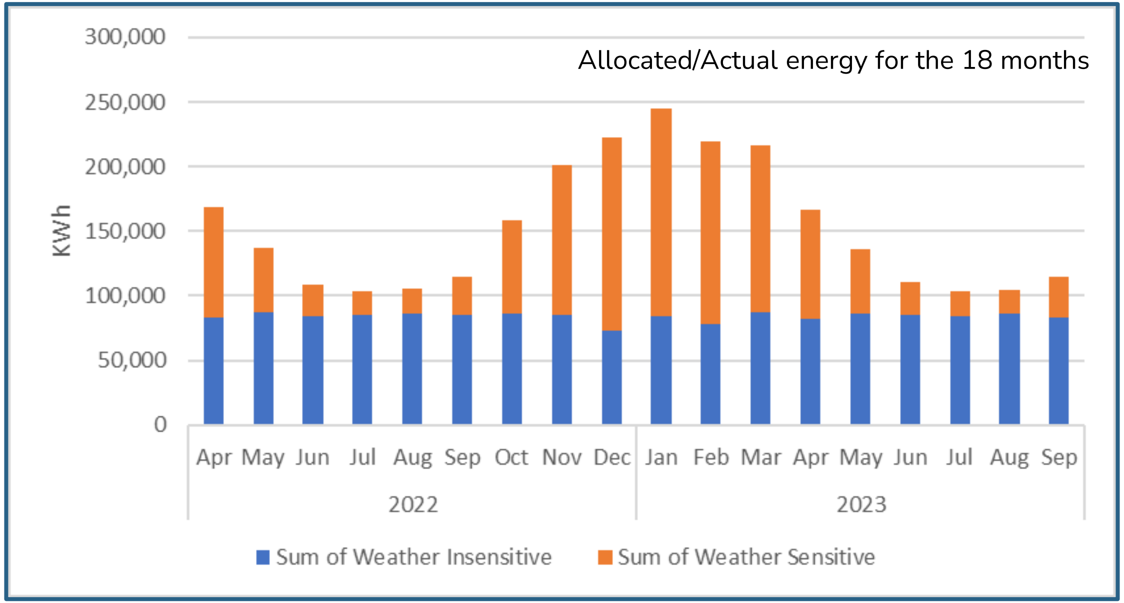
- *The monthly amount of UGR is always the same (1/12th)*
- *Weather sensitive sites pick up a greater share in the colder months, less in summer*



Proposed Approach

- The example rec of 18 months would create UGR to be shared out over 18 months
- 6 extra "older" months would be in play for UGR
- The latest post-reconciliation energy for these 18 months will be Weighted and used as the basis of UGR sharing

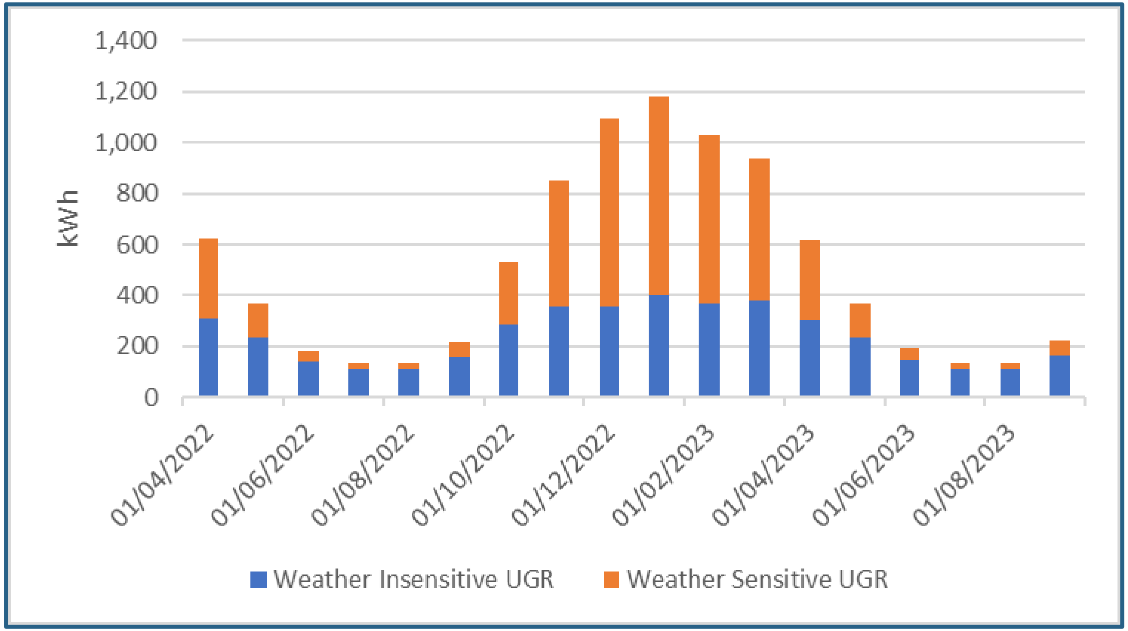
- *This is a view of the **latest energy** in our fictitious LDZ for the 18-month period*
- *Diagram updated to add the missing data for April 2022*



Proposed UGR sharing

- The post-reconciliation energy for these 18 months will be Weighted and used as the basis of UGR sharing
- The monthly UGR amounts vary in line with the original meter point reconciliation
- <u>Total UIG Rec = +8,951 kWh – no change to energy or financial values</u>

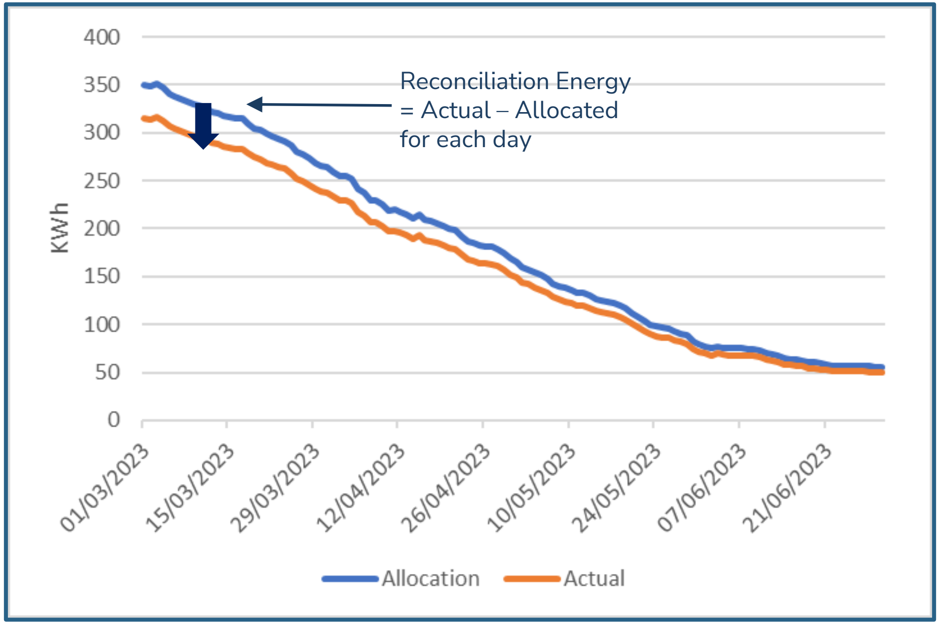
- *Sharing of UGR in line with the meter point reconciliation energy across the reconciliation period*



Additional slides – Example of a 4-month reconciliation

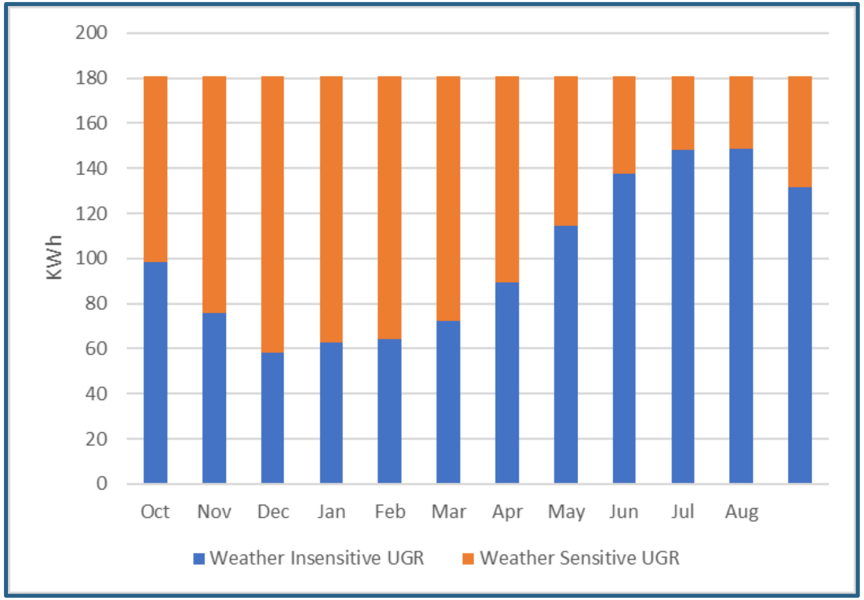
- Previous slides showed a reconciliation for a period longer than 12 months
- Recent data from the Amendment Invoice shows that most reconciliation takes place within the first 4 months
- There are many more monthly read sites now compared to at Project Nexus implementation
- This extra example shows a 4-month reconciliation period for March to June 2023, processed on the September 2023 invoice

- *Reconciliation energy = Actual – Allocated = -2,170 kWh in this example*
- *UIG reconciliation = +2,170 kWh*
- *Reconciliation relates to March to June 2023*

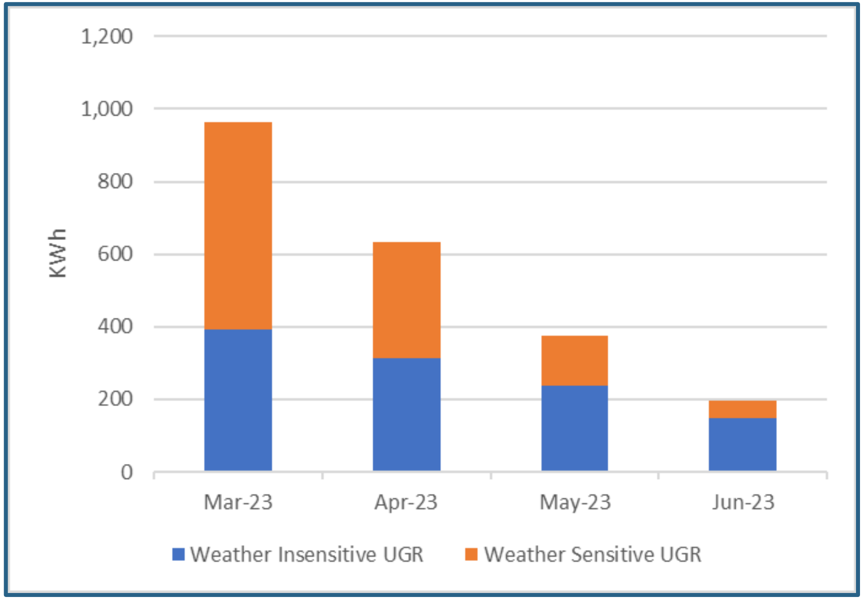


Additional slides – Example of a 4-month reconciliation

As-Is UIG reconciliation – 12 month sharing



To-Be UIG reconciliation – 4 month sharing



- *Example uses the same fictional LDZ and shares of throughput*
- *UIG reconciliation = +2,170 kWh in both cases, but in To-Be example is only shared over the months that the original Reconciliation related to: March to June 2023 for this example*

Financial Implications of UIG Reconciliation

- The financial value of UGR is taken from the sum of all the original meter point reconciliations in each LDZ (UGR £ value is the equal and opposite of all the meter point rec £ values – they net each other out on the Amendment Invoice)
- UIG Reconciliation is **not** revalued using the SAP prices of the months that it is shared over
- Financial values would be shared out in parallel with the energy amounts under Mod 0862 as explained earlier
- A change to the sharing arrangements won't have any impact on the overall financial value of UGR
- UIG Rec is an energy-only charge – there are no transportation charges on UIG so there is no Transporter income impact from the proposed change

Other points to note

- We have not applied any UIG Weighting Factors to these examples – to make them easier to understand
- Future use of UIG Weighting Factors was confirmed by Ofgem's decision to reject UNC Mods 0831/A
- UGR each month is dependent on the individual reconciliations for the month within the LDZ
- In reality there are up to 39 End User Categories in each LDZ, each with a different profile and weather sensitivity
- Historic data can be seen in the "Reconciliation by Month" report on the Xoserve UIG page – report shows sum of individual recs in energy and £ terms – reverse them to get UGR energy kWh and £ value – "Supply Month" means the actual months to which the recs related: Unidentified Gas (UIG) (xoserve.com) *(pre-Line-in-the-Sand energy appears on the report but can be ignored)*

xoserve