UNC Modification

At what stage is this document in the process?

01	Modification
02	Workgroup Report
03	Draft Modification Report
04	Final Modification Report

UNC 0862:

Amendments to the current Unidentified Gas Reconciliation Period arrangements

Purpose of Modification:

This Modification proposes amendments to the current Unidentified Gas Reconciliation Period arrangements to reconcile UIG to the same months that the energy originated from (instead of smear over previous 12 months).

Next Steps:

The Proposer recommends that this Modification should be:

- considered a material change and not subject to Self-Governance
- assessed by a Workgroup for 6 months

This Modification will be presented by the Proposer to the Panel on 16 November 2023. The Panel will consider the Proposer's recommendation and determine the appropriate route.

Impacted Parties:

High: Shippers, Distribution Network Operators, Consumers, Central Data Services Provider (CDSP)

Low:

None: Independent Gas Transporters and National Gas Transmission

Impacted Codes: IGT UNC (TBC)

Contents

Timetable

Modification timetable:

Pre-Modification Discussed	06 July 2023
Date Modification Raised	27 October 2023
New Modification to be considered by Modification Panel	16 November 2023
First Workgroup Meeting	23 November 2023
Workgroup Report to be presented to Modification Panel	18 July 2024
Draft Modification Report issued for Consultation	19 July 2024
Consultation Close-out for representations	8 August 2024
Final Modification Report available for Modification Panel	13 August 2024
Modification Panel recommendation	19 September 2024

Any questions?

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1 Summary

What

Currently UNC states that the UIG Reconciliation Period is the period of 12 months ending with (and including) the Reconciliation Billing Period. (UNC TPD Section E - 7)

As a result, a Shipper is responsible for a percentage (%) of the UIG amendment for a site for 12 Months for the period of its ownership.

This was put in place originally, because it was believed the majority of reconciliations would flow within 12 months, and rather than continue to share out the reconciliations over a long period, using 12 months would be less of a barrier to exiting the market.

In practical terms if a site is taken over by a new Shipper or a Shipper leaves the market, the outgoing Shipper will still be responsible for the UIG charge on the amendment invoice for the site for 12 months, although this will gradually decrease over the 12-month period.

This arrangement does mean that UIG reconciliation is smeared equally across the previous 12 months (equally divided into 1/12 per month) rather than reconciling against the same month the energy originated from. If a change is not made, then the Unidentified Gas Reconciliation will continue to be smeared to the last 12 months instead of to the same months that the energy originated from which is inherently more accurate and fairer than the existing arrangements

Why

If a change is not made, then the Unidentified Gas Reconciliation will continue to be smeared to the last 12 months instead of to the same months that the energy originated from.

An increased number of supply meter points are being read on a monthly basis which means that the 12 monthly smear of UIG is now less accurate than it was historically.

When a party does seek to leave the market, the current 12 monthly smear of UIG means that their share of UIG does not always match their original allocations.

This Modification seeks to resolve the above points by amending the UIG reconciliation period to ensure that UIG is reconciled in the same month that the energy originated from, potentially mitigating the above discrepancies in how UIG is currently allocated.

How

The Proposal is therefore to reconcile UIG to the same months that the energy originated from (instead of smearing to the last 12 months) which is inherently more accurate and fairer than the existing arrangements.

2 Governance

Justification for Authority Direction

This change is material as it has a significant commercial impact on parties, consumers, or other stakeholder(s); and therefore warrants Authority Direction

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?

If a change is not made, then Unidentified Gas Reconciliation will continue to be smeared to the last 12 months instead of to the same months that the energy originated from. Due to the increase in monthly read sites, reconciling UIG in the month the energy originated from, means UIG reconciliation will be more accurate.

4 Code Specific Matters

Reference Documents

UNC TPD Section E – 7 https://www.gasgovernance.co.uk/index.php/TPD

Knowledge/Skills

Understanding of current UIG reconciliation process - https://www.xoserve.com/help-centre/demand-attribution/unidentified-gas-uig/.

5 Solution

The Business Rule (BRs) are set out below:

BR1: Reconcile UIG to the same months that the energy originated from.

BR1 Note 1: The solution would not expect invoicing to be at Meter Point Level and the current invoicing format would be simply extended to cover the additional months.

BR1 Note 2: The solution expects that UIG would continue to be reconciled back to Line in the Sand to ensure that no UIG is left unaccounted for.

BR1: Note 3: For the avoidance of doubt other than an amendment to the UIG reconciliation period as set out in BR1, meter point reconciliation calculations and all other processes associated with UIG reconciliation are to remain the same.

BR1: Note 4: For the avoidance of doubt, UIG will be reconciled across the whole of the month that the energy originated from. Reconciliation will not be limited to the exact dates that month that the energy originated from.

BR 1 Note 5: For the avoidance of doubt it is anticipated that the new UIG Reconciliation Period will be effective from the Modification implementation date. For avoidance of doubt, this means that no transitional arrangements to implement this Modification will be required.

BR 1 Note 6: For the avoidance of doubt, LDZ Offtake Reconciliations, as defined in UNC TPD E7.3 and other offline reconciliation processes that currently feed the UIG smear will adhere to the new logic. This means that they will be calculated for the impacted months (which could include months from the current billing month back to the LIS date). This is anticipated to happen as a result of updating the UIG Reconciliation Period stated within TPD E.7.1.2.

6. Impacts & Other Considerations

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

No.

Consumer Impacts

The existing arrangements lead to the smearing of UIG over the last 12 months despite it relating to a different period and this is a difficult concept to explain and to forecast for Consumers.

What is the current consumer experience and what would the new consumer experience be?

As noted above the outcome should be a more logical process with an outcome that is more accurate and easily understood by Consumers.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability	None
Lower bills than would otherwise be the case	None
Reduced environmental damage	None
Improved quality of service	None
Benefits for society as a whole	None

Cross-Code Impacts

To be determined.

EU Code Impacts

None.

Central Systems Impacts

From a system perspective, the CDSP will be required to reconcile UIG to the same months that the energy originated from (instead of smearing to the last 12 months).

A set of slides produced by the CDSP in February 2024, providing an example of the As-is and To-be UIG reconciliation apportionment process have also been included below to provide further context and to aid understanding:

xoserve

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

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- 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

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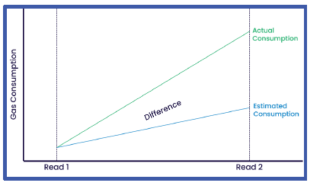
- Under current "Project Nexus" business rules, UIG Reconciliation (charge type "UGR") is shared out in a standard 12-month "pot" in each LDZ.
- How is this currently carried out?
  - Each month, the CDSP carries out reconciliation activities for sites which have submitted reads in that billing month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



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

Background cont.

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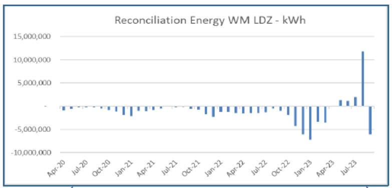
- How is this currently carried out:
  - The difference in energy consumption for each site is then smeared across the reconciliation period (read date to read date) and billed/ credited to the appropriate Shipper
  - Opposite value of all the reconciliations in the LDZ for that billing month are totalled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

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- 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

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- UNC Modification 0862 seeks to move away from the standard 12-month pot for normal UIG Reconciliation
- Instead UIG reconciliation would be apportioned – <u>still within each LDZ</u> – across the same <u>whole</u> 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?

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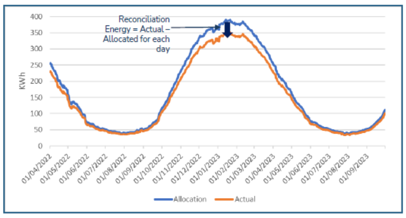
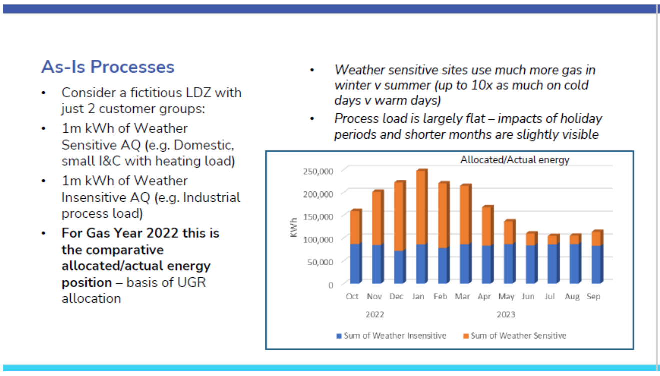
- Prior to Project Nexus all Smaller Supply Points were subject to "Reconciliation by Difference" in place of meter point reconciliation
- Energy sharing rules depended on the type of the original reconciliation – 12 months was the longest sharing period (except for Large LDZ measurement errors)
- 12 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>

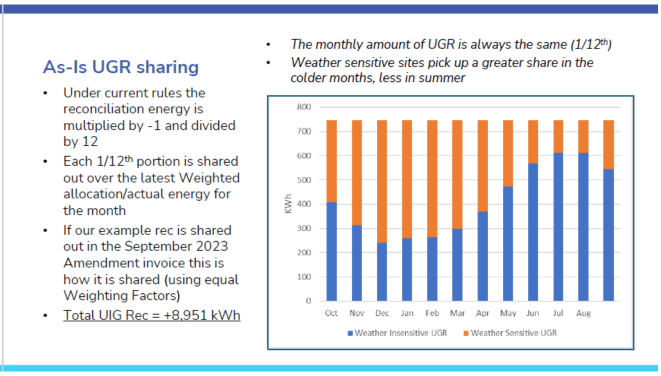
Worked Example

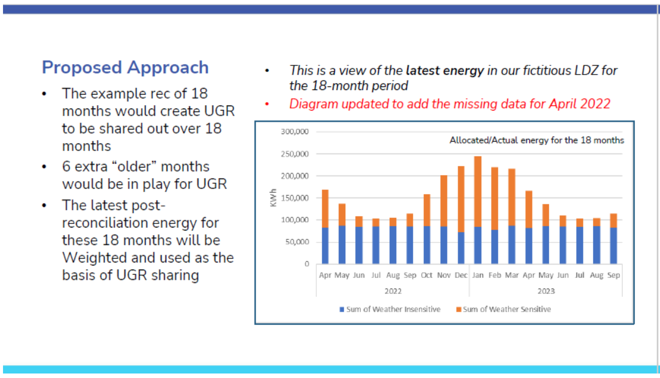
- We have looked at a fictional reconciliation for a weather sensitive site for an 18-month period
- Meter point reconciliation processes always assign the actual energy in proportion to the original allocation
- This means that proportionally more rec energy (plus or minus) is associated to winter months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

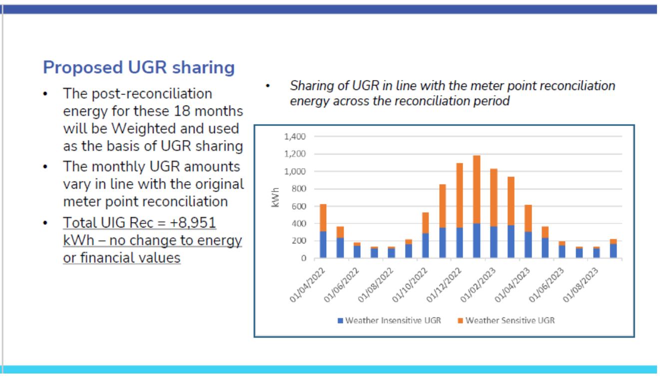
- *Reconciliation energy = Actual – Allocated = -8,961 kWh in this example*
- *UIG reconciliation = +8,961 kWh*
- *Higher energy volumes in high allocation months*

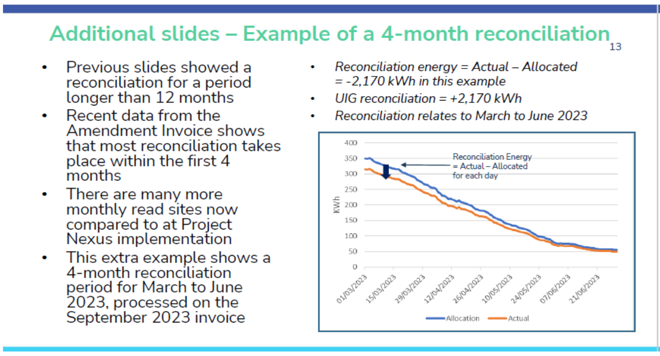


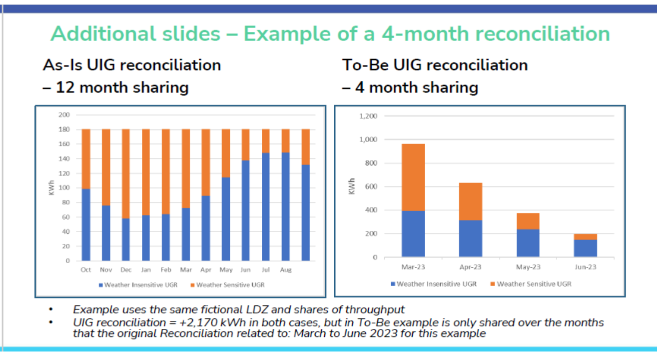


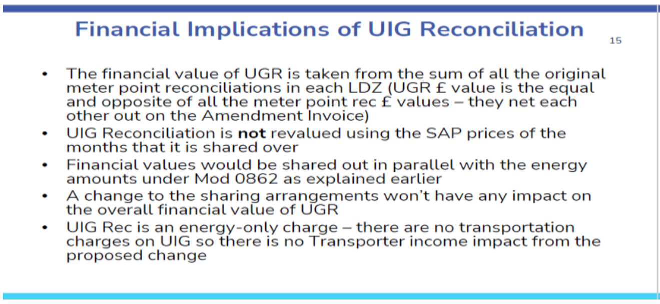


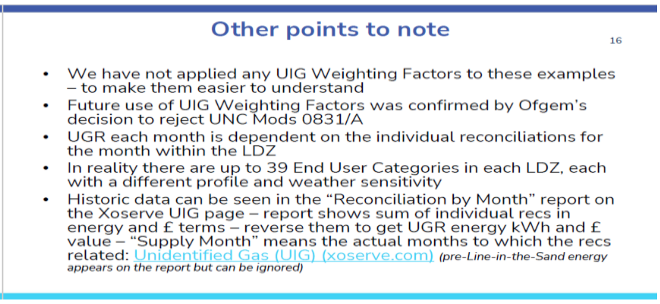












7. Relevant Objectives

Impact of the Modification on the Transporters' 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

The Modification furthers Relevant Objective 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.

As it reconciles UIG to the same months that the energy originated from (instead of smearing over the previous 12 months) it better reflects the Shippers actual position thereby furthering effective competition.

8. Implementation

No implementation timescales are proposed. However, this Modification should be implemented as soon as reasonably practicable following Authority direction to do so.

9. Legal Text

Text Commentary

TBC

Text

TBC

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.