











UNC Modification		At what stage is this document in the process?
<h1>UNC 0XXX:</h1> <p><i>(Code Administrator to issue reference)</i></p> <h2>Incentivise Product Class 4 Read Performance</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p><b>Purpose of Modification:</b> This Modification seeks to reduce Unidentified Gas (UIG) volume (I think) by incentivising read submission performance for Product Class 4 sites. This Modification proposes to allocate a proportion of UIG to those Shippers whose read submission performance is below a target threshold.</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 October 2018</b>. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>	
	<p>High Impact: Shippers</p>	
	<p>Medium Impact: CDSP</p>	
	<p>Low Impact: Transporters</p>	

Contents		?	Any questions?
1	Summary	3	Contact:
2	Governance	5	<b>Joint Office of Gas Transporters</b>
3	Why Change?	5	
4	Code Specific Matters	7	 <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
5	Solution	7	
6	Impacts & Other Considerations	7	 0121 288 2107
7	Relevant Objectives	9	Proposer:
8	Implementation	10	<b>Chris Faulds</b>
9	Legal Text	10	<b>ScottishPower</b>
10	Recommendations	10	 <a href="mailto:chris.faulds@scottishpower.com">chris.faulds@scottishpower.com</a>
Timetable			0141 614 3376
<b>The Proposer recommends the following timetable:</b>			
Initial consideration by Workgroup			Transporter:
	27 September 2018		<b>Insert name</b>
Workgroup Report produced	27 September 2018		email address
Draft Modification Report	Dates to be updated – get these from JO Chair of 3 <sup>rd</sup> Oct UIG workgroup		telephone
Consultation Close-off	2019	Systems Provider:	
Final Modification Report available for Panel	28 January 2019	<b>Xoserve</b>	
Modification Panel decision	21 February 2019		<a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>

# 1 Summary

## What

There has been excessive levels and volatility in Unidentified Gas (UIG) since the implementation of Project Nexus 01 June 2017. To ensure the accuracy of energy calculations it is extremely important that regular meter reads are submitted for all Supply Points. Supply Points with no read accepted by Xoserve in 12+ months increase the risk of inaccurate deemed energy volumes, which drive volatility in UIG allocation and reconciliation.

UIG levels could be reduced by ensuring that Shippers are submitting as many regular and valid meter reads as possible for sites within Product Class 4. Incentivising Shippers on read submission performance will result in a more cost-reflective UIG allocation based on the level of material risk that the respective Shipper has created throughout their NDM allocation.

## Why

Ofgem have highlighted in response to previous Modifications, (notably UNC 0619 & 0642/0643) that they consider meter read submission performance is a significant influencing factor in UIG.

The proposer of this Modification agrees that more frequent meter read submission will reduce levels of UIG exposure for all shippers.

At present there are read submission performance reports and targets set out in the UNC but there is no incentive to achieve these targets.

The benefit of this change would be to increase confidence in the accuracy of nominations, allocations, reconciliations, energy charges and UIG arising from Product Class 4 sites, which should reduce volatility across the market.

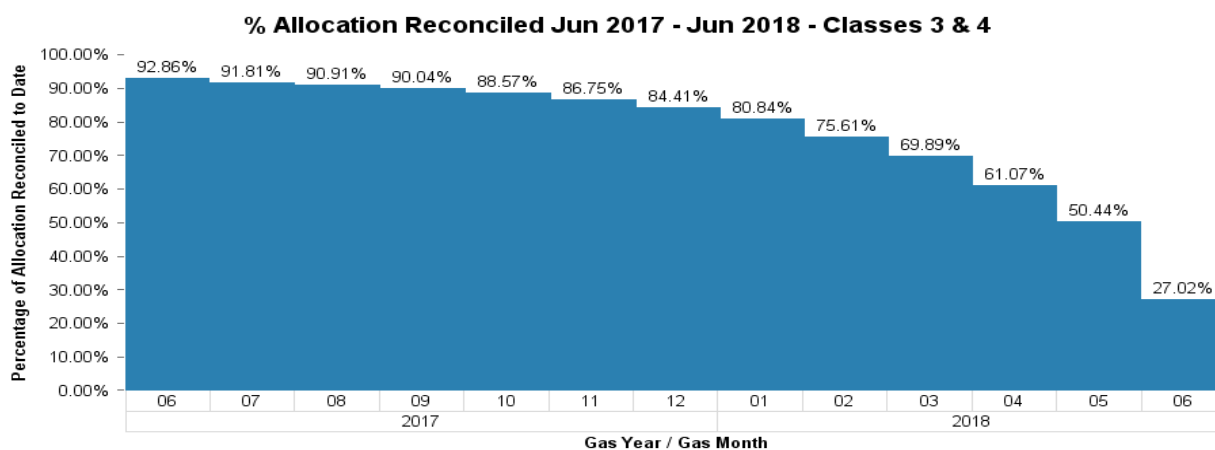
## How

It is proposed that current XoServe reconciliation reports will be enhanced to provide information split by:

- ⇒ Individual Product Class
- ⇒ Shipper
- ⇒ LDZ
- ⇒ SSP/LSP

Current reports are available: [https://www.xoserve.com/wp-content/uploads/Reconciliation-By-Month-July-2018-With-Chart\\_v2.xlsx](https://www.xoserve.com/wp-content/uploads/Reconciliation-By-Month-July-2018-With-Chart_v2.xlsx)

Fig1: % of allocation reconciled for classes 3 & 4



New reporting would be required to:

- ⇒ Calculate the shipper performance vs target by product class
- ⇒ Calculate the shipper performance by SSP/LSP
- ⇒ Calculate the shipper performance by LDZ

Using these reports Shippers will be measured against a target of % of Allocation energy volume reconciled to an actual read in the previous 12 months period.

This target would provide shippers 12 months to achieve the agreed target; if target is not met the shipper would incur a penalty. E.g. Shippers would be measured in Oct- 18 for Sep-17 reconciliation performance.

Typical calculation for the charge could be  $(\text{target}\% - \text{actual}\%) \times \text{allocated volume in the month} \times \text{penalty p/kWh}$  (p/kWh to be agreed)

The charge could be set out clearly on an ad-hoc invoice

As part of the modifications process an agreement would need to be met on what will happen with the monies collected, but some potential ideas are.

- ⇒ The creation of a “hardship fund” that could be used to help vulnerable customers
- ⇒ Spreading the charges across shippers who exceed the target
- ⇒ Creating a fund that would be used to tackle industry issues e.g. UIG

We believe that this proposal would require significantly less development and a shorter implementation timescale than was estimated for 642/643 while similarly proposing a reflection for the impact on shippers of creating UIG uncertainty from estimate-based NDM allocations.

## 2 Governance

### Justification for Authority Direction

This Modification could have a material impact on Shippers and so should be sent to the authority for decision because it seeks to apply charges based on Shipper read performance at 12months; this could result in additional costs and could therefore have a material impact on competition.

### 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 has been excessive levels and volatility in nominations, reconciliations and UIG since implementation of Nexus. Supply Points with no read accepted by Xoserve in 12+ months are at high risk of having inaccurate deemed energy volumes and is thereby creating UIG and uncertainty.

Change is required as there is no current performance incentive to ensure Shippers are submitting reads and maintaining a level of read submission performance for Product Class 4 sites.

### Why implement read incentive?

By incentivising read performance this will ensure Shippers submit reads in timely manner, ensuring accurate energy calculations take place. This will help reducing volatility of nominations, allocations, reconciliations and UIG. The change will also provide confidence in these measures for Product Class 4.

If this change is not implemented then UIG volatility will remain and confidence in the volumes attributed to Product Class 4 sites will remain a concern.

### Analysis

Working from the following assumption:

- The more recent the read, the more recent the Annual Quantity (AQ) Calculation
- The more recent the AQ Calculation, the more accurate the AQ
- The more accurate the AQ, the more accurate the NDM allocation
- The more accurate the NDM allocation, the less volatile the UIG

Analysis was carried out on AQ's which calculated on 1<sup>st</sup> July 2018 to confirm the volatility of AQ movement based on the last time the AQ calculated.

The data was all Product Class 4 Meter Point Reference Numbers (MPRN) taken from T04 records which met the following criteria:

- REVISED\_SUPPLY\_METER\_POINT\_AQ\_EFFECTIVE\_DATE = 01/07/2018
- CONFIRMATION\_EFFECTIVE\_DATE < 01/07/2017 - to ensure supply period > 1 year
- AQ\_CORRECTION\_REASON\_CODE = null

The MPRN list was then compared against T04 records from July17 – June 18 to confirm the previous calculation date.

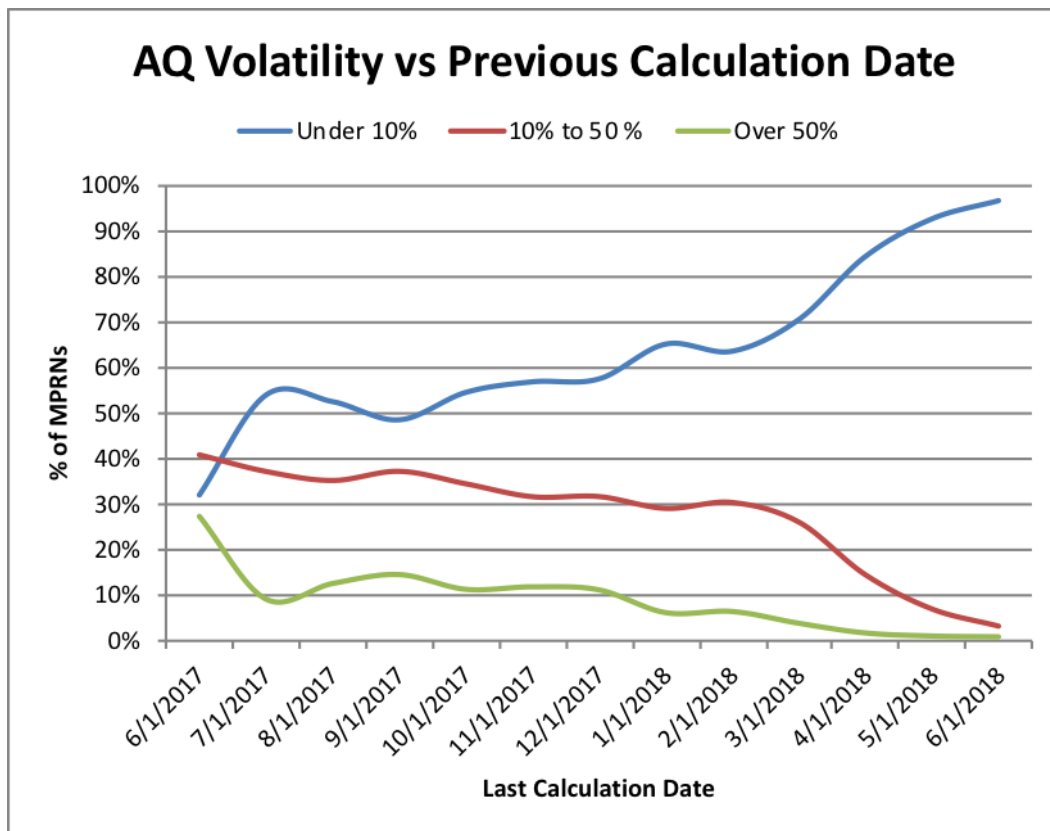
NOTE: October / April list only included meter points where  
REVISED\_SUPPLY\_METER\_POINT\_AQ\_EFFECTIVE\_DATE was populated.

The data was then grouped into 3 categories based on PERCENTAGE\_AQ\_CHANGE on 01/07/2018:

- Where the AQ has moved under +/- 10% - low volatility to the AQ, pre-01/07/2018 AQ would still have been accurate
- Where the AQ has moved between +/- 10% to +/-50%
- Where the AQ has moved over +/- 50% - high volatility with AQ movement, pre-01/07/2018 AQ not have been accurate

The % of MPRNs calculating in each of the 3 categories based on the last calculation date –  
The 01/06/2017 means the AQ had not calculated since Project Nexus Go-Live.

**Fig2)** Graph below highlights the link between the AQ % movement and the time between read submissions.



Key points are:

- Low volatility where the last AQ calculated within the last 3 months as 84 – 96% of MPRNs moved by <10%
- There is some volatility where the last AQ calculated within the last 4 -12 months as 50 – 70% of MPRNs moved by <10%, though only 10% of MPRNs moved by >50%
- Much higher volatility where the last calculation date is > 12 months as 27% of MPRNs moved by >50%. Only 32% of AQ's moved by <10%.

If the new AQ's on 1<sup>st</sup> July had not calculated, the meter points that had not calculated > 12 months ago would have caused higher volatility with UIG than site calculated more recently.

- Request for XoServe to produce UK-wide analysis to back up SCP analysis

## 4 Code Specific Matters

### Reference Documents

UNC Transportation Principle Document (TPD) Sections M & S <https://www.gasgovernance.co.uk/TPD>

## 5 Solution

This proposal seeks to amend UNC TPD Sections M & S.

The solution seeks to utilise existing reports and enhance these where required

It is proposed that current XoServe reconciliation reports will be enhanced to provide information split by:

- ⇒ Individual Product Class
- ⇒ Shipper
- ⇒ LDZ
- ⇒ SSP/LSP

New reporting would be required to:

- ⇒ Calculate the shipper performance vs target by product class
- ⇒ Calculate the shipper performance by SSP/LSP
- ⇒ Calculate the shipper performance by LDZ

Using these reports Shippers will be measured against a target of Allocation energy volume reconciled to an actual read in the previous 12 months period.

This target would provide shippers with a 12 month period to achieve the agreed target; if target is not met the shipper would incur a charge. E.g. Shippers would be measured in Oct-18 for Sep-17 reconciliation performance.

Typical calculation for the charge could be *(target%-actual %)\*allocated volume in the month\*charge p/kWh* (p/kWh to be agreed)

A possible calculation for the p/kWh to be attached to the charge is illustrated below

Fig2 – potential gas meter reading incentive calculation

**Gas Meter Reading Incentive Charges Calculation (illustration)**

Product Class 4 Volumes	GWh	445,000	Annual
Target	% actual at 12M	93%	tbc
Actual	% actual at 12M	90%	will be measured
Met by	%of Total Market	90%	400,500 GWh
Missed by	%of Total Market	10%	44,500 GWh
Penalty Volume	GWh	1,335	(target%-actual%)*allocated volume where target missed
System Average Price	p/kWh	2.12	Aug18 average used for illustration
Penalty price%	% of SAP	10%	tbc
Penalty price	p/kWh	0.21	
Penalty Charge Recovered	£m	2.8	
Recovered amount as % of total energy cost		0.03%	

In the illustration above

- ⇒ The charge p/kWh is based on 10% of average energy cost p/kWh (the p/kWh to be applied would be agreed as part of the modification)
- ⇒  $10\% \times 2.1\text{p/kWh} = 0.21\text{p}$
- ⇒ In example Target is set at 93% at 12 months – This target would be agreed as part of the modification
- ⇒ In example 10% of the market misses the target (*Energy in model in relation to the 10% is calculated for illustration, in reality this would be an actual Energy volume that would be calculated by Xoserve as part of the new reports being delivered in modification*)
- ⇒ Penalty volume is calculated by  $(93\%-90\%) \times 44,500\text{GWh} = 1,335\text{GWh}$
- ⇒ Charge recovered is calculate by  $1,335\text{GWh} \times 0.21\text{p/kWh} = £2.8\text{m}$
- ⇒ In this scenario the process generates £2.8m per annum (for illustration purposes only we have shown as an annual figure, in reality this would be a monthly calculation)



Copy of Potential  
Gas Mtr Rdg Incentiv

The charge could be set out clearly on a new ad-hoc invoice

As part of the modifications process an agreement would need to be met on what will happen with the monies collected, but some potential ideas are:

- ⇒ The creation of a “hardship fund” that could be used to help vulnerable customers
- ⇒ Spreading the charges across shippers who exceed the target
- ⇒ Creating a fund to that would be available to use on tackling industry issues e.g. UIG

We believe that this proposal would not require significant development to implement and could have a relatively short implementation timescale



## 6 Impacts & Other Considerations

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

None identified

### Consumer Impacts

No direct consumer impacts identified. However, the workgroup should take into consideration any possible consumer impacts during the assessment of this Modification.

### Cross Code Impacts

There may be IGT UNC impacts to be considered by the workgroup

### EU Code Impacts

None identified

### Central Systems Impacts

There should be limited central systems impact other than the provision of new reporting

## 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 <ul style="list-style-type: none"> <li>(i) the combined pipe-line system, and/ or</li> <li>(ii) the pipe-line system of one or more other relevant gas transporters.</li> </ul>	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: <ul style="list-style-type: none"> <li>(i) between relevant shippers;</li> <li>(ii) between relevant suppliers; and/or</li> <li>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.</li> </ul>	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	None

Regulators.

This modification proposes that by incentivising the submission of valid Meter Reads for Product Class 4 sites, it should reduce the levels, volatility and unpredictability of UIG, reduce uncertainty in estimation and improve the accuracy of cost targeting and therefore further Relevant Objective d) Securing of effective competition between Shippers and Suppliers.

## 8 Implementation

No implementation timescales are proposed, however implementation could be soon after an Authority decision to implement has been received.

## 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.