

UNC Modification	At what stage is this document in the process?
<h1>UNC 0831A:</h1> <h2>Allocation of LDZ UIG to Shippers (Class 3 and 4) Based on a Straight Throughput Method</h2>	<div style="display: flex; flex-direction: column; gap: 10px;"> <div style="border: 1px solid green; background-color: #008000; color: white; padding: 5px; border-radius: 5px;">01 Modification</div> <div style="border: 1px solid blue; background-color: #ADD8E6; padding: 5px; border-radius: 5px;">02 Workgroup Report</div> <div style="border: 1px solid purple; background-color: #DDA0DD; padding: 5px; border-radius: 5px;">03 Draft Modification Report</div> <div style="border: 1px solid orange; background-color: #FFD700; padding: 5px; border-radius: 5px;">04 Final Modification Report</div> </div>
<p><b>Purpose of Modification:</b></p> <p>The purpose of this Modification is to remove the current AUGE process and create a permanent weighting table that encourages movement to Daily Metering, reduces levels of UIG and discourages risk premiums for customers.</p>	
<p><b>Next Steps:</b></p> <ul style="list-style-type: none"> <li>The Proposer recommends that this Modification should be treated as an Alternative to Modification 0831 and should proceed as such under the same timetable as Modification 0831.</li> <li>This Modification will be presented by the Proposer to the Panel on <b>16 March 2023</b>. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</li> </ul>	
<p><b>Impacted Parties:</b></p> <p>High: Shippers, Suppliers</p> <p>Low: CDSP</p> <p>None: Transporters</p>	
<p><b>Impacted Codes:</b></p> <p>None</p>	

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10	Recommendations	8	Systems Provider: Xoserve
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Timetable			
<b>Modification timetable:</b>			
Date Modification Raised	02 March 2023		
New Modification to be considered by Panel	16 March 2023		
First Workgroup Meeting	23 March 2023		
Workgroup Report to be presented to Panel	15 June 2023		
Draft Modification Report issued for consultation	19 June 2023		
Consultation Close-out for representations	07 July 2023		
Final Modification Report available for Panel	12 July 2023		
Modification Panel recommendation	20 July 2023		

# 1 Summary

## What

The allocation of UIG for each Local Distribution Zone (LDZ) has long been an issue in the gas industry. There were many discussions on this issue in the mid 2000's which resulted in UNC Modification 0229 - Mechanism for correct apportionment of unidentified gas, that, in 2010, introduced the Allocation of Unidentified Gas Expert (AUGE) whose role was to allocate UIG to the different types of Shipper Users. To date, there have been two organisations appointed as the AUGE, with the initial AUGE's allocations being in place until the end of the gas year 2019/20 when its contract to provide the service ended.

For the gas year 2020/21 a new AUGE was appointed, who has taken a different view as to how UIG should be allocated. Both AUGEs created perceived winners and losers in the allocation of UIG to different EUC bands and Shipper User markets. It is widely recognised in the industry that the causes of UIG are very complex, impossible to allocate accurately, and due to the different methods employed by the two AUGEs, the resulting allocations have been very different. Any future AUGE may come up with another different allocation method to the current and previous AUGE. As the UIG allocations change annually, this is creating uncertainty for many Shippers and Suppliers in the pricing of contracts to customers and potentially results in increased risk premiums versus the proposed solution benefits. In addition, the continued variation in 'sources' of UIG makes targeting the reduction of overall UIG levels near impossible.

Market-wide Half Hourly Settlement (MHHS) in electricity was introduced to support customers in "managing the way they use energy so that they can reduce their bills and help manage the grid." (Ofgem). This is a mandatory move. As it stands there is no equivalent in Gas however with the leaps forward in smart meter data it is becoming a more frequent topic of discussion. By utilising daily read data customers are more accurately billed, shippers can forecast more accurately and overall levels of UIG and allocation volatility is reduced.

## Why

UNC Request 0781R– Review of the Unidentified Gas Process, was raised in order to look at ways of improving the UIG allocation process. The associated Workgroup looked at several possibilities to improve the UIG allocation, and the universal allocation or 'vanilla smear' option, where UIG is allocated flatly based on throughput, while opinion was divided, the 'vanilla smear' option was favoured.

UNC 0831 looks to implement this change. While a 'Vanilla Smear' approach does eliminate volatile AUGE values and hence reduces risk premiums to customers, it does not tackle overall levels of UIG and arguably discourages movement to Daily Metered status which ultimately increases UIG on a like for like basis in future years.

It is very difficult to identify the sources of UIG, as whilst both the AUGEs employed to date have assumed that a large majority of UIG is due to theft, they do not agree on the volumes or sources of UIG. Ultimately this supports the conclusion that UIG is impossible to allocate accurately.

Instead, viewing UIG as 'model error' is a more effective way to tackle overall levels. Increasing meter read frequency ultimately reduces overall levels of UIG due to reducing propagation of model error from Non-Daily Metered (NDM) customers. Historically Class 2 has not seen widespread adoption due to the higher AUGE factors.

Viewing UIG as an additional cost that can be used to incentivise Shippers to provide Daily Meter Reads ultimately encourages the industry to move in the right direction for customers. Reducing UIG, providing more accurate billing and aligning more closely with the progress made in the electricity market to Mandatory Half Hourly Settlement. Demonstrating progress under a non-mandatory programme is a preferred option as it allows

shippers to move customers to the new status at their own pace as opposed to mandating movement to Class 2 which would be in line with the current direction in electricity.

## How

The proposed solution in this Alternative Modification Proposal is that the UIG allocation table will be updated with a set of permanent and common allocation factors so that UIG is allocated to all NDM customers equally on a throughput basis. In addition, the cost of UIG from Classes 1 and 2 will be removed. The role of the AUGE will also be removed.

## 2 Governance

### Justification for Authority Direction

This Modification will require Authority Direction given the potential financial impact it will have on Shippers and Suppliers as moving away from the AUGE table of factors for UIG allocation to the proposed throughput method will change how UIG is allocated to Shippers. The changes to UIG allocation would be materially significant for some customers when compared to their allocation based on the current UIG table and could therefore impact competition positively.

### Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance.

## 3 Why Change?

### History of Unidentified Gas

The allocation of UIG for each LDZ has long been an issue in the gas industry, as prior to the implementation of Project Nexus in June 2017, only Large Supply Points had their actual usage reconciled back to their settlement charges via meter readings entering the settlement systems. All domestic customers (with the exception of a small number of larger ones) and smaller I&C customers had their settlement charges based on their annual quantity (AQ) which was calculated based on their previous year's usage. The result of this was that I&C Shippers only paid for the gas their customers had used, whereas domestic Shippers paid the rest (including the unidentified gas) based on their percentage of AQ allocation via the 'reconciliation by difference' (RbD) process.

There were many discussions on this issue in the mid 2000's with domestic Shippers trying to get I&C Shippers to contribute to UIG and I&C Shippers trying to downplay the amount of UIG that existed and that should be allocated to them. The upshot of all of these discussions was UNC Modification 0229 - Mechanism for correct apportionment of unidentified gas that, in 2010, introduced the Allocation of Unidentified Gas Expert (AUGE). The independent expert's task was to allocate a fixed amount of gas from the domestic sector to the I&C sector based on detailed analysis from information provided to them by Xoserve.

The implementation of Project Nexus in 2017 saw the introduction of gas allocation at all meter points being in line with actual usage, with meter readings for all customers entering the settlement system. The result of this was that UIG for each LDZ became visible as it is the gap between gas entering the LDZ networks and that consumed by customers based on meter readings. This resulted in a different role for the AUGE, in that it had to allocate the UIG between different customer types and sizes via an annual UIG table, which is based on detailed information from Xoserve, including theft data. The initial AUGE allocated a higher percentage of UIG

to domestic customers, largely based on the view that theft accounts for the majority of UIG and that most theft is undertaken by domestic customers. This AUGE's allocations were in place until the end of the gas year 2019/20 when its contract to provide the service ended. For the gas year 20/21 a new AUGE was appointed who has taken a very different view in terms of where theft is occurring by allocating a much higher proportion of UIG to I&C sites, especially smaller ones.

### **UNC 0781R – Review of the Unidentified Gas Process**

UNC Request 0781R – Review of the Unidentified Gas Process – was raised in order to look at ways of improving the UIG allocation process. The Workgroup looked at several possibilities to improve the UIG allocation, and the universal allocation or 'vanilla smear' option, where UIG is allocated flatly based on throughput, was determined to be the most favoured out of eight options discussed by the Workgroup. This was mainly favoured due to the reduction in AUGE volatility however it was recognised that this would make Class 1 and 2 see a significant increase in allocated UIG. It is very difficult to identify the sources of UIG, as whilst both the AUGE's employed to date have assumed that a large majority of UIG is due to theft the industry view is that theft is a smaller factor and more is due to other factors, such as shrinkage calculations being too low, assumptions of average temperature and pressure at meters being incorrect, metering inaccuracies and significant amounts of gas being vented due to leakage from gas pipework.

### **Electricity Equivalent**

During one of the UNC 0781R Workgroup meetings, Elexon presented how the corresponding concept worked in electricity, which is by means of the correction factor, that is very similar to the proposed throughput UIG method, as it allocates unexplained electricity losses to customers based on their throughput. Elexon explained that this concept had been introduced at the start of competition and there has been very little discussion or change to it over the past few decades, which is totally different to gas, where there have been numerous meetings, discussions, modifications, etc., each year over the past twenty or so years and there is still no consensus in the industry, as any method tends to create perceived winners and losers. The allocation method based on throughput is seen by many as the only fair and equitable solution that won't need constant revisiting and discussion.

### **Justification for the Modification**

UIG has been an ever-divisive topic for industry, ultimately there is no 'right answer' in UIG allocation. A change of mindset to view UIG as arising from 'model error' and a cost that can be useful to incentivise the right direction of travel for industry benefits Shippers, Suppliers and ultimately the customer. In that light, Daily Metered Customers should not be allocated UIG as they do not contribute to model error; any short-term estimate used for allocation for Daily Metered Customers is usually rapidly corrected. Incentivising movement of customers to Daily Metered (Class 2) also helps improve settlement accuracy so reducing UIG long-term.

Modification 0831 has the benefit of stabilising AUGE factors and reducing risk premiums associated with volatile AUGE factor but does not recognise the inherent difference between Daily Metered and Non-Daily Metered Customers when determining the level of contribution to UIG. This proposed alternative to 0831 furthers the added value by reducing overall levels of UIG, incentivising movement to Class 2 while there is no mandating from the Regulator and minimising costs to customers.

Should the Modification not be implemented then the UIG uncertainty and risk to Shippers and Suppliers will continue, especially when there is a change of AUGE, as any future AUGE may choose a different allocation methodology, which could cause an even bigger swing in the UIG allocation factors than was experienced by the last change of AUGE. UIG is being allocated largely based on the views and opinions of a few people as to the best analytical method to be employed, and on the level of each cause of UIG, without any concrete evidence to back these views up.

Should the Modification not be implemented there will be numerous further gas industry meetings, discussions, etc., on the subject when the industry's time could be much better spent addressing other initiatives, such as the decarbonisation of the gas network.

## 4 Code Specific Matters

### Reference Documents

A link to the output from Request 0781R Workgroup is here: [0781R - Review of the Unidentified Gas process | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](#)

A link to the original UNC0831 Modification can be found here: <https://www.gasgovernance.co.uk/0831>.

## 5 Solution

The solution is that the annual AUGÉ process and statement production will be removed and that the UIG table will be permanently set to a scaling factor of one for all EUC Bands in Class 3 and 4 and the scaling factor set to zero for all EUC Bands for Class 1 and 2.

## 6 Impacts & Other Considerations

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

This Modification does not impact a SCR or any other industry projects.

### Consumer Impacts

The Modification is likely to reduce overall levels of UIG through migration to Class 2, therefore reducing bills for those customers. Shippers have lower volatility so Suppliers have greater certainty on wholesale costs and so risk premiums will also be reduced, and it helps customers to understand how UIG is allocated. Also, some consumers are subject to a direct charge for what is currently a fluctuating UIG factor, and this Modification will reduce this uncertainty.

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

It is not anticipated that the current customer experience will change. However, the Modification will allocate UIG differently compared to the AUGÉ.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability	None

<p>Lower bills than would otherwise be the case.</p> <p>Likely to reduce overall levels of UIG through migration to Class 2, therefore reducing bills for those customers. Shippers have lower volatility so Suppliers have greater certainty on wholesale costs and so risk premiums will also be reduced. In addition, lower industry costs due to the lack of AUGE process and industry meetings on the UIG table.</p>	Positive
<p>Reduced environmental damage.</p> <p>Depending on the solution chosen for hydrogen gas, a throughput allocation for UIG may be easier to implement as without this Modification a separate UIG table for hydrogen customers may be required.</p>	Positive
<p>Improved quality of service</p>	None
<p>Benefits for society as a whole</p>	None

### Cross-Code Impacts

Depending on the legal text solution chosen, there may be a minor impact on the IGT Uniform Network Code (UNC). If this is the case an IGT UNC Modification will need to be raised.

### EU Code Impacts

None.

### Central Systems Impacts

As it is anticipated that the Modification will only require an update to the factors in the UIG allocation table in the Central Data Service Provider’s (CDSP’s) systems. There may be a small impact if a large migration to Class 2 is observed. The CDSP are evaluating this.

There may also be an impact on the CDSP due to the requirement to terminate the AUGE arrangements and contract which might have a one-off cost impact.

## 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 <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: (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.	Positive
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

**Relevant Objectives**

d) A more stable and consistent UIG allocation will lower the UIG risk to Shipper Users and Suppliers and maintain cost stability which should support increased competition. Allocating UIG to NDM sites reflects the fact that UIG is primarily driven by settlement error caused by use of estimates and so better improves cost targeting, furthering competition.

f) The removal of the AUGGE and the whole annual industry process around the UIG table will lower industry costs and make administration of the gas allocation process to Shipper Users more efficient.

## 8 Implementation

It is not anticipated that there will be any significant implementation costs for any parties as the Modification is only updating the table of UIG factors.

As soon as possible but with 3 months' notice.

## 9 Legal Text

**Text Commentary**

**Text**

Legal Text to be provided.

## 10 Recommendations

**Proposer's Recommendation to Panel**

Panel is asked to:

- Agree that this Modification is an Alternative to Modification 0831 and should proceed on the same timetable.