





UNC Modification		At what stage is this document in the process?
<h1>UNC 0634 (Urgent):</h1> <h2>Revised estimation process for DM sites with D-7 zero consumption</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>Purpose of Modification:</p> <p>This modification proposes to create a new process for <u>estimating-amending</u> daily metered consumption to prevent D-7 zero estimates from being used <u>where inappropriate to do so inappropriately</u>.</p>		
	<p>The Proposer recommends that this modification should be:</p> <ul style="list-style-type: none"> <u>treated as urgent and should</u> proceed <u>as such</u> under a timetable agreed with the Authority <u>issued to consultation</u> 	
	<p>High Impact:</p> <p>Shippers, Suppliers-, Xoserve</p>	
	<p>Medium Impact:</p> <p>Transporters</p>	
	<p>Low Impact:</p> <p>None</p>	

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Timetable

The Proposer recommends the following timetable:

Panel Recommendation on Urgency	13 October 2017
Ofgem Decision on Urgency	16 October 2017
Consultation Commences	<u>24</u> 7 October 2017
Consultation Close-out for representations	<u>23-03</u> October <u>November</u> 2017
Final Modification Report available for Panel	<u>06 November 2017</u> 24-October 2017
Modification Panel decision	<u>09 November 2017</u> 25-October 2017
Ofgem Decision	<u>04-10</u> November 2017



Any
questions?

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1 Summary

What

At present when a [Class 1 Daily Metered \(DM\) Supply Meter Point](#) ~~daily metered site~~ does not have a Valid Meter Reading for any particular settlement day, then the consumption from D-7 is used as a proxy to determine the consumption. The use of the consumption from D-7 is intended to [use a previous actual consumption in order](#) minimise the level of error between [an estimate derived and any consumption at the Supply Meter Point](#). ~~the actual consumption and the estimated read.~~ Where the D-7 consumption is zero then this zero is used in the estimate process and could be propagated week after week, which if incorrect, would mean that any consumption would be allocated to Unidentified Gas (UIG) until a Valid Meter Reading is accepted. ~~However, an unintended consequence is that if the D-7 consumption is zero then this zero is used and could be propagated week after week incorrectly into settlement.~~

Why

The unintended consequence of the current mechanism is, that if a [Class 1 site on an LDZ](#) ~~that is~~ consuming gas, does not submit a Valid Meter Reading and the D-7 consumption is zero, [where this is not replaced by an Actual reading before Exit Closeout](#) the volume is allocated to Unidentified Gas (UIG) which is paid for by NDM shippers until a Valid Meter Reading is accepted.

How

[This modification proposes that where a D-7 value of zero consumption is used to derive the estimated DM reading for a Class 1 site \(excluding NTS sites\), the CDSP will review that consumption and either confirm to the shipper that they intend to keep in place the zero value, or where they consider that this D-7 zero consumption value is incorrect, inform the shipper of a proposed amendment to the consumption on that given Gas Flow Day. They will either use a meter read that has been submitted to the CDSP, but has not been loaded as a Valid Meter Reading, or an AQ3/65 value. The Shipper User can direct Xoserve to either maintain the zero value, or provide an alternative consumption where a zero or AQ/365 has been proposed. If the shipper does not respond then Xoserve will utilise the values they have proposed.](#) ~~The current estimation process will change so that if a DM site does not submit a Valid Meter Reading and the D-7 consumption is zero, then the consumption estimate shall be AQ/365 instead of zero.~~

2 Governance

Justification for Urgency

The additional burden placed on shippers as a result of both high and volatile UIG during the summer since the new UK Link system went live on 01 June 2017 has had a material impact and this modification seeks to address some of these issues. There are a number of industry initiatives in progress to address UIG; however, little progress appears to have been made. Since mid to late September 2017, UIG, instead of decreasing as a result of the industry initiatives, increased to levels never seen before by the industry. As winter approaches and consumption increases further, this, combined with increasing UIG percentage allocations will cause the burden of overall UIG for shippers to become a significant risk that cannot currently be mitigated. It is on this basis that this modification should be granted urgent status.

Requested Next Steps

This modification should:

- ~~be treated as urgent and should proceed as such~~ under a timetable agreed with the Authority.
- be issued to consultation.

3 Why Change?

Project Nexus made a number of significant changes to how the gas settlement regime operates. The removal of scaling factor in settlement, changes to individual reconciliation for all sites with the withdrawal of RbD process and the use of actual weather data has meant that settlement error and losses that arise in LDZs are the responsibility of (paid for by) shippers and are now concentrated into a single volume, termed Unidentified Gas or UIG.

Settlement losses from energy theft and other reasons that are not accounted for at some point in the reconciliation process (permanent UIG) have been consistently assessed by the AUGÉ since 2012 as around 1% of total LDZ throughput. The Demand Estimation Sub Committee (DESC) estimates have also indicated a permanent UIG value of around 1%.

These predicted volumes do not tally with the current levels of UIG being experienced by the market with average monthly volumes of approximately 5% (approximately £20-40m per month across the industry). A number of LDZ's have experienced significant volatility with some daily volumes greater than 10% or sometimes even negative. There is a possibility that the AUGÉ and DESC estimates are incorrect; however, it is highly unlikely that this explanation would account for the scale of error that has been visible since 01 June 2017. Settlement error must be considered as the primary factor.

Settlement error can come from a number of sources such as algorithm errors, inaccurate AQs or the use of estimated consumption for daily read sites that do not submit an Actual Meter Reading. An assessment of the current settlement algorithm would take considerable time and whilst there may be some benefits in doing so (in particular looking to using more extensive datasets to model behaviour), it is uncertain that this would identify changes that materially reduce the level of UIG in the market. The automated rolling AQ process should significantly reduce the level of error within the NDM sector in the coming months as suppliers submit meter reads. The current "must read process" and recent obligations brought in by UNC Modification 0570 will support an acceptable level of accuracy in this area.

The current situation (as of 29 September 2017) indicates that the number of daily metered sites which are using estimated reads for settlement is as high as 110 from 1133 sites. The resulting impact of this volatility is being passed onto the rest of the market. If a Valid Meter Reading is not loaded for a daily read site, Xoserve will utilise a meter reading that was provided seven calendar days previously irrespective of that consumption. This error can be significant if a daily metered site is being assumed to flow no gas (through the use of a zero estimate), when in fact the site was consuming a significant amount of gas.

Xoserve have highlighted the issue and reached out to daily metered shippers with sites which are using estimated reads for settlement. They have also escalated the issue through Transition Progress Group (TPG) and the Performance Assurance Committee (PAC). Since there has not been any distinct progress to date and this urgent modification is required to address this issue prior to the coldest winter months.

4 Code Specific Matters

Not relevant

5 Solution

It is proposed that:

Where this estimation process occurs for a Class 1 site (that is not connected to the transmission network) and this would result in a consumption of zero:

- The Shipper will be notified within the Daily Read File provided by Daily Metered Service Provider, Xoserve will then decide whether to amend the consumption, where possible to an actual consumption where derived from reading information that the Daily Metered Service Provider has recorded a reading, but has been unable to submit this reading or it has been rejected.
- If no such read is available, then where Xoserve believes that the most appropriate consumption is zero, inform the shipper that it will continue to utilise a zero value.
- If Xoserve believes that zero is not appropriate then Xoserve will inform the shipper that it will use an AQ/365 value.
- Where the shipper is notified it may either agree with Xoserve proposal, or may direct that the site's consumption is maintained at zero. Where Xoserve is proposing either a zero or an AQ/365 value, it may also direct Xoserve to use an alternative consumption they believe is more appropriate.

If the shipper does not respond to the Xoserve communication then for the avoidance of doubt Xoserve will proceed with its decision within 2 Business Days.

1. Where a daily metered site does not provide an Actual Meter Reading and where the D-7 reading is zero, the estimated consumption will use an AQ/365 value.
2. When this estimation process occurs, the shipper will be notified, shippers will then have the ability to override this value (and so default the site back to zero) by informing Xoserve in writing within 5 calendar days.

As this is an urgent modification it should be implemented as soon as possible following Authority decision perhaps with preparatory work completed in advance of the Authority decision.

6 Impacts & Other Considerations

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

No impacts on the current Significant Code Review or other significant industry change identified.

Consumer Impacts

There are no direct impacts on consumers should this modification be implemented. However, this modification should reduce the scale and variability of UIG on NDM portfolio shippers. This should reduce balancing costs for shippers which should allow suppliers to provide cost reflective prices.

Cross Code Impacts

There may be an iGT UNC cross code impact due to the joint agency agreement.

EU Code Impacts

No EU Code Impacts identified.

Central Systems Impacts

This solution will retain the existing estimation methodology and the notification of these to Shipper Users. Xoserve have demonstrated the ability to insert consumptions in advance of D+5 that will then inform future D-7 positions.

A process will be required by Xoserve to notify the relevant shippers of its proposed action and for the Shipper to respond if they wish to direct an alternative course of action.

The volumes expected within Class 1 are not expected to merit a system process in order to amend the consumption. This solution will require an amendment to the current process for deriving estimated consumptions at some daily metered sites. There will also need to be a mechanism developed to notify shippers when this occurs for their daily metered sites and also an override mechanism to do so. It is anticipated and expected that an interim process should be developed whilst a full system solution is being built.

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"> (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

This modification should:

- improve the accuracy of settlement by incentivising shippers to ensure that daily metered sites are settled on daily reads in a consistent manner;
- reduce both the scale and variability of UIG in the market, so reducing costs;
- lead to more accurate cost apportionment;

therefore, furthering competition and furthering relevant objective (d).

8 Implementation

No formal implementation timescales are proposed, but this modification must be implemented as soon as possible after Authority decision to limit the continuing negative impact of continuing high levels of UIG. An interim solution should be provided if there is a lead time to an automated system solution.

9 Legal Text

To be provided.

10 Recommendations

Proposer's Recommendation to Ofgem:

The proposer recommends that this modification should:

- ~~be treated as urgent and should~~ proceed ~~as such~~ under a timetable agreed with the Authority.
- be issued to consultation.