

**Representation - Draft Modification Report UNC 0831 0831A**

**0831 – Allocation of LDZ UIG to Shippers Based on a Straight Throughput Method**

**0831A - Allocation of LDZ UIG to Shippers (Class 2, 3 and 4) Based on a Straight Throughput Method**

**Responses invited by: 5pm on 19 October 2023**

**To:** [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

*Please note submission of your representation confirms your consent for publication/circulation.*

<b>Representative:</b>	Gareth Evans
<b>Organisation:</b>	ICoSS
<b>Date of Representation:</b>	19 October 2023
<b>Support or oppose implementation?</b>	0831 – Support 0831A - Support
<b>Alternate preference:</b>	0831A
<b>Relevant Objective:</b>	d) Positive f) Positive
<b>Relevant Charging Methodology Objective:</b>	Not Applicable

**Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)**

This response is on behalf of the majority of our members.

Since the commencement of the current UIG process as part of Project Nexus, it has become apparent that the vast majority of UIG is in fact settlement error, not losses from gas theft and other sources. This is evidenced by the fact that initial allocation of UIG has since March 2022 been negative; something that only happen where losses (which are always positive) are overwhelmed by settlement inaccuracies.

We see no reason why settlement error caused by the NDM estimation process should be allocated on the basis of a report seeking to determine the sources of gas theft and other losses, whose output varies significantly each year. We therefore support the move away from the current process of allocating Unidentified Gas (UIG) via a volatile and unpredictable set of annual weighting factors to a more stable and reflective process. The reduction in volatility will mean a reduction in wholesale costs for shippers and greater certainty for customers, so benefiting the market as a whole.

The industry performance framework has evolved significantly since the commencement of the AUGÉ process in 2012. At that time, Xoserve was fully managed by the Transporters and there was no market assessment of losses. The new AUGÉ process stimulated a number of initiatives to address losses and improve settlement accuracy. Partly as a result, there is now a comprehensive regime in place to reduce losses, such as a theft regime and performance assurance. We also note that Xoserve has undertaken a number of investigations into Unidentified Gas and can be asked to do so again by shippers under the co-operative management model. We therefore do not believe that there is a need for the AUGÉ process to continue to be explicitly referenced in the UNC and this can be safely removed.

We are supportive of both modifications but, as noted above, the vast majority of UIG is caused by settlement error, which originates from the NDM sector. We do not think it appropriate that Class 1 DM customers, who are settled on actual meter readings should carry the cost of errors from NDM customers and so we believe that on balance UNC Modification 0831A is the most appropriate change.

**Implementation:** *What lead-time do you wish to see prior to implementation and why?*

We appreciate that some notice period will be required to allow shippers to adjust purchasing strategies and adjust charges to suppliers. This notice period should be limited however so that the benefits of this change can be realised as soon as possible.

**Impacts and Costs:** *What analysis, development and ongoing costs would you face?*

Under both changes, our members will see a reduction in volatility from day-to-day UIG allocation. It will also provide more certainty year on year as the weighting factors will not be reset every October. This will allow shippers to reduce their costs in meeting wholesale gas needs and so reduce costs for suppliers and customers.

We do not anticipate any change in costs for shippers and suppliers in tackling UIG sources as their obligations under the REC and UNC regarding, amongst others, theft detection and performance assurance will remain.

**Legal Text:** *Are you satisfied that the legal text will deliver the intent of the Solution?*

We have not reviewed the legal text.

**Modification Panel Members have requested that the following questions are addressed:**

*Q1: Do you have views on the effect of these two alternatives on end consumers?*

Both modifications will reduce the volatility and uncertainty in UIG allocation and so reduce wholesale costs for shippers, suppliers and ultimately consumers. It will also provide certainty and improve transparency of UIG costs for larger customers. We see a net benefit for customers.

*Q2: Is the process in electricity comparable? (please explain)*

We believe that the analogous process in electricity is the Group Correction Factor which also attempts to allocate residual electricity use to suppliers in a GSP. The current electricity regime has sought to manage this issue, and tackle losses (such as theft) and encourage appropriate supplier behaviour without the need for a volatile and complex allocation mechanism. This reinforces our view that a stable mechanism for allocating settlement error should be the main driver for managing allocation of residual energy in both gas and electricity. We note that the electricity process wholly allocates this error to NHH customers, the equivalent of NDM customers, recognising that HH customers (analogous to DM customers) do not contribute to this error.

It is also notable that whilst the Unidentified Gas process has been subject to numerous modifications in the last ten years, the Group Correction Factor process has remained unchallenged.

**Are there any errors or omissions in this Modification Report that you think should be taken into account?** *Include details of any impacts/costs to your organisation that are directly related to this.*

NA

**Please provide below any additional analysis or information to support your representation**

NA