









UNC Modification	At what stage is this document in the process?
<div>UNC 0862:</div> <div>Amendments to the current Unidentified Gas Reconciliation Period arrangements</div>	<div><div>01Modification</div><div>02Workgroup Report</div><div>03Draft Modification Report</div><div>04Final Modification Report</div></div>
<div><b>Purpose of Modification:</b></div> <div>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).</div>	
<div><b>Next Steps:</b></div> <div>The Proposer recommends that this Modification should be:</div> <div><ul style="list-style-type: none"><li>considered a material change and not subject to Self-Governance</li><li>assessed by a Workgroup for 6 months</li></ul></div> <div>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.</div>	
<div><b>Impacted Parties:</b></div> <div>High: Shippers, Distribution Network Operators, Consumers, Central Data Services Provider (CDSP)</div> <div>Low:</div> <div>None: Independent Gas Transporters and National Gas Transmission</div>	
<div><b>Impacted Codes:</b> IGT UNC (TBC)</div>	

Contents			 Any questions?
1	Summary	3	Contact:
2	Governance	3	Joint Office of Gas Transporters
3	Why Change?	4	
4	Code Specific Matters	4	<a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
5	Solution	4	
6	Impacts & Other Considerations	4	0121 288 2107
7	Relevant Objectives	7	Proposer:
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9	Legal Text	8	SEFE Energy
10	Recommendations	9	
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Timetable			
Modification timetable:			07990972568
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
			
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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.

BR2 For all UIG reconciliations where the Registered User is, at the time of the UIG Reconciliation Period, a Discontinuing User, TPD E7.5.4 should apply.

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.

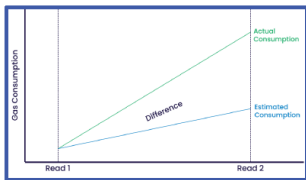
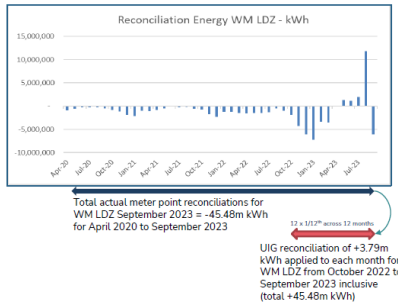
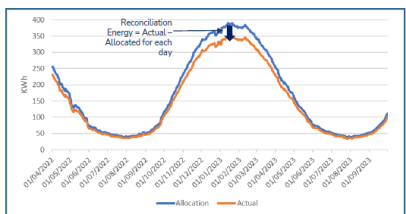
EU Code Impacts

None.

## Central Systems Impacts

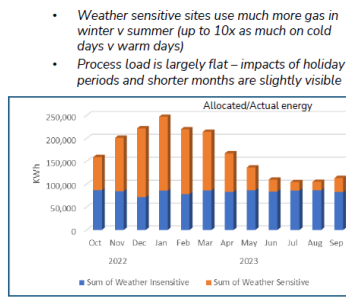
From a system perspective, the CDSP will be required to reconcile UIG to the same months that the energy originated from (instead of smearing to the last 12 months).

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:

<p><b>Xserve</b></p> <p><b>UNC Modification 0862</b>  <b>Amendments to the current Unidentified Gas Reconciliation Period arrangements</b></p> <p><b>Example of As-Is and To-Be UIG Reconciliation Apportionment</b>  <b>Updated Following February 2024 Workgroup Meeting</b></p>	<p><b>Additional Context Slide</b></p> <ul style="list-style-type: none"> <li>Unidentified Gas (UIG) is the balancing figure in each LDZ each day</li> <li><b>UIG = Total LDZ throughput less Shrinkage less Daily Metered (DM) actuals/estimates less Non-Daily Metered (NDM) deemed usage (using the NDM Algorithm)</b></li> <li>Subsequently the individual positions are refined by meter point reconciliation – e.g. DM check reads, actual readings for NDM sites</li> <li>Each time an individual meter point position changes, this must mean that the UIG position has changed, to keep the LDZ figures “in balance”</li> <li>Updating the UIG position after the initial D+5 close-out is referred to as UIG Reconciliation</li> <li>These slides describe the As-Is arrangements for UIG Reconciliation and the proposals in UNC Modification 0862</li> </ul>
<p><b>Background</b></p> <ul style="list-style-type: none"> <li>Under current “Project Nexus” business rules, UIG Reconciliation (charge type “UGR”) is shared out in a standard 12-month “pot” in each LDZ.</li> <li>How is this currently carried out? <ul style="list-style-type: none"> <li>Each month, the CDSP carries out reconciliation activities for sites which have submitted reads in that billing month</li> <li>The submitted reads indicate the difference between estimated and actual consumption</li> </ul> </li> </ul>  <p><b>12-month pot means:</b></p> <ul style="list-style-type: none"> <li>Total UGR divided into 12ths</li> <li>Then allocated to the previous 12 months in 12 separate ‘chunks’</li> </ul>	<p><b>Background cont.</b></p> <ul style="list-style-type: none"> <li>How is this currently carried out? <ul style="list-style-type: none"> <li>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</li> <li>Opposite value of all the reconciliations in the LDZ for that billing month are totalled up to become UGR</li> </ul> </li> </ul> 
<p><b>Background cont.</b></p> <ul style="list-style-type: none"> <li>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</li> <li>UGR is currently applied to latest share of Weighted Shipper throughput for the last 12 months in the relevant LDZ</li> <li>The only exception is Large LDZ Measurement errors (&gt;50 GWh – see <i>UNC TPD E7.5</i>) which are applied to the actual historic months – back to Line in the Sand only (the “Code-Cut-Off Date” – see <i>UNC General Terms C1</i>)</li> <li>All UGR is shared out – none is “lost” due to the use of a 12-month pot</li> </ul>	<p><b>Modification 0862</b></p> <ul style="list-style-type: none"> <li>UNC Modification 0862 seeks to move away from the standard 12-month pot for normal UIG Reconciliation</li> <li>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</li> <li>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)</li> <li>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</li> <li>The Mod does not propose any changes to meter point reconciliation processes</li> </ul>
<p><b>Why Was 12 Months Chosen Originally?</b></p> <ul style="list-style-type: none"> <li>Prior to Project Nexus all Smaller Supply Points were subject to “Reconciliation by Difference” in place of meter point reconciliation</li> <li>Energy sharing rules depended on the type of the original reconciliation – 12 months was the longest sharing period (except for Large LDZ measurement errors)</li> <li>12 months was chosen by the Project Nexus Workgroup on the basis that: <ul style="list-style-type: none"> <li>Most sites would get a read at least once a year so 12 months would represent a typical reconciliation period</li> <li>A single “pot” was simpler to understand</li> <li>An outgoing Shipper would still be responsible for the UIG charge on the amendment invoice for the site for 12 months</li> <li>It would be less of a barrier for Shippers wishing to exit the market</li> </ul> </li> <li>UIG was expected to be a small % of throughput and UIG Reconciliation was expected to be a small proportion of the original UIG</li> <li>Project Nexus UNC Workgroup stated at the time that the rules could be revisited in the future</li> </ul>	<p><b>Worked Example</b></p> <ul style="list-style-type: none"> <li>We have looked at a fictional sensitive site for an 18-month period</li> <li>Meter point reconciliation processes always assign the actual energy in proportion to the original allocation</li> <li>This means that proportionally more rec energy (plus or minus) is associated to winter months than to summer months</li> <li>In this example the site used 10% less gas than allocated</li> </ul> <p>Reconciliation energy = Actual – Allocated = -8,961 kWh in this example  UIG reconciliation = +8,961 kWh  Higher energy volumes in high allocation months</p> 

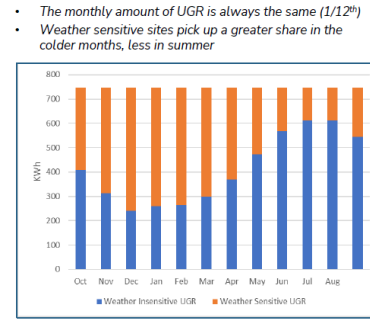
### As-Is Processes

- Consider a fictitious LDZ with just 2 customer groups:
- 1m kWh of Weather Sensitive AQ (e.g. Domestic, small I&C with heating load)
- 1m kWh of Weather Insensitive AQ (e.g. Industrial process load)
- For Gas Year 2022 this is the comparative allocated/actual energy position – basis of UGR allocation



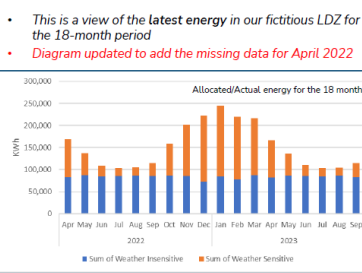
### As-Is UGR sharing

- Under current rules the reconciliation energy is multiplied by -1 and divided by 12
- Each 1/12th portion is shared out over the latest Weighted allocation/actual energy for the month
- If our example rec is shared out in the September 2023 Amendment invoice this is how it is shared (using equal Weighting Factors)
- Total UIG Rec = +8,951 kWh



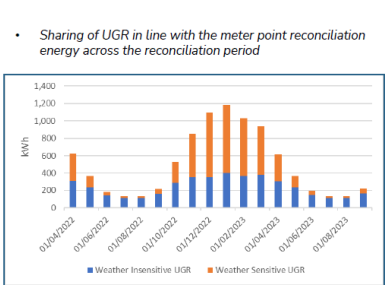
### Proposed Approach

- The example rec of 18 months would create UGR to be shared out over 18 months
- 6 extra "older" months would be in play for UGR
- The latest post-reconciliation energy for these 18 months will be Weighted and used as the basis of UGR sharing



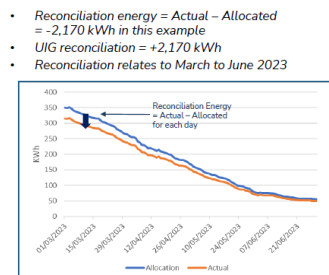
### Proposed UGR sharing

- The post-reconciliation energy for these 18 months will be Weighted and used as the basis of UGR sharing
- The monthly UGR amounts vary in line with the original meter point reconciliation
- Total UIG Rec = +8,951 kWh – no change to energy or financial values



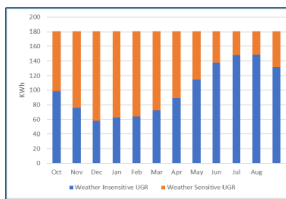
### Additional slides – Example of a 4-month reconciliation

- Previous slides showed a reconciliation for a period longer than 12 months
- Recent data from the Amendment Invoice shows that most reconciliation takes place within the first 4 months
- There are many more monthly read sites now compared to at Project Nexus implementation
- This extra example shows a 4-month reconciliation period for March to June 2023, processed on the September 2023 invoice

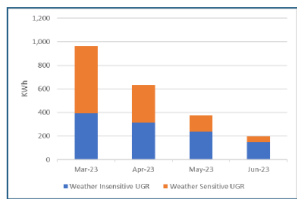


### Additional slides – Example of a 4-month reconciliation

#### As-Is UIG reconciliation – 12 month sharing



#### To-Be UIG reconciliation – 4 month sharing



- Example uses the same fictitious LDZ and shares of throughput
- UIG reconciliation = +2,170 kWh in both cases, but in To-Be example is only shared over the months that the original Reconciliation related to: March to June 2023 for this example

### Financial Implications of UIG Reconciliation

- The financial value of UGR is taken from the sum of all the original meter point reconciliations in each LDZ (UGR £ value is the equal and opposite of all the meter point rec £ values – they net each other out on the Amendment Invoice)
- UIG Reconciliation is **not** revalued using the SAP prices of the months that it is shared over
- Financial values would be shared out in parallel with the energy amounts under Mod 0862 as explained earlier
- A change to the sharing arrangements won't have any impact on the overall financial value of UGR
- UIG Rec is an energy-only charge – there are no transportation charges on UIG so there is no Transporter income impact from the proposed change

### Other points to note

- We have not applied any UIG Weighting Factors to these examples – to make them easier to understand
- Future use of UIG Weighting Factors was confirmed by Ofgem's decision to reject UNC Mods 0831/A
- UGR each month is dependent on the individual reconciliations for the month within the LDZ
- In reality there are up to 39 End User Categories in each LDZ, each with a different profile and weather sensitivity
- Historic data can be seen in the "Reconciliation by Month" report on the Xoserve UIG page – report shows sum of individual recs in energy and £ terms – reverse them to get UGR energy kWh and £ value – "Supply Month" means the actual months to which the recs related: [Unidentified Gas \(UIG\) \[xoserve.com\]](#) (pre-Line-in-the-Sand energy appears on the report but can be ignored)

## 6 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.

## 7 Implementation

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

## 8 Legal Text

### Text Commentary

TBC

### Text

TBC



## 9 Recommendations

### Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply.
- Refer this proposal to a Workgroup for assessment.