

## Stage 01: Modification

# 0473A:

## Project Nexus – Allocation of Unidentified Gas

At what stage is this document in the process?



This modification proposal provides an alternative solution to Mod 0473, to determine the extent to which Unidentified Gas should be allocated following the implementation of Project Nexus.



The Proposer recommends that this modification should be:

- assessed by a Workgroup



High Impact:  
Shipper organisations holding a supply point portfolio



Medium Impact:  
None



Low Impact:  
None

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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is not a Self Governance modification as it would have a material effect on relevant commercial activities as set out in the Uniform Network Code (UNC), these being connected with shipping arrangements and the transportation of gas.

## Why Change?

UNC Modification Proposal 0432 was approved by Ofgem on 21 February 2014. 0432 was raised following many years of development activity and the production of a series of agreed Business Requirements Documents, including the introduction of the 'Allocation Scaling Adjustment' methodology. The approved proposal removes the existing arrangements associated with the Allocation of Unidentified Gas Expert (AUGE) with effect from the implementation date of Project Nexus.

UNC Modification Proposal 0473 has been raised seeking to re-introduce AUGE style arrangements to determine the extent to which Unidentified Gas should be shared between market sectors.

UNC Modification Proposal 0473A has subsequently been raised as an alternative proposal to address a number of fundamental issues that the proposer has identified within 0473.

The new individual supply point reconciliation arrangements being introduced by Project Nexus are significantly different to the incumbent RbD arrangements, therefore it is not appropriate to take a simplistic approach of re-instating the current AUGE processes and arrangements. Any future independent expert role should be suitably developed to support the new Project Nexus arrangements.

This modification proposal provides a different approach to that which is proposed by 0473, which the proposer and a number of Users believe will provide a more appropriate and equitable solution.

## Solution

It is proposed that a new Independent Expert be appointed in readiness for Project Nexus Go Live Date. The new Independent Expert will be responsible, if required following assessment and analysis of evidence/data, for the development of a methodology for correcting Project Nexus allocation arrangements, which subject to a consultation and approval processes will be modified and applied on an annual basis.

## Relevant Objectives

Implementation of this modification proposal would be expected to positively impact the following Relevant Objective:

- d) Securing of effective competition
  - (i) between relevant Shippers and
  - (ii) between relevant Suppliers

The changes would result in a more appropriate and accurate allocation of costs between Shippers and Suppliers as this the new Independent Experts' assessment of Unidentified Gas will be based upon the incumbent Project Nexus settlement mechanism, using matured data generated from the new settlement regime.

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The proposal provides a robust and accurate allocation of known source Unidentified Gas during the Transitional period.

Further the proposal secures effective competition by introducing an equal and proportional incentive to all Users to reduce Unidentified Gas and unlike 0473, does not seek to introduce a 'safe haven' for selected sites.

## Implementation

No implementation timescales are proposed. However, the appointment of the Independent Expert is proposed to be undertaken in readiness for Project Nexus Go Live Date, with the new Independent Expert's role and activities commencing from this date.

## 2 Why Change?

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The new individual supply point reconciliation arrangements being introduced by Project Nexus are significantly different to the incumbent RbD arrangements, therefore it is not appropriate to take a simplistic approach of re-instating the current AUGE processes and arrangements. Any future independent expert role should be suitably developed to support the new Project Nexus arrangements.

This modification proposal provides a different approach to that which is proposed by 0473, which the proposer and a number of Users believe will provide a more appropriate and equitable solution. In particular:

- Sufficient time will be available to facilitate an appropriately robust appointment process, ahead of Project Nexus Go-Live Date.
- Any adjustment required to allocation volumes will only be made following appropriate analysis of sufficiently matured and actually observed information/data.
- There will be a transparent fact based approach, with no attempt to presuppose the outcome of brand new settlement arrangements in the absence of any supporting evidence/data.
- Robustness of solution, no estimation of the total balancing number is required – this would be actually measured.
- Intervention only if demonstrably required, following detailed assessment and analysis by the new Independent Expert.
- Transitional Arrangements which provide an accurate allocation of known source Unidentified Gas.
- No product class or AQ banding is advantaged or disadvantaged by design.

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- No introduction of any 'safe haven' for selected sites, thus protecting the competitive environment and preventing potential for unfair cost avoidance during transition.
- All industry participants are equally and proportionally incentivised to reduce Unidentified Gas in the market.

### 3 Solution

The purpose of this modification is to introduce a new Independent Expert, known as the Unidentified Gas Independent Expert (UGIE) in readiness for Project Nexus Go Live date. The UGIE will be responsible for assessing the quantity of Unidentified Gas, based on the actual evidence/data following the implementation of Project Nexus. The output of the UGIE will be to make a recommendation as to whether any further intervention to the incumbent allocation of unidentified gas is required. If required the UGIE will recommend any adjustment required to the incumbent arrangements. During the transitional period between Project Nexus Go Live Date and the new Independent Expert's findings and recommendations, Transitional Arrangements will be used to make an "offline" amendment to the incumbent allocation of Unidentified Gas process. (See Appendix 1.1) The overall aim of this proposal is to introduce an independent, evidenced-based assessment, for the correct allocation of Unidentified Gas, to ensure that all industry participants are equally incentivised to reduce it.

For the avoidance of doubt, this proposal does not seek to amend current pre Project Nexus implementation arrangements, the current AUGE process will continue until the implementation of Project Nexus.

#### Business Rules

- 1) The Unidentified Gas Independent Expert (UGIE), shall be appointed and engaged by the Gas Transporters through an UGIE Contract for the purposes of:
  - a) each year, utilising actual evidence and data, to develop an Unidentified Gas Allocation (UGA) Statement or (as the case may be) a modification to the prevailing UGA Statement, and recommending it to the Committee.
  - b) by applying the UGA Statement, preparing and producing indicative and final Unidentified Gas Allocation Factors to the Transporters for inclusion in a UGA Table and publication.
- 2) For the initial year following Project Nexus implementation, undertaking a review of the incumbent Mod 432 arrangements in addition to any transitional arrangements in place and assessing whether any further intervention is required.
- 3) Where under Business Rule 1 the UGIE produces a UGA Statement and subsequently produces Unidentified Gas Allocation Factors for publication in a form which enables the UGA Table as detailed below to be fully populated. The UGA Table will subsequently be populated by the Transporters and used to determine the Allocation Factors applicable to each meter point class and band by LDZ for the next UG Year. The Transporters will be responsible for publishing the UGA Table in accordance with timescales detailed within the new Framework Document "Framework for the Appointment of an Unidentified Gas Independent Expert (UGIE)"

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Supply Meter Point Classification	Allocation Factor			
	Class 1	Class 2	Class 3	Class 4
EUC Band 1				
EUC Band 2				
EUC Band 3				
EUC Band 4				
EUC Band 5				
EUC Band 6				
EUC Band 7				
EUC Band 8				
EUC Band 9				

- 4) For the purposes of transitional arrangements, (which is the period between Project Nexus Go Live Date and the approval and implementation of the UGIE’s recommendation) as set out within their initial UGA Statement, there will be an offline adjustment undertaken to correct for the Directly Measured Components, as identified by the prevailing AUG Table in place immediately preceding Project Nexus go live date. This adjustment will be applied to Users by Larger DM SPCs, Larger NDM SPCs and Smaller SPCs, as defined under the previous AUGE arrangements, in the proportions identified by the most recently published AUG Table. Further description of the proposed transitional arrangements, are detailed within Appendix 1.2.
- 5) The process for appointing the UGIE is set out in a new UNC Related Document “Framework for the Appointment of an Unidentified Gas Independent Expert (UGIE)”. See Appendix 1.1.
- 6) The Transporters shall be required to publish a Framework Document “Framework for the Appointment of an Unidentified Gas Independent Expert (UGIE)” and publish annually the Unidentified Gas Allocation Statement”.
- 7) The initial content of the Framework Document shall be that which is provided as an Appendix to this modification proposal.
- 8) The Framework Document may be modified if The Committee votes by majority vote in favour of a proposed change.
- 9) For the avoidance of doubt the UGIE will be required to publish a UGA Statement each year regardless of whether any intervention or changes are required from the previous iteration.
- 10) The methodology for implementing the proposed Transitional Arrangements will mirror the existing ‘Allocation of Unidentified Gas Invoice Process’ currently undertaken by Xoserve.
- 11) Based upon the working assumption that Project Nexus Go Live Date will be 1<sup>st</sup> October 2015, under this proposal the UG Year will commence from 1st October each year.

<b>User Pays</b>
Classification of the modification as User Pays, or not, and the justification for such classification.
This proposal will introduce new arrangements for the introduction of a new independent expert, which will result in Xoserve incurring costs associated with procurement and appointment, thus resulting in User Pays charges.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
100% Users
Proposed charge(s) for application of User Pays charges to Shippers.
To be confirmed
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
To be confirmed

## 4 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 (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

Implementation of this modification proposal would be expected to positively impact Relevant Objective d) Securing of effective competition (i) between relevant Shippers and (ii) between relevant Suppliers.

0473A would result in a more appropriate and accurate allocation of costs between Shippers and Suppliers as the the new Independent Experts' assessment of Unidentified Gas will be based upon the incumbent Project Nexus settlement mechanism, using matured data generated from the new settlement regime.

The proposal provides a robust and accurate allocation of known source Unidentified Gas during the Transitional period, utilising existing invoicing methodology to deliver the Transitional Arrangements.

0473A does not seek to introduce a 'safe haven' for selected sites, unlike 0473 which offers unfair protection from Unidentified Gas costs to sites within Product Class 2 and which therefore does not facilitate effective competition between Suppliers & Shippers. These sites are no different in attributes, or propensity to generate Unidentified Gas than sites within Product Class 3. The only difference between Product Classes 2 & 3 is the frequency of which daily reads are submitted to Xoserve.

Due to current Project Nexus design specifications, the volume of sites able to be catered for within Product Class 2, from Project Nexus Go Live Date, is limited in number. 0473A will not impact these design specifications, whereas the proposed 0473 arrangements will force Users to review their previously submitted Product Class

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volume estimations, with the likely outcome being significantly more demand for sites to be classified within Product Class 2 from the earliest opportunity.

Under 0473, Project Nexus Product Class 2 design arrangements will subsequently need to be reviewed by Xoserve, based upon revised User Product Class volume estimates.

Further the proposal secures effective competition by introducing an equal and proportional incentive to all Users to reduce Unidentified Gas.

The table below summarises the proposers' view of differences between 0473 and 0473A, alongside 0432 arrangements.

	0432	0473	0473A
Introduce 3rd party UG expert	✘	✓	✓
Introduce a 3rd party expert assessment of existing 0432 settlement mechanism	✘	✘	✓
Introduce an expert UG methodology for UG cost allocation	✘	✓	✓
Methodology based on matured data generated from new regime	✘	✘	✓
Transition period		✓	✓
Length of expected transition period	N/A	18 Months	24 Months
Proportional allocation of UG costs with unknown source during transition	✓	✘	✓
Accurate allocation of known source UG costs during transition	✘	✘	✓
Introduce equal and proportional incentive to all parties to reduce UG	✓	✘	✓
Prevent 'safe haven' for selected sites to avoid appropriate costs during transition	✓	✘	✓
No need to re-assess shipper Product Class volume requirements	✓	✘	✓
No requirement for additional offline transaction to be built into UK Link	✓	✓	✘

## 5 Implementation

No implementation timescales are proposed. However, the appointment of the new Independent Expert is proposed to be undertaken in readiness for Project Nexus Go Live Date, with the expert's role and activities commencing from this date.

## 6 Legal Text

Legal Text will be provided by the relevant Gas Transporter upon completion of modification proposal development.

## 7 Recommendation

The Proposer invites the Workgroup to:

- AGREE that this modification should be issued to consultation

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## 8 Appendix 1.1 – UGIE Framework

Framework for the Appointment of an Unidentified Gas Independent Expert and the provision of the Allocation of Unidentified Gas Statement (separate document) – see “Framework for the Appointment of an Unidentified Gas Independent Expert (UGIE)”.

## 9 Appendix 1.2 – Transitional Arrangements

The Transitional Arrangements are designed to adjust the straight throughput based Modification 0432 arrangements for the Directly Measured Components identified by the incumbent AUGIE arrangements (see red highlighted area of example table below).

Unidentified Gas source	Aggregate Quantity of Unidentified Gas/GWh	Unidentified Gas Quantity/GWh		
		Larger DM SPCs	Larger NDM SPCs	Smaller SPCs
iGT CSEPs	288	0	0	288
Shipperless/Unregistered	417	0	321	96
- Shipper Activity	0	0	0	0
- Orphaned	33	0	28	5
- Unregistered <12 Months	57	0	49	7
- Shipperless PTS	25	0	14	11
- Shipperless SSrP	291	0	223	68
- Shipperless <12 Months	11	0	5	5
Meter Errors	21	0	21	0
Balancing Factor (Theft + Other)	3779	0	962	2817
Total (inc Independents)	4506	0	1304	3202

Worked example:

The method proposed to do this is to take the total Aggregate Quantity of Unidentified Gas/GWh as defined by the most recent AUG Table at the point of Project Nexus Go Live Date (highlighted green in the above example table).

In this example this would equate to  $288 + 417 + 21 = 726\text{GWh}$

It should be noted that this is for a full year and therefore to apply the adjustment monthly the calculation would be  $726/12 = 60.5\text{GWh}$  (subject to UNC value rounding rules)

For this example (as per the example table above), according to the AUG Table above, the 60.5GWh would be allocated along the following proportions:

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Larger DM SPCs =  $0/726 = 0\%$   
Larger NDM SPCs =  $342/726 = 47.1\%$   
Smaller SPCs =  $384/726 = 52.9\%$

Under the proposed transitional arrangements, the 60.5GWh will have been allocated by Modification 0432 arrangement in-line with throughput rather than as per the AUG Table above. Therefore to correct for this, the 60.5GWh is removed each month from the UG allocation in proportion to throughput. Assuming the following market shares as an example:

Larger DM SPCs = 17% throughput =  $60.5 * 0.17 = 10.3\text{GWh}$   
Larger NDM SPCs = 23% throughput =  $60.5 * 0.23 = 13.9\text{GWh}$   
Smaller SPCs = 60% throughput =  $60.5 * 0.60 = 36.3\text{GWh}$

This 60.5GWh is then allocated to the sectors each month as per the AUG Table above.

Larger DM SPCs = 0% Directly Measured Components =  $60.5 * 0.0 = 0\text{GWh}$   
Larger NDM SPCs = 47.1% Directly Measured Components =  $60.5 * 0.471 = 28.5\text{GWh}$   
Smaller SPCs = 52.9% Directly Measured Components =  $60.5 * 0.529 = 32.0\text{GWh}$

Therefore the net effect of this transaction is:

Larger DM SPCs =  $-10.3\text{GWh} + 0\text{GWh} = -10.3\text{GWh}$   
Larger NDM SPCs =  $-13.9\text{GWh} + 28.5\text{GWh} = 14.6\text{GWh}$   
Smaller SPCs =  $-36.3\text{GWh} + 32.0\text{GWh} = -4.3\text{GWh}$

The methodology for implementing the proposed Transitional Arrangements will mirror the existing 'Allocation of Unidentified Gas Invoice Process' currently undertaken by Xoserve.