Joint Office of Gas Transporters

UNC Modification	At what stage is this document in the process?
# UNC 0664: ## Transfer of Sites with Low Read Submission Performance from Class 2 and 3 into Class 4	01 Modification 02 Workgroup Report 03 Draft Modification Report 04 Final Modification Report

Purpose of Modification:

To create an obligation for Shippers to move sites with low meter read submission performance from Product Class 2 and 3 into Product Class 4, in the first three months of entry to the settlement class.

The Proposer recommends that this modification should be:

- considered a material change and not subject to self-governance
- assessed by a Workgroup

This modification will be presented by the Proposer to the Panel on 16 August 2018. The Panel will consider the Proposer's recommendation and determine the appropriate route.

High Impact:

Shippers

Medium Impact:

CDSP

Low Impact:

Transporters

Joint Office of Gas Transporters

Contents

Timetable

The Proposer recommends the following timetable:	
Initial consideration by Workgroup	28 August 2018
Workgroup Report presented to Panel	20 December 2018
Draft Modification Report issued for consultation	20 December 2018
Consultation Close-out for representations	15 January 2019
Final Modification Report available for Panel	28 January 2019
Modification Panel decision	21 February 2019

Any questions?

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1 Summary

What

This modification is being raised on behalf of the Performance Assurance Committee (PAC).

Post Nexus delivery Unidentified Gas (UIG) is shared out using weighting factors determined by the Allocation of Unidentified Gas Expert (AUGE), and currently less UIG is apportioned to Class 2 and Class 3 Supply Points (SPs) than to Class 4 SPs. However, poor read submission performance in these settlement classes does not improve the situation regarding temporary UIG but hinders it further. The PAC has been monitoring the situation over recent months, and it has become clear that poor read submission can continue with no incentive (beyond Uniform Network Code (UNC) breach) to rectify the situation in the short term. For this reason, the PAC is seeking to create additional incentives in this area to ensure Shippers reach and maintain a minimum level of meter read submission performance for each Class as established in the UNC.

Why

At present, while meter read submission performance targets are clearly laid out in the UNC TPD Section M, there is no further incentive to ensure meter read submission performance reaches a suitable level and is maintained. ~~This Modification seeks to create a link between meter read submission performance and the ability to enjoy reduced levels of UIG exposure~~. As it stands, without additional incentives, Shippers are able to move large numbers of sites (with potentially high associated energy consumption) into Classes 2 and 3 and therefore reduce UIG exposure.

How

~~It is proposed that the existing read obligations in section M for class 2 and 3 are amended to create a 'soft landing' for Shippers to meet and maintain a minimum meter read submission target. This obligation would apply in the first three months of entry to the settlement classes. If a shipper was not able to meet the minimum read submission target, then the CDSP would be enabled to move the shipper's portfolio into Class 4, and an incentive charge would be payable. Shippers already in class 2 or 3 at the point of mod implementation, who had not previously met the entry requirements, would have a reduced window in which to do meet the 'soft landing' requirement.~~A solution with two components is proposed.

Component 1 will create the facility to transfer the poorest performing supply points in class 2 and 3 (in terms of read submission performance) into class 4. Read submission performance will be measured at MPRN level, with those supply points falling below a specified benchmark for a consecutive period being automatically transferred to class 4.

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Component 2 will create an incentive charge mechanism for class 2 and 3. This incentive charge will be aligned to a central performance assurance incentive charge methodology, with the measure being daily read submission levels for both class 2 and 3.

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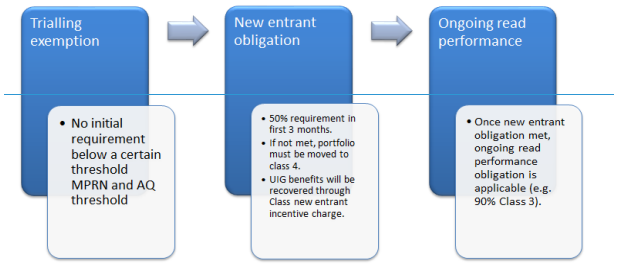
~~**Examples and high-level diagram**~~

~~The diagram below provides a high-level perspective on how the 'soft landing' entry read requirements would work followed by some examples. More specifics will follow in the Solution section.~~

~~Read submission performance obligations for class 2 and 3 would follow a 3-stage process.~~

Class 2 and 3 read submission obligations

- 3 stage approach to class 2 and 3 entry, and read performance obligations



~~**Examples**~~

Example 1

- Shipper A (fictional scenario) – Class 3 – Shipper has portfolio moved by Xoserve due to new entrant read obligation breach.

Date	Number of MPRNs	Total AQ	Timestamp	Performance	Obligation
01/06/2019	0	0			
01/07/2019	25	450,000		30%	Trialling exemption
01/08/2019	25	450,000		25%	Trialling exemption
15/08/2019	20,000	2,000,000	01/09/2019	25%	50% new entrant
01/10/2019	25,000	2,500,000		25%	50% new entrant
01/11/2019	25,500	2,800,000		25%	50% new entrant
01/12/2019	0	0	01/12/2019	N/A	Obligation breached – CDSP moves
01/01/2020	0	0			

Example 2

- Shipper B (fictional scenario) – Class 3 – Shipper avoids portfolio move in new entrant obligation window, reaching the new entrant threshold.

Date	Number of MPRNs	Total AQ	Timestamp	Performance	Obligation
01/06/2019	0	0			
01/07/2019	25	450,000		30%	Trialling exemption
01/08/2019	25	450,000		30%	Trialling exemption
08/08/2019	30,000	3,000,000	01/09/2019	25%	50% new entrant
01/10/2019	32,000	3,200,000		55%	50% new entrant
01/11/2019	31,000	2,890,000	01/11/2019	65%	90% enduring
01/12/2019	30,000	3,000,000		70%	90% enduring

Example 3

- Shipper C (fictional scenario) – Class 3 – shipper already in class 3 at time of mod implementation, but has not achieved new entrant threshold prior to modification implementation.

Month commencing	Number of MPRNs	Total AQ	Timestamp	Performance	Obligation
01/06/2019	40,000	4,000,000	01/06/2019	0%	50% new entrant
01/07/2019	40,275	4,880,000	01/07/2019		Obligation breached – CSDP moves
01/08/2019	0	0			

2 Governance

Justification for Authority Direction

This Modification should follow Authority Direction procedures, as it could have a material impact on competition. The Modification proposes the introduction of obligations related to meter read submission performance for Class 2 and 3 SPs, plus a structure of charging to act as a further incentive to ensure parties that that use the relevant settlement classes are able to fulfil the associated meter read submission obligations. As a result, there could be a material impact on competition and contractual obligations for Shippers and Suppliers.

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?

As it stands currently, performance targets for meter read submission are clearly laid out in the UNC for all settlement classes. The current meter read submission for Class 2 and 3 sites, stated in UNC TPD Section M, stands at 97.5% of a Shipper's portfolio for Class 2, and 90% of a Shipper's portfolio per month for Class 3.

However, parties can benefit from lower UIG weighting factors by moving sites into Classes 2 and 3, but with no incentive or link to minimum levels of read submission performance. Without this link, the additional reads available in these Classes will not help the temporary UIG situation but would further hinder it potentially creating more unreconciled gas in these categories.

Since November 2017, the PAC have been monitoring levels of read submission for Classes 2 and 3 as the post Nexus settlement classes have been taken up by Shippers. While take-up of Class 2 remains relatively modest, there are some 120,000 SMPs currently in class 3. However, the post Nexus regime is now over one year old, and read submission performance remains poor, despite the CDSP offering and giving support to Shippers to improve read submission levels. Given that this educative approach has not been successful to date, the PAC feels further incentives are needed in this area to improve read submission levels for the new settlement classes.

The most recently reported (anonymous) read submission levels are below (as at March 2018), with associated AQs indicating the potential level of energy affected by the issue. These reports will be updated once available.

Class 3:

Shipper Short Code	Class 3 Aggregate AQ as at 01/02/2018	Number Of Class 3 SMP's as at 01/02/2018	Number Of Class 3 Accepted Reads Submitted between 01/02/2018 and 28/02/2018	Number Of Class 3 Rejected Reads Submitted between 01/02/2018 and 28/02/2018	Average number of reads
151	2,103,633	13	250	57	19
242	43,019,500	1	25	26	25
536	711,168	1	0	0	0
617	2,285,334	12	268	60	22
212	2,146,742,577	13,638	6,305	3,431	0
314	72,478,166	6	0	299	0
121	16,573,626	2	0	0	0
223	827,866,234	57,417	307,137	789,322	5
181	3,124,972	18	14	6	1
526	806,137	2	2	0	1
272	435,053	2	4	0	2
920	912,841,858	6,421	3,601	2,820	1
Totals:	4,026,988,258	77,533	317,606	796,021	4

Class 2:

Shipper Short Code	Class 2 Aggregate AQ as at 01/02/2018	Number Of Class 2 SMP's as at 01/02/2018	Number Of Class 2 Accepted Reads Submitted between 01/02/2018 and 28/02/2018	Number Of Class 2 Rejected Reads Submitted between 01/02/2018 and 28/02/2018	Average number of reads
829	317,714,234	26	979	33	38
151	35,397,171	1	75	55	75
303	55,041,415	1	178	2	178
212	126,926,300	5	140	2	28
132	43,022,657	1	28	0	28
333	1,381,924,334	75	4,156	41	59
272	100,999,345	8	196	0	25
920	37,278,633	2	202	1	101
343	82,305,816	3	196	0	65
Totals:	2,180,609,905	117	6,163	134	53

4 Code Specific Matters

Reference Documents

UNC TPD Section M - https://www.gasgovernance.co.uk/TPD

5 Solution

~~**Amended read obligations**~~

~~It is proposed that the existing obligation in UNC TPD Section M for class 2 and 3 meter read submission performance is amended. This is currently set at 97.5% for Class 2 and 90% for Class 3. In addition to these ongoing read requirements, it is proposed that a minimum read requirement of [50%] is set for the first [3] months following entry to the class. If a party fails to meet this minimum read target in class 2 or class 3 within [3] months, then the CDSP would be enabled to move the shippers class 2 or 3 portfolio in its entirety into Class 4.~~

~~**Calculation of read performance**~~

~~**Class 2:**~~

~~Class 2 read performance is currently measured on a daily basis, where 97.5% of a shipper's class 2 portfolio should have a valid daily meter reading submitted by exit close out. It is proposed that the soft landing read requirement of [50%] would be measured on the same basis, but an average of the daily measure across each calendar month would be used as the basis of measuring the requirement.~~

~~**Class 3:**~~

~~Class 3 performance is currently measured on a monthly basis (the average of the number of meters and days across the month and should not be less than 90%) and it is proposed that the soft landing measurement would be measured in the same way, but with the initial soft landing measure set lower at [50%].~~

~~**N.B.** The obligations for shippers in class 2 and 3 would be independent of one another (i.e. shippers in both class 2 and 3 would be measured on the obligations independently of performance in the other class).~~

~~**MPRN settlement class trialling exemption**~~

~~In addition, the solution would not seek to prevent Shippers trialling SPs in Class 2 and 3 in order to be able to meet the meter read submission performance targets. For this reason, the obligations above would not be applicable where a party had a population of meters in Class 2 or 3 of less than [30] SPs and a total AQ of [500,000 kWh].~~

~~**Clarification of timestamp of shipper's portfolio**~~

~~When entering either class 2 or 3, once the shipper's portfolio exceeds the trialling exemption highlighted above, their portfolio, at shipper level, would be timestamped for initial entry of the class. This would be timestamped for the beginning of the following month when the portfolio reached the relevant level (e.g. if the portfolio was large enough on the 16th March, it would be timestamped for the 1st April). Each subsequent month, for 3 months, would be measured against the minimum read requirement of [50%] against the criteria outlined in the paragraphs above.~~

~~**Meeting the requirement**~~

~~Once the requirement was met in any given month of the first 3, the shipper's portfolio would be deemed to have met the soft landing requirements and from then on would become subject to the ongoing read requirements as they exist now (i.e. 97.5% for class 2, and 90% for class 3).~~

~~**Not meeting the requirement**~~

~~If at the end of the 3-month period the minimum read requirement had not been met, then the CDSP will be enabled to move the shipper's portfolio in its entirety into class 4. Incentive charges as detailed in the paragraph below, would become payable.~~

~~If the minimum read requirement was not met, the shipper's timestamp for entry into the portfolio would be voided, and the shipper would become eligible for the same entry requirements when entering the class on a subsequent occasion (until such time that the minimum read requirement is met).~~

~~**Incentive Charge**~~

~~In order to further incentivise target read submission levels, and a further incentive for Shippers to register SPs into Class 2 and 3 with adequate read submission capabilities, it is proposed that a charge is levied once SPs have been moved to Class 4 (following trigger of the obligation).if there was reduction in cost as a result of the portfolio residing in class 2 or 3 for the period of poor read submission.~~

~~This charge would be applied using the following formula:~~

~~Total AQ / 365 * Number of relevant days * (AUGE weighting factor A – AUGE weighting factor B) / Weighted throughput for the relevant period * Total UIG kWh for the period.~~

~~Total AQ: the sum of the rolling AQ (at the point the obligation was breached) of the party's portfolio SPs moved from settlement class 2 or 3 within each EUC. AUGE weighting factor A: the relevant AUGE weighting factor for the EUC band and class of the affected SPs during the relevant period. This is the weighting factor that was applied to the SPs in question.~~

~~AUGE weighting factor B: the relevant AUGE weighting factor for the EUC band and class of the affected SPs during the relevant period, *but as it would have been applied if the supply point had been in Class 4 at the time.*~~

~~Weighted throughput for the relevant period: the total throughput across the relevant period, following application of the weighting factors for settlement classes and EUC bands.~~

~~Total UIG kWh for the period: the total UIG (at allocation) for the gas days across the relevant period.~~

~~The charge would be levied on an adhoc basis once the obligation was breached, and following completion of the remedial activity (Shipper or CDSP change of class).~~

~~The charges levied through this process would be share back to the rest of the industry based on AQ market share. A fixed admin charge to be determined would be deducted and used to fund the CDSP activity in this area. This charge would only apply, during the initial new entrant obligation period, and only if the obligation was breached.~~

~~A shipper attracting this incentive charge would not receive an associated share of the related credits returned to the industry.~~

~~N.B. This charge would be a stand-alone charge, with no link to the existing settlement or UIG and UIG reconciliation mechanisms.~~

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The solution will consist of two components, one that deals with the transfer of poor performing supply points (from class 2 or 3 to class 4), and an incentive charging arrangement.

Component 1) – Transfer based on MPRN level read submission performance

The solution will add an additional concept of MPRN level read submission performance to section M. While the existing portfolio level read submission targets will remain (97.5% per day for class 2, 90% per month for class 3), in addition, each supply point will need to meet a minimum level of performance in any consecutive [3] month period. If any MPRN in either class 2 or 3 provides less than [20%] of daily reads across the consecutive period, the supply point will be automatically transferred to class 4 at the end of that period. The intention of this component of the solution is to act as a backstop for the very poorest performing supply points at any given point.

The table below demonstrates the mechanism for measuring supply point level read performance, where the number of accepted daily reads provided for a supply point in any given months is recorded and measured to generate an individual monthly read submission performance.

	MPRN 1	MPRN 2	MPRN 3	MPRN 4	MPRN 5	MPRN 6	MPRN 7	MPRN 8	MPRN 9	MPRN 10
Day 1	1								1	
Day 2	1	1							1	
Day 3	1	1				1			1	
Day 4	1	1							1	
Day 5	1	1				1	1		1	
Day 6	1	1					1			
Day 7	1	1			1	1	1			
Day 8	1	1					1			
Day 9	1	1				1	1			
Day 10	1	1					1			
Day 11	1	1				1	1			
Day 12	1	1					1			
Day 13	1	1				1	1			
Day 14	1						1			
Day 15	1					1	1			
Day 16	1						1			1
Day 17	1					1	1			1
Day 18	1						1			1
Day 19	1					1	1			1
Day 20	1						1			
Day 21	1						1			
Day 22	1						1			
Day 23							1			
Day 24	1					1	1			
Day 25	1					1	1			
Day 26	1					1				
Day 27	1					1				
Day 28	1					1				
Day 29	1									
Day 30	1									
Day 31										
Total	29	12	0	1	14	21	0	5	4	0
Percentage	93.55%	38.71%	0.00%	3.23%	45.16%	67.74%	0.00%	16.13%	12.90%	0.00%

Component 2) - Incentive charging

The solution will also include an incentive charging component which will be linked to a central Performance Assurance incentive charge methodology. The methodology will:

- Compare target read performance to actual read performance for each party.
- Modify relevant SAP price to create an incentive p/kWh.
- Apply p/kWh to relevant energy (e.g. UIG at risk).
- Charge affected parties via a separate identifiable charge type.
- Related credits will be received by parties exceeding the target in the measured period.
- Incentive charge fund to remain neutral (minus service administration fee).

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Summary

In summary the two components will act as an incentive to improve read submission levels, with the transfer mechanism for the worst performing supply points acting as an additional backstop to the incentive charge mechanism.

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6 Impacts & Other Considerations

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

None identified.

Consumer Impacts

It should be noted that settlement products do not necessarily correlate to customer products (in that settlement read submission does not necessarily impact the type of product offered to the customer by a supplier). If this were to be the case, non-submission of meter reads could potentially be detrimental to the customer – this Modification seeks to ensure that Shippers are able to appropriately manage the expected performance levels before moving SPs into these settlement classes.

However, this will need further consideration by the workgroup as there may be links to customer contracts that the Modification may need to take ~~this~~ into account.

Cross Code Impacts

There may be an IGT UNC impact and this should be considered in the Workgroup.

EU Code Impacts

None identified.

Central Systems Impacts

There should be limited central systems impacts in relation to required class changes as the CDSP already has the facility to move sites in bulk across settlement classes (if needed). Some change may be needed in relation to the proposed charging mechanism and the establishment of reporting for the CDSP, PAC and PAFA.

7 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

This Modification proposes additional incentives to ensure timely submission of meter read data for the relevant classes to be used for settlement purposes and to increase the accuracy of UIG. As such, more accurate and frequent read submission data in central systems should lead to more accurate cost allocation, and therefore furthering competition and relevant objective d).

8 Implementation

No implementation timescales are proposed at present.

9 Legal Text

To be provided by Transporters.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

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