Joint Office of Gas Transporters

UNC 0699A:

Mod Title: Incentivise Key Areas of Performance using additional UIG Charges

Proposer: Centrica

Panel Date: 21st November 2019

Unidentified Gas UNC Proposals – approach to charging

- Feedback on UNC 0699 (Incentivise Key Areas of Performance using additional UIG Charges) at workgroup has been that there needs to be long term predictability of charging levels, and that they shouldn't be overly punitive.
- We want to support a predictable and fair charging regime, that discourages market-harming behaviour in terms of read performance and product class alignment.
- Accordingly there are two aspects that charges should cover – UIG cost avoidance (though moving sites to Product Classes 2 and 3 without the will or capability to support reads) and UIG causation (through non-submission of reads in any Product Class)

- **Avoided UIG Charge**
  - Rate determined annually (predictable)
  - Estimate of avoided UIG charges compared to Product Class 4
  - Does not need to be a genuine pre-estimate of loss, so reflective only, e.g.:

$$\text{AQ at risk} \times \text{AUG factor weighting adjustment (say 1.25)} \times \text{Annual SAP proxy (say 1p/kWh)} \times \text{Annual UIG proxy (say 2\%)}$$

$$= \text{AQ at risk} \times 0.025 \text{ p/kWh}$$

- **Cause of UIG Charge**
  - Rate determined annually (predictable)
  - Estimate of AQ volatility for Class
  - Does not need to be a genuine pre-estimate of loss, so reflective only, e.g.:

$$\text{AQ at risk} \times \text{Proxy for volatility of AQ Calculations in Product Class (say 0.2\%)} \times \text{Annual SAP proxy (say 1p/kWh)}$$

$$= \text{AQ at risk} \times 0.002 \text{ p/kWh}$$

Proposed application of charges

Application of charges to Product Classes

Charges	Class 1	Class 2	Class 3	Class 4
Avoided UIG charge • Simple charge in p/kWh of AQ for sites unread • Triggered when portfolio for Class is below exiting target in UNC • Charges calibrated to reflect avoided UIG c.f. Class 4, (determined annually in parallel with AUG table)	Would apply	Would apply	Would apply only for EUC 1-4 (i.e. where AUG factor is higher in PC4)	Would not apply
Cause of UIG charge • Simple charge in p/kWh of AQ for sites unread • Triggered when portfolio for Class is below exiting target in UNC • Charges calibrated to reflect caused UIG, (determined annually to reflect AQ volatility)	Would apply	Would apply	Would apply	Would apply (possibly different charge for monthly and annually read)
UNC read performance target	97.5%	97.5%	90%	90% for monthly read Implicit 100% target for Annually read – suggest this be specified at something less than 100%

When should charges be applied?

- Monthly (pro-rata) would provide more immediate feedback to suppliers, and be easier to budget for
- Annually (say, at end of September) would be simpler, but could drive mutualisation (e.g. Renewable Obligation)