Joint Office of Gas Transporters

UNC Modification	At what stage is this document in the process?

UNC 0XXX:

(Code Administrator to issue reference)

Incentivise Key Areas of Performance using Additional UIG Charges *(Please provide a short informative title)*

01	Modification
02	Workgroup Report
03	Draft Modification Report
04	Final Modification Report

Purpose of Modification: *(Proposer to provide a short description)*

To create a relatively simple and flexible Shipper incentive mechanism, which encourages the achievement of key UNC targets and obligations, by levying additional retrospective UIG charges based on achievement levels in areas which are key to achieving low levels of UIG at Allocation and/or reducing the time between initial allocation and final reconciliation.

✔ *Please provide an initial view of the preferred governance route/pathway and impacted parties*

The Proposer recommends that this modification should be: *(delete as appropriate)*

- 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 dd mmm yyyy *(Code Administrator to provide date)*. The Panel will consider the Proposer's recommendation and determine the appropriate route.

❗ High Impact: *(Proposer to identify impacted parties)*

None

❗ Medium Impact: *(Proposer to identify impacted parties)*

CDSP and Shippers

❗ Low Impact: *(Proposer to identify impacted parties)*

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Contents

Timetable

Please provide proposer contacts and an indicative timeline. The Code Administrator will update the contents and provide any additional Specific Code Contacts.

The Proposer recommends the following timetable: *(amend as appropriate)*

Initial consideration by Workgroup	dd month year
Amended Modification considered by Workgroup	dd month year
Workgroup Report presented to Panel	dd month year
Draft Modification Report issued for consultation	dd month year
Consultation Close-out for representations	dd month year
Variation Request presented to Panel	dd month year
Final Modification Report available for Panel	dd month year
Modification Panel decision	dd month year

Any questions?

Contact:
Joint Office of Gas Transporters

enquiries@gasgovernance.co.uk

0121 288 2107

Proposer:
Insert name

email address

telephone

Transporter:
Insert name

email address

telephone

Systems Provider:
Xoserve

UKLink@xoserve.com

Other:
Insert name

email address

telephone

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1 Summary

*Please provide a summary of the modification proposed – i.e. **what** is the identified defect/change in the existing code that needs to be rectified, **why** this change needs to be made, and **how**.*

What

*Provide a summary of **what** needs to be changed so that readers have an overview of what the identified defect is that needs to be rectified.*

This Modification proposes a new mechanism to raise additional UIG charges following each calendar month for a pre-determined set of UNC targets, where performance has not met the UNC target.

The equal and opposite of the extra UIG would be re-distributed to all Shippers in each LDZ using the existing UIG Reconciliation process.

The list of performance targets and the associated multipliers would be set out in a UNC Related Document, which could be amended by majority UNCC vote.

Why

*Provide a summary of **why** this change should be made, so that readers have an overview of the impact if the change isn't made.*

The Unidentified Gas Task Force (as established by UNC Mod 0658) has identified a number of areas where Shipper performance against existing UNC obligations can significantly affect the level and/or volatility of UIG including (but not limited to):

• Meter read submission levels

• Incorrect Conversion Factor

• Incorrect Meter Read Frequency

For instance one of the Task Force findings demonstrated that the longer the gap between accepted meter readings, the greater the volatility of the re-calculated Rolling AQ. As at May 2019 there are over 2 million meter points which are overdue for a meter reading against their UNC obligations, and over 600,000 meter points which have not had a valid meter reading since Project Nexus Implementation Date.

Some of these performance areas are impacting UIG at the point of Allocation and will (eventually) be corrected by meter point reconciliation. Others (such as the volume-to-energy conversion factor) will never be corrected by reconciliation and will continue to contribute to UIG until the underlying data is corrected.

How

*Provide a summary of the proposed Solution so that readers have an overview of **how** you propose to address the defect.*

This Modification proposes a new mechanism to raise additional UIG charges following each calendar month for a pre-determined set of UNC targets, where performance has not met the UNC target. Each performance area would have a multiplication rate which recognises the relative contribution to UIG. UIG would be calculated as a percentage of AQ at risk, with that percentage derived from the average national UIG for the preceding Gas Year. The energy price used would be a flat average of the daily SAP (System Average Price) for the performance month in question.

The equal and opposite of the extra UIG would be re-distributed to all Shippers within each LDZ using the existing UIG Reconciliation process.

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The list of performance targets and the multiplier would be set out in a UNC Related Document, which could be amended by majority UNCC vote.

2 Governance

Justification for [Fast Track] Self-Governance, Authority Direction or Urgency

Insert text here

Please state clearly which governance procedures apply and why, referring to the relevant criteria (reproduced by the Code Administrator below):

The proposer must explain the level of materiality that justifies the chosen route. **MATERIALITY MUST BE EVIDENCED TO REQUEST AUTHORITY DIRECTION**

Self-Governance Criteria (please delete criteria):

The modification:

(i) is unlikely to have a material effect on:

> *(aa) existing or future gas consumers; and*

> *(bb) competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes; and*

> *(cc) the operation of one or more pipe-line system(s); and*

> *(dd) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and*

> *(ee) the uniform network code governance procedures or the network code modification procedures; and*

(ii) is unlikely to discriminate between different classes of parties to the uniform network code/relevant gas transporters, gas shippers or DN operators.

Fast Track Self-Governance Criteria (please delete criteria):

The modification:

> *a. would meet the self-governance criteria; and*

> *b. is properly a housekeeping modification required as a result of some error or factual change, including but not limited to:*

>> *i. updating names or addresses listed in the uniform network code;*

>> *ii. correcting minor typographical errors;*

>> *iii. correcting formatting and consistency errors, such as paragraph numbering; or*

>> *iv. updating out of date references to other documents or paragraphs.*

Requested Next Steps

This modification should: *(delete as appropriate)*

- be considered a material change and not subject to self-governance

- be assessed by a Workgroup

Please provide any additional information to support your preferred next steps, such as any critical events driving the timeline. For instance, if you wish your proposal to be issued directly to consultation without

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As this Modification represents a change to UIG charging and is the first introduction of incentives for Shippers for many years, it is not recommended for Self-Governance processes.

3   Why Change?

This section sets out the defect in Code, which may be an error, an omission or something the Proposer wishes to change. The context for the proposal must be clearly set out and should explain:

1. *What the driver is and which parties are impacted;*
2. *Why this is a Code matter (in the case of new additions); and*
3. *What the effects are should the change not be made.*

There are currently no measures available within UNC to encourage parties meet their performance targets. Many of those performance areas can have a significant impact on the data items which drive Unidentified Gas.

Performance in areas such as meter read submission, as well as some areas of data accuracy, are currently well below the target levels set out in UNC.

Any incentive mechanism would need to be set out in UNC to ensure that the charges are valid and can be collected by or on behalf of Network Operators.

Without the introduction of a formal incentive mechanism the industry will not have any concrete levers and will have to rely on persuasion and influencing by parties such as the PAFA (Performance Assurance Framework Administrator) and the CDSP (Central Data Services Provider).

Insert subheading here (if required)

Insert text here

4   Code Specific Matters

Please include any Code Related Documents or Guidance notes that are relevant. Weblinks are very helpful. Also, any specific analytical or assessment-related skills you believe would aid the assessment.

Reference Documents

UNC obligations, especially Section M.

Xoserve UIG Task Force findings and recommendations:

https://www.xoserve.com/services/issue-management/unidentified-gas-uig/#task-force-findings-etc

Knowledge/Skills

Knowledge of the existing UNG obligations, appreciation of UIG drivers.

5 Solution

The solution must clearly set out the contractual (UNC) changes required, not the detail of the process/system change required.

Any additional explanation that Proposers believe is helpful, but that is not intended to be written into Code, must be clearly marked as such ("for information only" or "for the avoidance of doubt" or similar works well in such situations) to aid with the development of legal text.

The Modification consists of three elements:

- A UNC Related Document which includes a table of performance areas and the multiplication rates of UIG
- Rules for calculating and charging the extra UIG charges
- Rules for sharing out the extra UIG charges via the Amendment invoice

UNC Related document

The list of performance areas and the "multiplier" applied.

The initial proposed list of topic areas, current standard and multipliers is as follows

Item No.	Obligation	UNC Ref	Reason for inclusion	Multiplier and justification	Calculation
1	Provide a Valid Meter Reading for 97.5% of all Class 2 Meter Points each day, prior to exit Close-out (D+5)	M5.7.4	Lack of meter reads delays reconciliation and can result in more UIG or greater volatility, as daily allocation is based on estimates, not actual	2 times average UIG. Good meter read submission is critical to managing UIG	[UIG rate] x [Multiplier] x 97.5% – [actual performance level for the month] x total Class 2 AQ on the first day of the month x [average SAP for the month]
2	Provide 90% of the daily Valid Meter Readings for all Class 3 Meter Points each month.	M5.8.5	Lack of meter reads delays reconciliation and can result in less accurate AQs and more UIG or greater volatility	2 times average UIG. Good meter read submission is critical to managing UIG	[UIG rate] x [Multiplier] x 90% – [actual performance level for the month] x total Class 3 AQ on the first day of the month x [average SAP for the month]

Item No.	Obligation	UNC Ref	Reason for inclusion	Multiplier and justification	Calculation
3	Provide 90% of the daily Valid Meter Readings for all Class 4 Monthly Read Meter Points each month.	M5.9.7	Lack of meter reads delays reconciliation and can result in less accurate AQs and more UIG or greater volatility	2 times average UIG. Good meter read submission is critical to managing UIG	[UIG rate] x [Multiplier] x 90% – [actual performance level for the month] x total Class 4 Monthly Read AQ on the first day of the month x [average SAP for the month]
4	Provide one read per annum for all Annually Read sites	M5.9.9	Lack of meter reads delays reconciliation and can result in less accurate AQs and more UIG or greater volatility	2 times average UIG. Good meter read submission is critical to managing UIG	[UIG rate] x [Multiplier] x total AQ of Annually Read sites which last had a meter reading 15 months ago and have not had a Valid Meter reading since then x [average SAP for the month]
5	Use of standard Conversion Factors, AQ >293,000	M1.5.3	Use of the standard CF instead of a site specific value contributes to daily UIG due to incorrect calculation of volume and incorrect AQs	0.5 These are larger sites with AQs of more than 10x the average. Meter point reconciliation does not correct the error.	[UIG rate] x [Multiplier] x total AQ of sites with a standard conversion factors on the last day of the month x [average SAP for the month]
6	Use of non-standard Conversion Factors, AQ <293,000	M1.5.3	Use of a non-standard CF instead of the standard value specified in legislation contributes to daily UIG due to incorrect calculation of volume and incorrect AQs	0.5 These sites contribute to UIG each day. Meter point reconciliation does not correct the error.	[UIG rate] x [Multiplier] x total AQ of sites with a non-standard conversion factors on the last day of the month x [average SAP for the month]

Further lines may be added during development of the Modification.

Rules for calculation of the Incentive

The charges will be based on AQ "at risk" in each of the performance areas.

The multiplying factor will be set out in the UNC Related Document, which can be changed by simple majority of UNC Committee.

The average rate of UIG will be the total LDZ UIG at D+5 allocation divided by the total LDZ energy (including DM, NDM and Shrinkage energy) for the previous Gas Year. The value will be calculated each October and published by the end of October for use in all incentive calculations for that Gas Year that has just started. This prevents the UIG incentive charge varying month on month with seasonal differences.

If the total UIG for the previous Gas Year is a negative number (highly unlikely but possible) giving a negative percentage, the UIG rate used in the calculation for the following Gas Year will be multiplied by -1, i.e. the UIG rate used in the calculation will always be a positive number.

The gas price used in the calculation will be the straight average of the SAP (System Average Price) for the performance month in question. This would increase UIG Incentive charges when gas prices are higher, as it is even more important to maintain performance levels when prices are high.

Rules for sharing out the extra UIG charges via the Amendment invoice

The incentive charges will be billed as energy charges monthly in arrears, with appropriate supporting information and a breakdown by LDZ. Payment will be made in line with energy payment rules.

The equal and opposite amount will be treated as UIG Reconciliation and will be included on the next available Amendment invoice, so will be shared out using existing rules, on the basis of latest share of weighted LDZ throughput for the last 12 months. Payment will be part of the payment arrangements for the existing Amendment Invoice energy charges.

As the amount being shared out would not be separately identified on the Amendment invoice, the CDSP would produce and publish (in the public domain) a monthly report of the total amount collected by LDZ against each of the incentive line items.

A confidential report will be available to PAC (Performance Assurance Committee) the following month of each Shipper's performance levels against the

6   Impacts & Other Considerations

All parts of this section must be completed; showing "None" where the Proposer believes this is so.

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

In the event there is an impact on an SCR, Proposers must confirm that they have Ofgem approval to proceed.

No

Consumer Impacts

Proposers must provide their view of the impacts on all consumer groups that may be affected; this will be supported by further input from Workgroup participants later in the process. If 'none', please also explain.

None. This Modification does not affect any billing arrangements to consumers; Suppliers may be billing their consumers to a different schedule than is specified in UNC.

However, it could aid the accuracy of end consumer billing, if it encourages higher rates of meter reading.

Cross Code Impacts

Please identify any other impacted energy code – a full list is available in the CACoP (Ofgem) - and the extent of those impacts e.g. a similar modification has been raised in another Code.

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A corresponding IGT UNC Modification would be required to allow these incentive charges to be raised against IGT sites: otherwise these charges would only apply to Directly Connected

EU Code Impacts

Please identify any impacted EU energy code

None

Central Systems Impacts

Proposers must provide their view of the impacts on central systems (inc. Gemini and UK Link) that may be affected; this will be supported by further input from the Central Data Services Provider (Xoserve) later in the process. If 'none', please also explain.

No change to Gemini is envisaged. The aim of this change to keep systems impact to a minimum. Daily UIG allocation rules will be unchanged.

Billing of UIG incentives will be monthly in arrears and would require a new calculation mechanism.

The use of the existing UIG Amendment invoice process for the re-sharing of the collected funds is designed to reduce the systems impact.

7 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.
	Positive

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

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OR, for Section Y (Charging Methodology) Modifications

Impact of the modification on the Relevant Charging Methodology Objectives:	
Relevant Objective	Identified impact
a) Save in so far as paragraphs (aa) or (d) apply, that compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business;	Positive/Negative/None
aa) That, in so far as prices in respect of transportation arrangements are established by auction, either: (i) no reserve price is applied, or (ii) that reserve price is set at a level - (I) best calculated to promote efficiency and avoid undue preference in the supply of transportation services; and (II) best calculated to promote competition between gas suppliers and between gas shippers;	Positive/Negative/None
b) That, so far as is consistent with sub-paragraph (a), the charging methodology properly takes account of developments in the transportation business;	Positive/Negative/None
c) That, so far as is consistent with sub-paragraphs (a) and (b), compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and	Positive/Negative/None
d) That the charging methodology reflects any alternative arrangements put in place in accordance with a determination made by the Secretary of State under paragraph 2A(a) of Standard Special Condition A27 (Disposal of Assets).	Positive/Negative/None
e) 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.	Positive/Negative/None

In the case of a modification to a NTS Charging Methodology, please state why the modification does not conflict with:

(i)   paragraphs 8, 9, 10 and 11 of Standard Condition 4B of the Transporter's Licence; or

(ii)   paragraphs 2, 2A and 3 of Standard Special Condition A4 of the Transporter's Licence;

In the case of a modification to the NTS Connection Charging Methodology, please contact the Joint Office for the appropriate relevant objectives.

These incentives are intended to increase performance levels for key Shipper obligations, which should in turn result in more accurate gas allocation and reconciliation, which will promote competition by reducing the barrier to entry that is currently being created by the high, unexplained levels of Unidentified Gas (UIG).

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8 Implementation

As far as they are known, the anticipated implementation costs for all industry parties (e.g. Transporters, Shippers, adjacent TSOs, Storage/Terminal Operators, central systems, customers) should be provided.

Provide any views you have on implementation timescales, including the costs and benefits of a range of implementation options where appropriate.

If a suggested implementation date is not provided and the decision is to accept the modification, then the Transporters will set the implementation date.

*If a timescale for implementation is suggested, the format explained below **must** be used, and brief reasons provided for each suggested date.*

- *At least two fixed implementation dates must be specified, and for each of these the latest date by which an implementation decision is required if the date is to apply: e.g. 01 June 2014 if a decision to implement is issued by 15 May 2014; 01 September 2014 if a decision to implement is received by 06 August 2014.*

- *In addition, a backstop lead time must be specified to allow for any later decision date: e.g. if a decision to implement is received after 06 August 2014, implementation 21 business days following the decision to implement.*

To be confirmed.

Modification could be implemented prior to a system solution being ready, if industry parties were happy to be billed incentive charges in arrears, once the system solution was available.

9 Legal Text

Proposers are welcome to provide Suggested Legal Text alongside their modification, but are under no obligation to do so unless Fast Track procedures are requested (see above).

Legal text will be drawn up by the relevant Transporter at a time when the modification is sufficiently developed in line with the Legal Text Guidance Document.

Text Commentary

Insert text here

Text

Insert text here

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to: *[Delete as appropriate]*

- Agree that Authority Direction should apply

- Refer this proposal to a Workgroup for assessment.

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