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ICoSS response to Unidentified Gas Modifications (UNC Mods 0642/042A/0643) Impact Assessment.

The Industrial & Commercial Shippers & Suppliers (ICoSS) is the trade body representing the majority of the GB non-domestic energy market. Our members, who are all independent Suppliers, in total supply in excess of three quarters of the gas and half the electricity provided in the highly competitive non-domestic market.

Summary

We continue to believe that the current size and unpredictable nature of Unidentified Gas (UIG) is causing significant problems for both non-domestic and smaller domestic suppliers. Though there have been a number of initiatives to try and address this issue, the industry is no further forward with UIG volumes still being highly unpredictable, representing a substantial cost to both shippers and consumers. It is concerning that 12 months after this issue was first raised the industry is no nearer to resolving them.

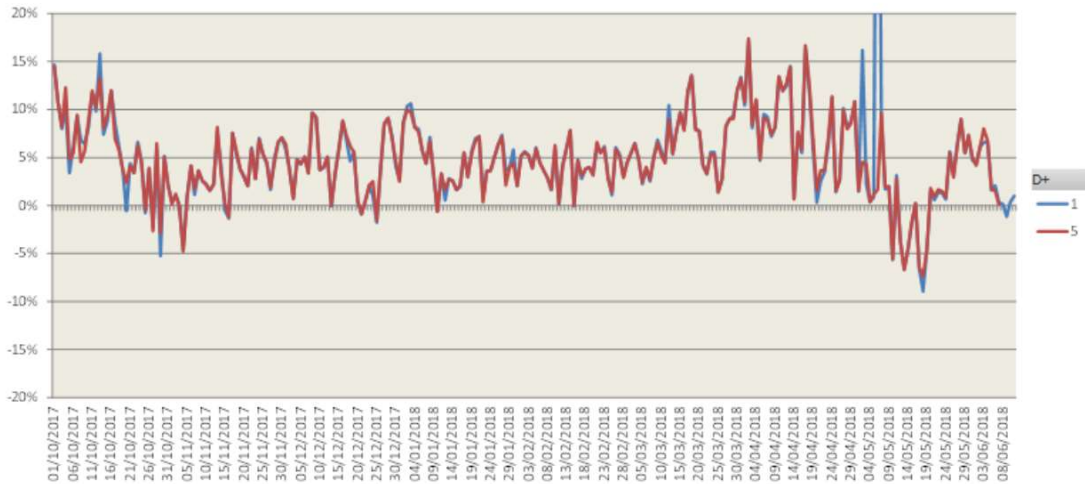
If Ofgem does choose to reject these changes, the only concrete proposals to address UIG, the regulator needs to take decisive action to safeguard the integrity of the market and give Xoserve the powers and funding to undertake a thorough review of the NDM settlement regime and develop meaningful solutions.

UIG Issue

Shortly after the commencement of the revised NDM settlement regime it was clear that it was not fit for purpose, with large and unpredictable swings on UIG allocation being experienced within day. Despite a number of industry initiatives to try and resolve the issue, such in the work to ensure that reads from DM sites are loaded in a timely manner, as well as the fact that the majority of site AQs have now been calculated using the new rolling AQ process, the level of UIG being experienced is still significant:



UiG % by Gas Day (D+1 vs D+5) - 13 LDZs



Source: Xoserve

ICoSS members collectively funded and developed both UNC Modification 0642 and 0643 in an attempt to try and address this issue. With the exception of UNC Modification 0642A which is a retrograde step, by smearing UIG in equal measure to all customers, they remain the only workable proposals that have been raised. Despite concerns raised by all shippers (both domestic and non-domestic) we have not seen any other workable proposals to try and address the issue and the regulator seems to be content with the status quo.

As we have indicated on numerous occasions the current regime is unsustainable. Though the impact assessment states that there has been no change in the impact of UIG since the new settlement regime came into place, this is not the experience of those operating in it. Shippers cannot simply take a wholesale position that deliberately places them out of balance as this will result in significant additional credit requirements and a significant increase in risk. For smaller organisations that cannot rely on parent company guarantees this result in significant additional costs and tie-up of capital. We note in a recent Dun and Bradstreet report ten suppliers were identified as being on the brink of collapse; the current UIG regime is likely a contributing factor to this fragility.

Way forward

If Ofgem does not approve either UNC Modification 0642 or 0643, there is still a pressing need for a solution, 12 months after the issue was first identified.





The suggestions made in the impact assessment are unlikely to result in any significant improvement. Movement of a number of sites from Classes 4 to 3 and 2 will in the short term simply redistribute UIG between suppliers; whilst there may be some improvement in accuracy through increased use of daily meter reads it is not clear whether this materially addresses the underlying causes of volatility. The current initiatives to improve settlement being progressed through the UNC may also have some positive impact, but these are relatively minor changes to the existing regime.

The current NDM settlement regime has not changed significantly since the opening up of the non-daily metered regime to competition over twenty years ago. There have been significant advances in both the technology used to power central systems and understanding of how gas demand varies throughout the Gas Year, but these factors have not translated into an accurate and stable regime.

It is clear therefore that the industry needs to undertake a thorough review of the underlying settlement processes that currently exist in order to determine their effectiveness and to identify what changes are needed to address the UIG problem. To that end we support UNC Modification 0658 which gives Xoserve the mandate to undertake this work on an independent basis.

Should you wish to discuss any aspect of this response please contact me directly

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