



By Email

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Dear Jonathan,

**UNC642 and 642A: 'Changes to settlement regime to address Unidentified Gas issues'; and
UNC643: 'Changes to settlement regime to address Unidentified Gas issues including retrospective correction'.**

We welcome the opportunity to respond to the impact assessment on the Unidentified Gas (UIG) modifications 642, 642A and 643. We have set out our views in relation to each specific question in our response below. We have previously provided our views on each of the modifications in our original consultation response. Our stance remains unchanged, in that we believe none of the modification proposals offer a solution to the problems experienced by the industry, but each proposal would only serve to create further issues if implemented.

This response is not confidential.

Yours sincerely,

John Welch
Gas Industry Risk Lead

Cc: Keren Kelly

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1. Do you consider that we have appropriately identified and where possible quantified the impacts of the proposals?

We believe that the impact assessment deals with the core issues at hand, and as such represents a detailed and appropriate assessment of the modifications. We agree with the central points noted: that the modification proposals would have the effect of redistributing and also hiding UIG, in such a way that it would become more difficult for the industry to directly address them. It would seem that the other points flowing from these contentions (potential for reduction of competition, discrimination against specific sectors) have also been explored. The analysis presented demonstrates how UIG is already significantly weighted towards the small supply point market, and could even generate some unhelpful perverse incentives.

We welcome the reference to scaling factors, RbD and other pre Nexus approaches to the issue. It is our belief that, notwithstanding the problems experienced by all parties in the new regime, a core principle of the new arrangements was to make unidentified gas more transparent, which the new regime is currently providing to some extent. The AUGE's estimate of permanent UIG could never have been a realistic benchmark of UIG left as the balancing quantity following daily NDM demand estimation.

In our original consultation response we felt the most appropriate route to improve the situation would be for the industry to work on measures to improve the estimation of NDM demand, as well as the sources of data error and underlying 'true' UIG highlighted by the new arrangements. We continue to believe that to be the case.

2. Do you consider that there are additional impacts that we should take into account in our decision making process?

We believe that the key impacts have been explored in the impact assessment, and are not aware of any additional impacts we would like to raise.

3. Do you agree that the current gas allocation arrangements should be assessed during a period in which all UNC obligations are being fully discharged and/or input processes are working as intended, before a conclusion can properly be made that further fundamental modification is appropriate?

We do agree that the post Nexus arrangements should be assessed further before fundamental change is considered. Part of the post Nexus challenge with the new set of arrangements is for the industry to begin to understand the impact of factors such as seasonality, data submission patterns and the way different sectors of the market may influence effects. This type of understanding takes time to develop, and for many of the initial months post Nexus delivery, the true impacts of the arrangements were clouded by some significant data issues (DM estimated reads, erroneous AQs, CSEP mapping errors).

While there are some encouraging signs that the impact of some of these issues have been reduced, the time taken to resolve and also to appropriately estimate the significance of these issues means that the industry has yet to complete a full calendar year without substantial data 'noise'. Further time is still needed for parties to gather all the data available to understand the impact of many factors across time on both daily allocated UIG and UIG reconciliation trends and patterns. These factors include (not exhaustively) impact of seasonality on algorithm and reconciliation, impact of the rolling AQ process, and the impact of data submission levels in different sectors.

With this in mind we welcome the work that the CDSP are due to undertake to more comprehensively understand all the issues at play, and do not believe fundamental reform would be wise or necessary until this work has reached a satisfactory conclusion.

4. Do you consider that the AUGE terms of reference should be amended such that it has the explicit objective of developing a methodology that incentivises shippers to reduce unidentified gas?

We believe that a methodology that incentivises shippers to reduce unidentified gas could have benefits for the industry. This could for example involve creating explicit underlying incentives around activities related to accurate data that have the effect of reducing unidentified gas.

We had envisaged the Performance Assurance Framework/Committee as a route for the development of elements of this type of incentive methodology, particularly those based on performance. We still feel this is the appropriate route for some elements of such a methodology, however, the PAF, as originally created through UNC modification 506V, is not yet working optimally for a number of reasons, and it will take some time to get to a point where it does so. Progress has been impeded for example, by the delay while a PAFA tender took place and then subsequent wait for the appointed party to mobilise fully.

The gas UNC Performance Assurance Framework (including Committee) was originally created with a reasonably basic infrastructure that would allow the committee itself to develop its own direction and evolution. While allowing some growth in this area was welcome to some degree, we now believe that the amount of evolution left to complete was too great, and with the benefit of hindsight the framework would have been better served with a more fully fleshed out set of arrangements from the outset.

Furthermore, we now have some concerns that the current Demand Estimation Sub-Committee (DESC) arrangements while allowing the industry some flexibility and agility, has some shortfalls and could be developed further to include more purely independent review, scrutiny and analysis. Given the scale of issues being experienced by the industry, and the significant impact on allocation and UIG of DESC decisions, we wonder if there is an opportunity to also include consideration of DESC related activities in any future review of the AUGE's terms of reference.

With these points in mind, we would not be opposed to a review of the AUGE arrangements with a view to how they could be extended to develop a shipper incentive methodology (which could be initially explored for example through a UNC Review group). It may be that the optimal industry arrangements in future could involve a robust and coherent framework that spans both AUGE and PAF, to both incentivise and monitor appropriate shipper activity (while also incorporating some elements of DESC related analysis and/or scrutiny).