

Rob Salter-Church
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10 South Colonnades
Canary Wharf
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E14 4PU

5 July 2018

Dear Rob,

**Initial Impact Assessment and Minded to Decision on UNC UNC642, 642A and 643
– Allocation of Unidentified Gas**

Thank you for the opportunity to comment on this consultation. The answers to the specific questions posed are set out in the annex to this letter.

In broad conclusion, we support Ofgem's minded to decision to reject all three proposed modifications to the UNC for the reasons set out in the open letter. In particular we agree none of the proposed modifications would lead to a more equitable allocation of (or reduction in) unidentified gas (UIG). In this respect we agree that the full impact of the implementation of Project Nexus should be allowed to take effect including full use of available meter readings from all users, in the measurement of UIG.

If you wish to discuss any specific aspects of our response, please do not hesitate to contact me.

Yours sincerely,

Richard Sweet
Head of Regulatory Policy

Initial Impact Assessment and Minded to Decision on UNC UNC642, 642A and 643 – Allocation of Unidentified Gas– SCOTTISHPOWER RESPONSE TO CONSULTATION QUESTIONS

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

Yes

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

No we believe Ofgem have already identified the relevant impacts.

- 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**

Yes. ScottishPower strongly believe that the current arrangements, developed over many years, are broadly the right arrangements to deliver the consumer benefits of the Government's Smart meter programme. These proposed modifications (642, 643) would see the rolling back of the Nexus arrangements before they are properly working. For example the performance regime necessary to assure accurate volume allocation is yet to be fully developed. For example under the current regime of evidence-based weighting factors set by the AUGE for the allocation of UIG, it is important that all parties are discharging their obligations. Such obligations go wider than shippers, for example input data provided by Xoserve and gas transporters, and so it is important that such parties are also obliged to meet prescribed required standards of performance for the processing of data; timely system availability; completeness and accuracy of data inputs; granularity and visibility of performance including timely and relevant communication to impacted industry parties.

- 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?**

Yes. Although we would clarify that the terms of reference and methodology should remain restricted to the setting of UIG weighting factors.

For example, an incentive for shippers to provide timely and frequent reads on Product Class 4 meters could be that a shipper missing the prescribed target for read performance receives a greater share of UIG through a pre-defined £/MWh of estimate set at a level to compensate the impacted parties (note this is unlike the 642 and 643 proposals in that it would not impact significantly on the allocation and amendments algorithms)

There are also factors outside the control of shippers that contribute to UIG and it is equally important that the AUGE proposals fairly reflect these factors and indeed that modifications are encouraged to remedy any such causes at source. For example our own analysis suggests the statutory volume-energy conversion factor of 1.02264 is introducing error into NDM energy allocation that accounts for a significant proportion of UIG. We have raised this on the PAFA Risk Register and are developing proposals to ensure a fair allocation for

consideration by PAC and AUGE and I'm happy to discuss further. Another emerging theme is a correlation between the proportion of DM in an LDZ and the UIG in that LDZ; ScottishPower are currently evaluating this and will bring forward proposals as appropriate.

In addition to the proposed AUGE objective, ScottishPower believes that the present wholly inadequate Performance Framework needs to be overhauled to assure the delivery of accurate inputs to the demand allocation process. This should include clear

- obligations for performance management;
- performance targets in the required areas impacting UIG (amongst other things);
- consequences for failing to meet these targets;
- assurance techniques to control performance

ScottishPower
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