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Dear Rob

**Unidentified Gas Modifications (UNC Mods 0642/042A/0643): Impact Assessment**

Thank you for the opportunity to respond to this Impact Assessment. We continue to support the implementation of UNC Modification 0643 as, in our view, it remains the only viable solution to the ongoing Unidentified Gas (UIG) issue.

Our experience is that, even 12 months after implementation of Project Nexus, UIG remains highly unpredictable in its movement (both day to day and within-day), resulting in significant costs. Full year cost, from start of Nexus (when UIG went live 1Jun17-31May18) has been £2.2m, of which Spark would have expected around £600,000 anyway in reconciliation costs. Therefore, our concern is that UIG is not a transitional issue which will resolve itself as industry data improves, but instead an enduring problem that will continue for the foreseeable future. This also reflects Xoserve's own views<sup>1</sup>.

Whilst the magnitude and volatility of UIG causes significant uncertainty for all suppliers, there is a disproportionate impact upon smaller and medium sized suppliers. Ofgem's impact assessment indicates that smaller suppliers can simply take a "true" position regarding their ultimate expected consumption on any given settlement day - regardless of the original position. This is not feasible for the following reasons:

1. Reconciliation does not adjust a supplier's position on the day to reflect its consumption - instead it equally smears the aggregate monthly consumption adjustment over the previous 12 months. Therefore, suppliers are never reconciled to the true consumption of their portfolios;

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<sup>1</sup> <https://www.xoserve.com/index.php/unidentified-gas-uig/>

2. Any deviation from the allocation provided by Xoserve may result in a substantial credit requirement, which has an immediate and sizeable capital impact upon smaller suppliers in terms of lodging additional collateral and/or letters of credit; and
3. Smaller suppliers do not have the resource (e.g. in terms of a dedicated forecasting team) to be able to take an accurate position on the day, let alone estimate the likely value in 6-12 months' time.

Before June 2017, allocations on the day varied, but did not fluctuate widely and so suppliers were able to take a position and minimise their exposure to significant credit or imbalance risks. For this reason alone, our view is that the revised NDM settlement regime is a backward step. Therefore, proposals such as moving sites to Class 2 or 3 may aid some suppliers in the short-term but will not address the inherent unpredictability of UIG.

Furthermore, while we support the proposal that Xoserve reviews the underlying concepts of the NDM settlement regime, this will take time and is unlikely to resolve the ongoing UIG issues before 2020. Therefore, we urge Ofgem to adopt UNC modification 0643 to avoid the need for further safeguards in the interim.

Yours sincerely

Morgan O'Neill  
**Head of Compliance**