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Unidentified Gas and NDM Allocation Proposal

Industry review, Solihull 13/11/17

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Proposal

- We see an significant concern over the UIG costs and volatility for purchasing
- What should change:
  - Clarity on balancing requirements for Shippers
  - Improvement of volatility and how this is charged/reconciled
  - Improved ability for some parties to forecast the requirements

- We feel this can be effected through algorithm changes without a need for code amendments – and potentially terminology

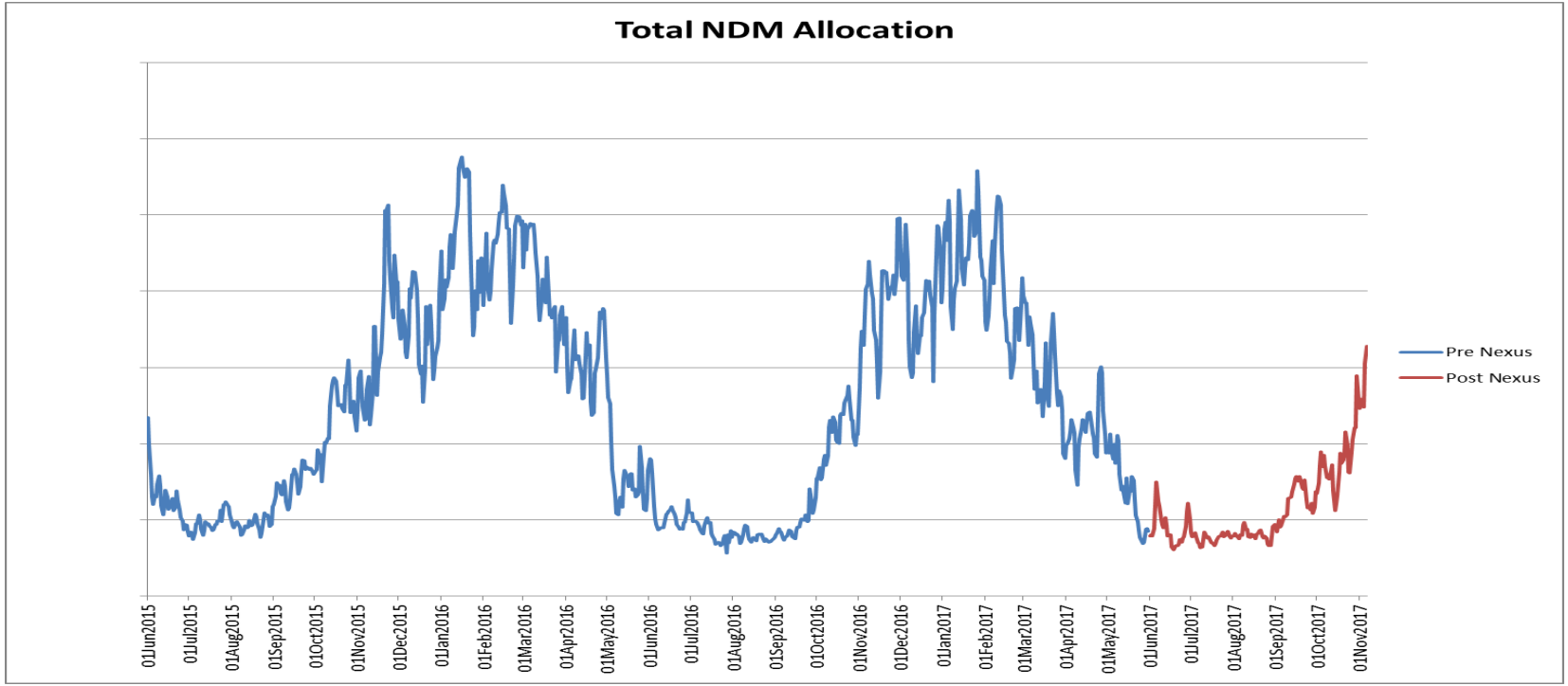
Nexus impacts on allocation

- Requirement – balance each day's energy to Shippers based on their customer use
- Issue – daily actual information is available for very few customers
- Thus – some estimate is required to make sure all the energy is charged

- Ideally this will be exactly what each Shipper's portfolio of customers has used

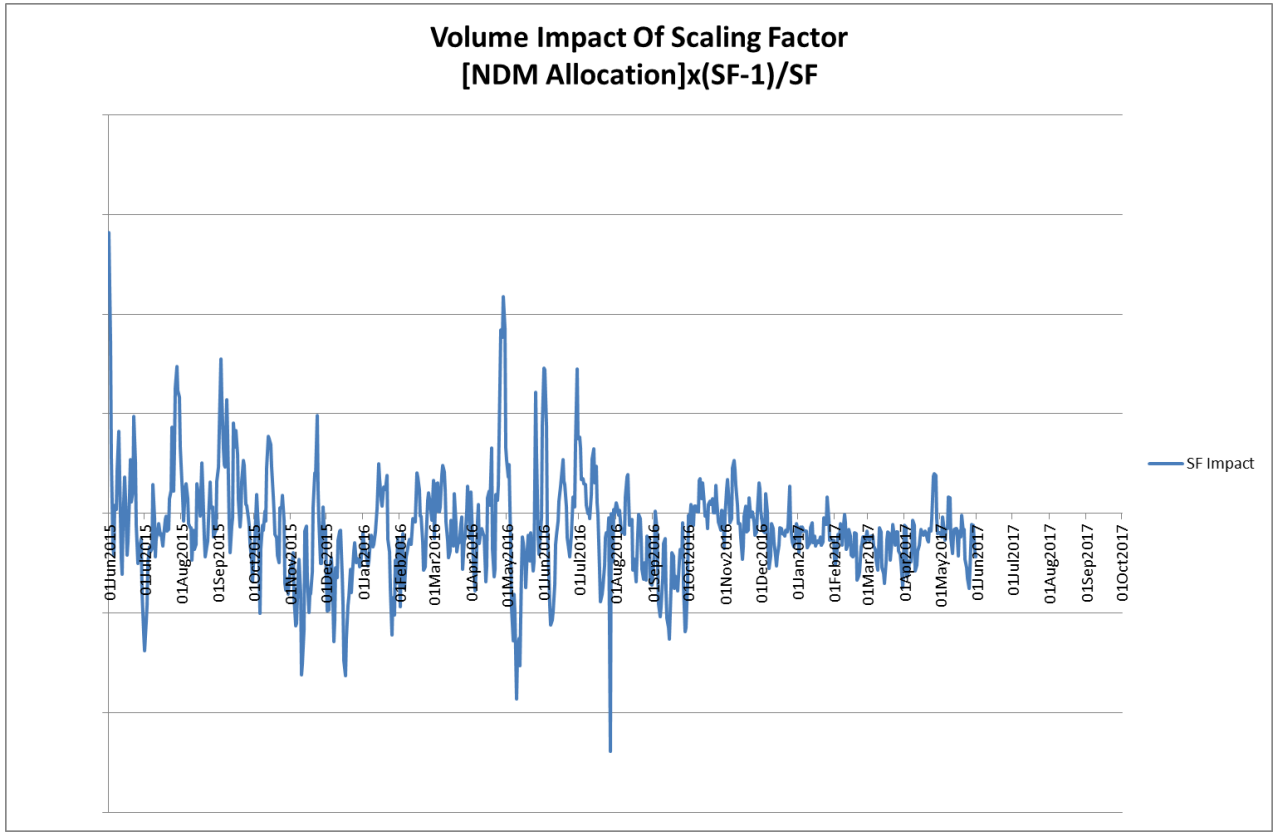
- Prior to Nexus this was using a formula and charged as a single pot of energy
- Post Nexus there is also a formula but the charge is in two pots of energy
- Complicated by UIG pre-Nexus **not** being UIG post Nexus

At a high level is the answer the same?

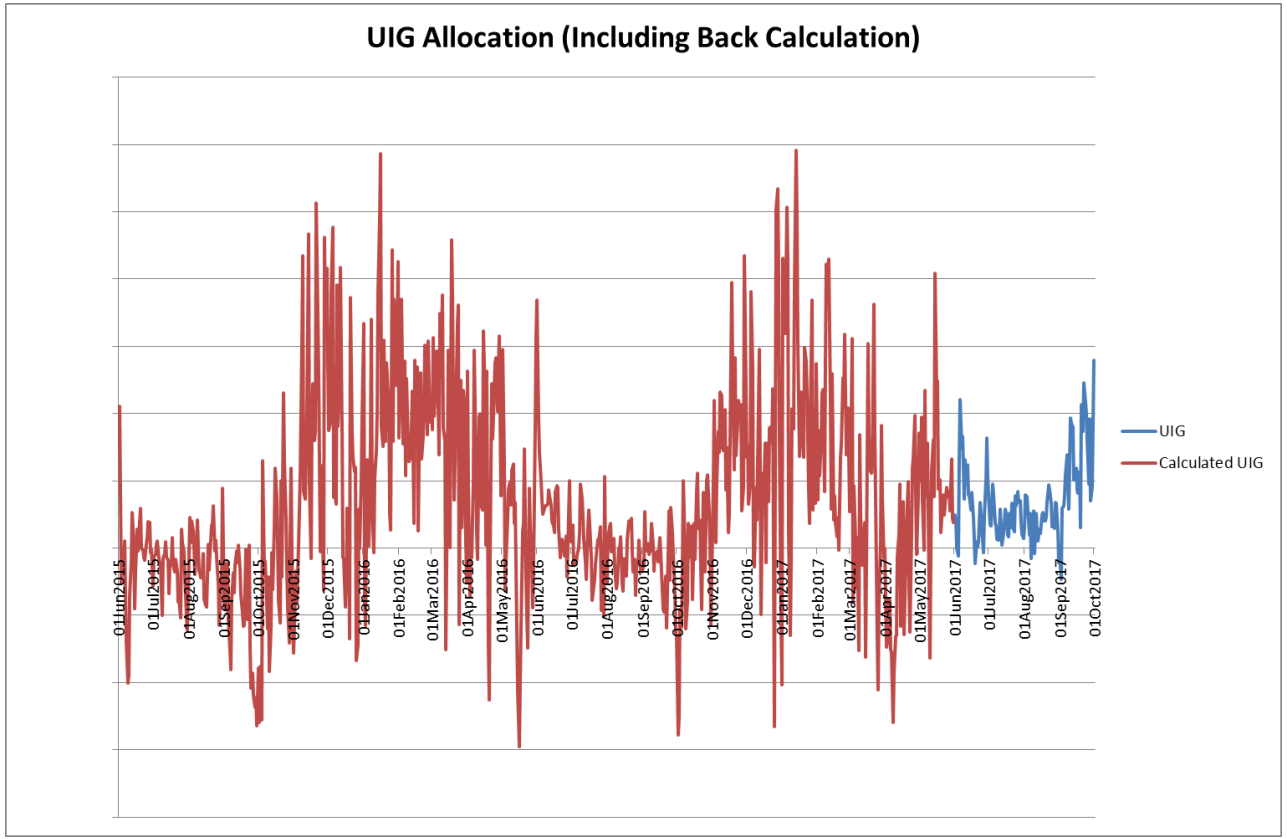


- Essentially yes – the NDM allocation prior to Nexus is equal to the 34 Allocation PLUS UIG allocation post Nexus. The same energy is being shared out

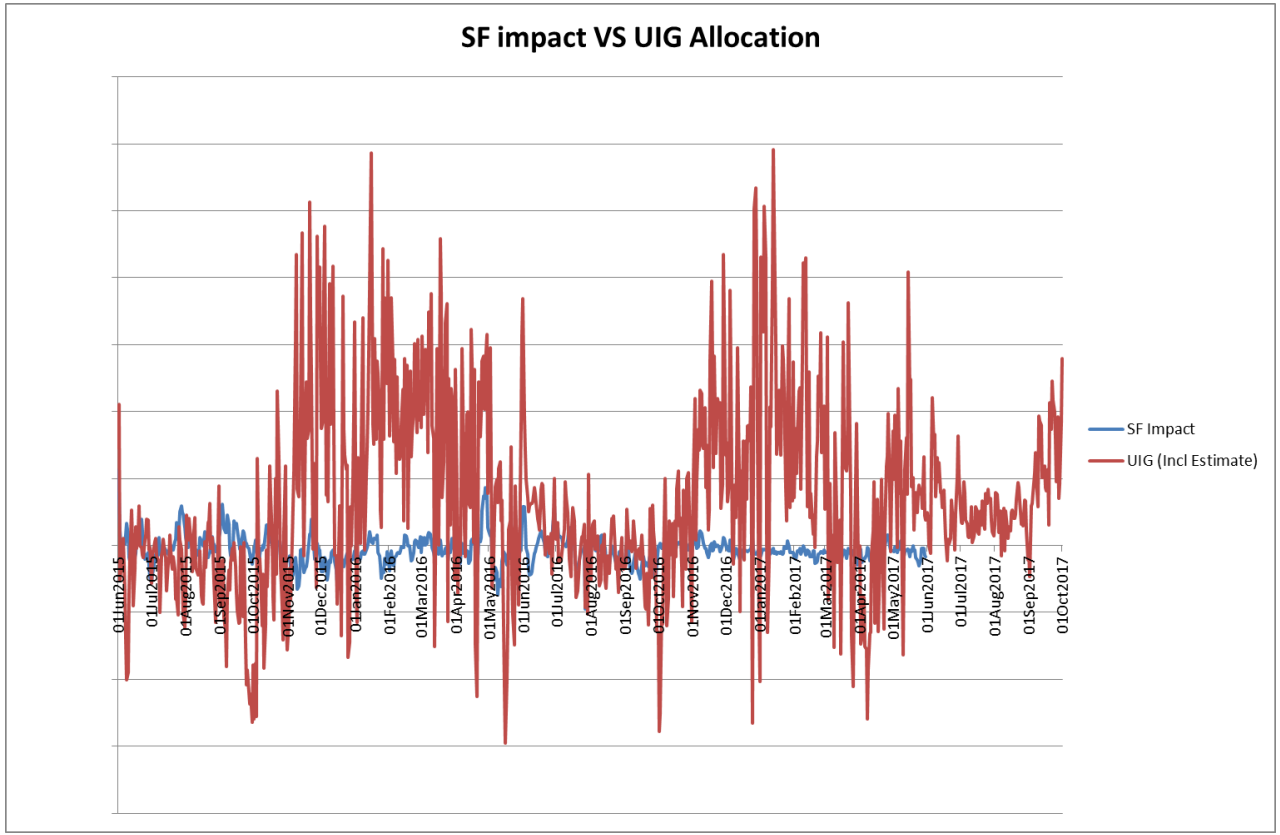
So why do some participants feel there is a material difference? - SF



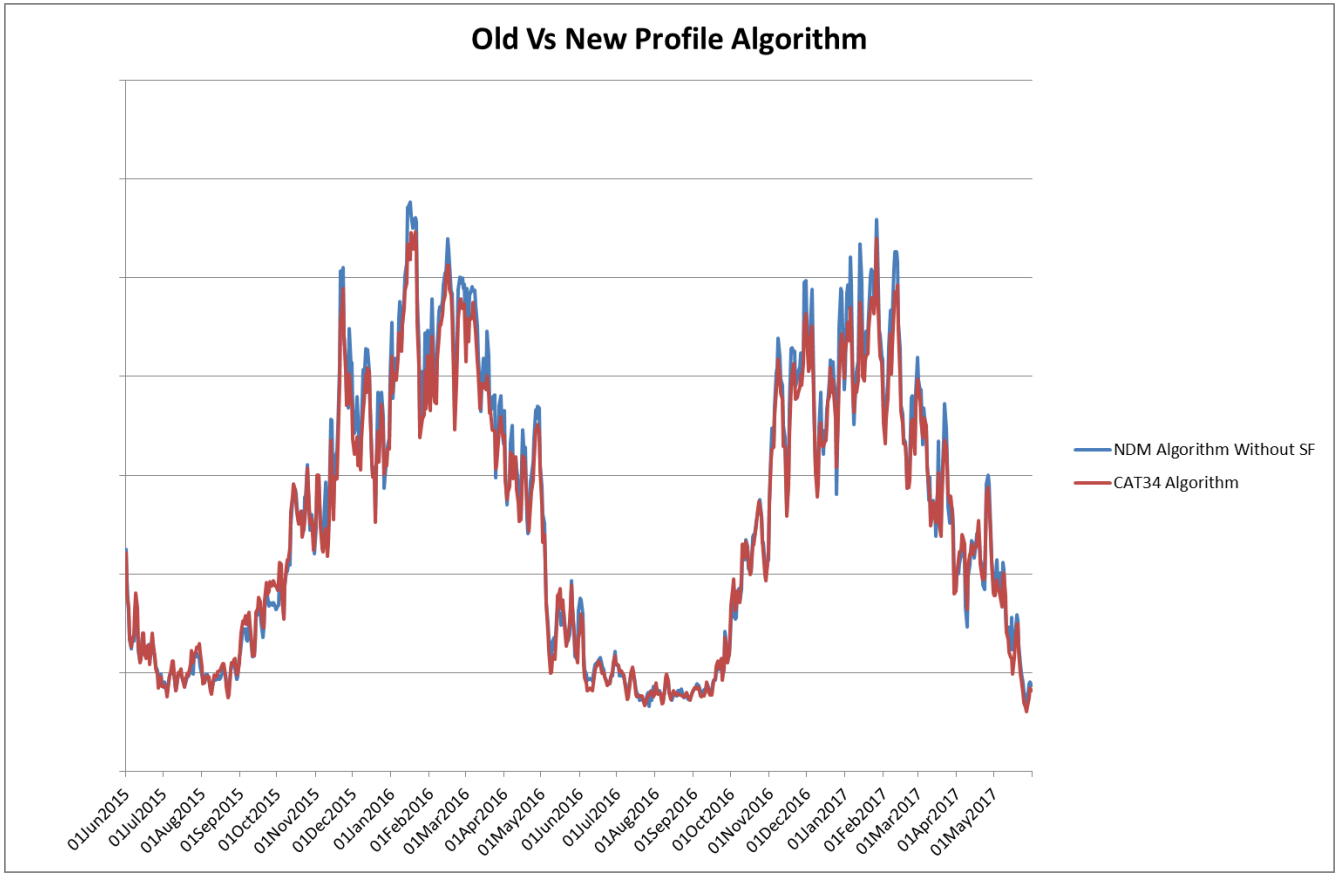
So why do some participants feel there is a material difference? – UIG (new world meaning)



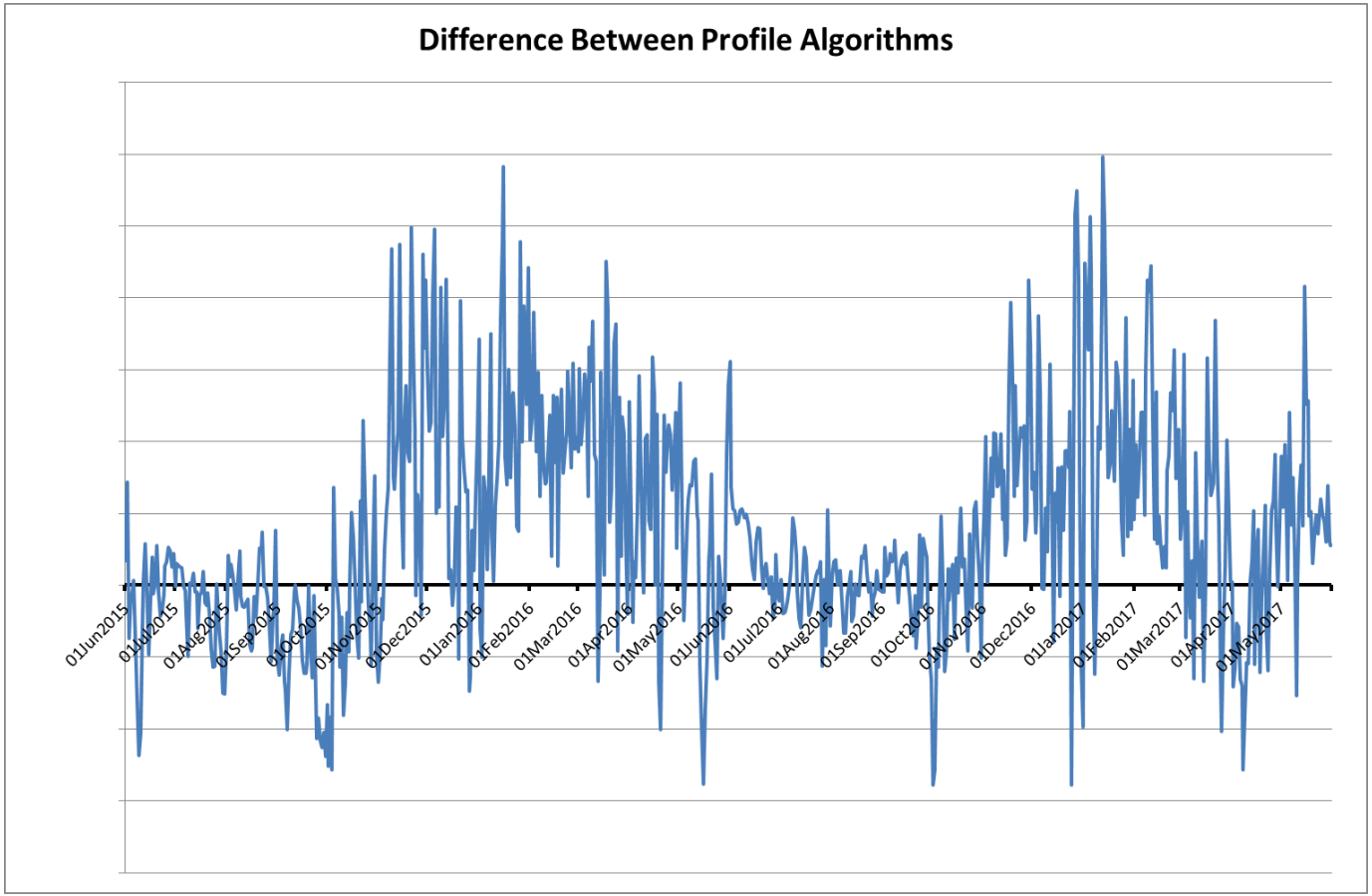
So why do some participants feel there is a material difference? – SF vs UIG



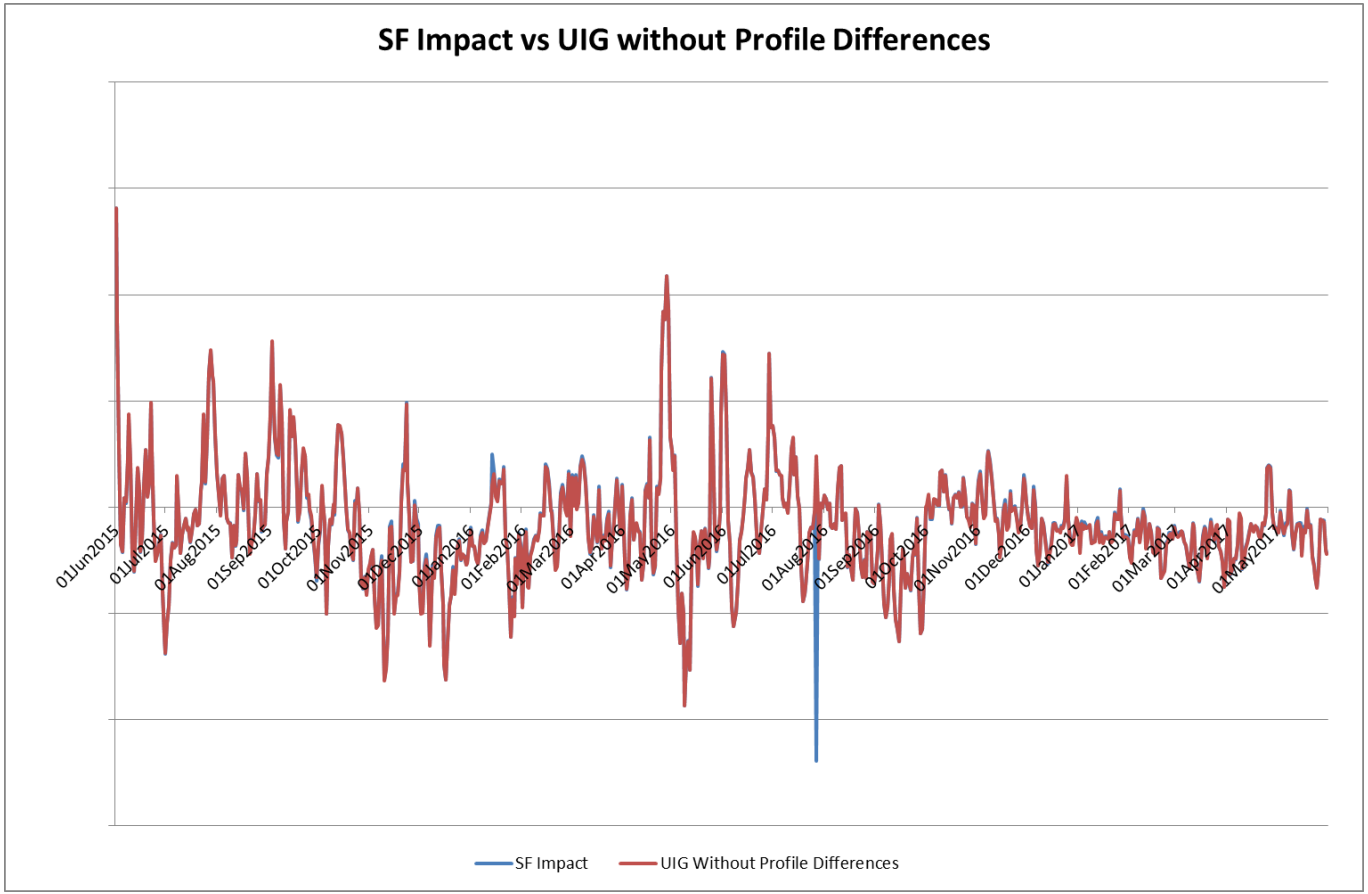
And what has caused this?



Looking at the difference between the two



Comparing SF and UIG less profile differences



What do we think this means in practice?

- What needs to change –
  - The building blocks of the allocation algorithm
    - Allocation and “UIG” for balancing is working as described – and as modelled two years before Nexus go live
    - We may not like the seasonality – it is an impact from the profile parameters
    - It may cause less reconciliation – we have not seen this operated for the bulk of the population yet and the Mod631 analysis will give a steer whether this is the case
    - UIG on the day is not the unexplained that we will end up with in 4 years (there is a fundamental difference between shipper charges at balancing and what should be passed to customers)
    - In aggregate the total you need to balance to is not different to pre-Nexus (there may be shipper impacts but we can’t see that)
- We can resolve some of this by looking at the parameters using in the algorithm, ALP/DAF/WCF/EUC, which is possible without a UNC modification

How could we do this?

- Governance already exists within UNC for profiling changes
- DESC have a cross industry remit are accepted as experts in this area and has open meetings to enable visibility of the actions
- Mod631 has provided impetus to allow larger volumes of data to help this process
- Provide clarity to all parties on the reconciliation movement expected in UIG, allowing either charges to customers through the AUGE values or Shipper own forecasts for final UIG

- Timing is clearly an issue but the parameter changes could be implemented as soon as the analysis has taken place IF we accept there is not an issue with mid-year change (Nexus implementation has already set a precedent for this)

Thank you!