















UNC Draft Modification Report		At what stage is this document in the process?
<h1>UNC 0758:</h1> <h2>Temporary extension of AUG Statement creation process</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<b>Purpose of Modification:</b> <p>To allow the new AUGE sufficient time to develop a robust AUG Statement in accordance with the Framework for the Appointment of an Allocation of Unidentified Gas Expert, (AUGE), and to rollover the existing AUG Table, repeating the process undertaken previously for the 2013/14 &amp; 2016/17 AUG Years.</p>		
	<p>This Draft Modification Report is issued for consultation responses at the request of the Panel. All parties are invited to consider whether they wish to submit views regarding this modification.</p> <p>The close-out date for responses is <b>04 June 2021</b>, which should be sent to <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>. A response template, which you may wish to use, is at <a href="http://www.gasgovernance.co.uk/0758">www.gasgovernance.co.uk/0758</a>.</p> <p>The Panel will consider the responses and agree whether or not this modification should be made.</p>	
	<p>High Impact:</p> <p>Shippers</p>	
	<p>Medium Impact:</p> <p>None</p>	
	<p>Low Impact:</p> <p>None</p>	

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Timetable		 0121 288 2107
<b>Modification timetable:</b>		Proposer: <b>Andy Knowles</b> <b>Utilita Energy Ltd</b>
Pre-modification consideration by Workgroup	25 February 2021	 <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>
Presented to Panel	18 March 2021	 <a href="mailto:andyknowles@utilita.co.uk">andyknowles@utilita.co.uk</a> (Utilita Energy Ltd)
Modification considered by Workgroup	25 March 2021	 07392 197 760
Workgroup Report presented to Panel	20 May 2021	Transporter: <b>Guv Dosanjh</b> <b>Cadent</b>
Draft Modification Report issued for Consultation	20 May 2021	 <a href="mailto:Gurvinder.Dosanjh@cadentgas.com">Gurvinder.Dosanjh@cadentgas.com</a>
Consultation Close-out for Representations	04 June 2021	 07773151572
Final Modification Report available for Panel	09 June 2021	Systems Provider: <b>Xoserve</b>
Modification Panel Decision	17 June 2021	 <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>
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## 1 Summary

### What

To ensure that UIG is allocated between Shippers in accordance with the requirements of the UNC and its subsidiary documents, the industry must use the most accurate and verifiable UIG Allocation Adjustment Factors available to it. The AUG Statement proposed for the AUG Year 2021/22 has, owing to the limited time available, not had the same level of development as previous AUG Statements. The proposer believes that the area where the lack of development time is most pertinent is in the development of the principle of polluter pays. In previous AUG Statement the AUGE has not adopted the polluter pays concept for anything other than broad generalisations, (EUC and Product Class). With the new AUGE introducing a complete overhaul of the methodology, now is an appropriate time to improve the polluter pays concept and differentiate between customers settling gas on estimates versus actual meter reads which the proposer believes would be a significant improvement in line with the polluter pays principle. The proposer also believes that the data used to calculate the total gas volume and number of supply points by payment method does not align with the calculation of gas theft by payment method, resulting in a material error in UIG apportionment by payment method.

### Why

There are two reasons for deferring implementation of the proposed AUG Statement, firstly the proposed AUG Table for 2021/22 does not go far enough in advancing the AUG methodology; and secondly, there is assurance needed to demonstrate that this methodology is an improvement on the previous methodology and not just a change. The proposed AUG Table for 2021/22 does not have the level of development as previous AUG Table and so does not represent the most robust view of Unidentified Gas available.

### How

Concerns in the short term could be allayed by rollover the UIG Allocation Adjustment Factors that are currently in force the 2020/2021 AUG Year to the 2021/2022 AUG Year.

## 2 Governance

### Justification for Authority Direction

According to the latest Xoserve estimate of 24 February 2021<sup>1</sup>, UIG runs at approximately 2.42% of LDZ throughput, representing approximately 13TWh of gas annually, with an approximate annual materiality of £200-250 million<sup>2</sup>. Any significant change to the AUG Table is therefore likely to result in the redistribution of these costs between shipper in the order of millions of pounds and so would be a material change, requiring Authority Direction.

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<sup>1</sup> Xoserve UIG Graphs – Interim Reporting 24 February 2021

<sup>2</sup> Using a 30-day rolling average SAP price of 1.8444p/kWh on 13 February 2021

## Requested Next Steps

This Modification should:

- be considered a material change and not subject to self-governance;
- be assessed by a Workgroup.

## 3 Why Change?

The development of a robust AUG Statement is a complex and difficult undertaking, which requires the assessment of multiple data sources and engagement with the industry as the methodology is developed. The timescales, as mandated by the Framework for the Appointment of an Allocation of Unidentified Gas Expert,<sup>3</sup> (the Framework Document), are extremely tight, with the entire process required to be completed in less than a year.

Owing to a change in the AUG, the AUG Statement that was presented to the industry on 30 December 2020 represents a significant departure from previous methodology, as it:

- Uses a bottom-up approach to assess the current UIG, rather than a top-down approach.
- Determines UIG only at line in the sand, rather than the previous process of assessing temporary and permanent UIG during the lifetime of settlement.
- Has utilised an entirely different methodology for deriving both the size of theft and the apportionment of theft between market sectors. Theft comprises approximately 75% of the total of UIG.

The AUG Statement that was presented to the industry is demonstrably different to previous years and could not be said to be a simple evolution of previous statements and has been effectively developed from first principles in large part.

There are 2 prime examples where further development is required: achieving the principle of polluter pays and accurately allocating prepayment customer numbers.

The first principle of the proposed methodology is:

“Polluter Pays – we interpreted “fair and equitable” to mean that UIG should be allocated in the same proportions as it is created” source: Draft Allocation of Unidentified Gas Statement (For Gas Year 2021-2022)

The AUG Statement produced fails to fully deliver this. Currently, the proposed AUG Table results in UIG being allocated to customers in the same EUC Band and Product Class, as opposed to the polluters themselves. It takes no account of metering systems that settle regularly on actual meter reads and are logically and statistically less likely to be involved in theft. Smart meters have specifically been identified by the department of Business, Energy and Industrial Strategy (BEIS) as directly beneficial to the reduction of theft:

The introduction of smart metering has improved energy suppliers’ ability to detect and manage energy theft. More granular data on consumption will help alert suppliers to patterns of behaviour that could be indicative of theft, enabling them to better target their enforcement activity, reducing the amount of energy theft incurred. BEIS Smart Meter Rollout Cost Benefit Analysis (2019)

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<sup>3</sup> [Framework for the Appointment of an Allocation of Unidentified Gas Expert](#)

The BEIS 2019 Smart Meter Rollout Cost Benefit Analysis attributes £913million in benefits to reduced theft and losses because of smart meters being installed.

The proliferation of smart meters and the enhanced data they provide (including daily meter reads and tamper alerts) should play a part in better identifying the polluters (or more accurately, the non-polluters).

The AUG Statement must reflect a true and accurate number of customers in each group; the current number of prepay customers included in the AUG Statement is approximately 2m, however, Ofgem data from 2020 states there are 3.4m prepayment meters<sup>4</sup>. The AUGE has used the best available data to calculate the amount of gas theft associated with prepayment and credit customers, (data not provided by the CDSP), but this does not align with the AUGE's assessment of both supply points and volumes by payment method, (data which was determined from CDSP's EUC band data). The AUG Statement must reflect a true and accurate number of customers in each group and, while CDSP data may be preferred where available, it is clearly inaccurate in this case and needs further development; failure to correct this error would result in materially inaccurate allocation of UIG by payment method within certain EUC bands.

Whilst the draft AUG Statement represents a reasonable foundation upon which to develop a robust methodology it is clear that more time is required. The AUGE appointment process commenced in 2011 with the first AUG Statement in 2012/13 being recognised as an interim development to replace the high-level assessment of UIG then in place. This Statement was then rolled over for the 2013/14 AUG Year to allow time for a more robust consumption method to be developed for 2014/15. The AUG Statement was rolled over again for the AUG Year 2016/17 to allow time for the AUGE tendering process to complete.

Considering these concerns and being mindful of the time it took for the previous AUGE to present a robust statement that was accepted by the industry, it is clear that the process has not given sufficient time for the AUGE to develop a new statement to the standard required for the industry to rely upon with a high degree of confidence. As a fully developed and tested AUG Statement is available, (unlike at the start of the process), we believe that additional time should be given for a robust statement to be developed by the new AUGE and the AUG Table from 2020/21 should be extended to 2021/22.

The current proposals substantially alter the impact of the AUG Statement under the new methodology. Not only have the extremely tight timescales impacted the new AUGE's time to develop the methodology they have also deprived industry of sufficient time for proper assurance work on a new and significant methodology.

For the avoidance of doubt, we have not considered whether there should be any changes to the Framework Document, as we consider the annual review process will give a suitable opportunity to do so.

## 4 Code Specific Matters

### Reference Documents

- UNC TPD Section E9
- Framework for the Appointment of an Allocation of Unidentified Gas Expert.
- [Assessment of draft AUG Statement 2021/22 against the Framework for the Appointment of an Allocation of Unidentified Gas Expert \(provided by ICoSS to UNCC on 22 February 2021\)](#)
- [Letter to UNCC \(provided by ENGAGE on 17 March 2021\)](#)

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<sup>4</sup> [Ofgem Decision Document: Self-disconnection and self-rationing](#), (see Section 1.10)

- [Resource of AUG Statement documentation for Gas Year 2021/22](#)
- [Minutes of the April 2021 UNCC meeting where the AUG Statement 2021/22 was discussed](#)

## Knowledge/Skills

- None

## 5 Solution

### Business Rules

1. The AUG Table that is approved by the Committee under TPD E9.4.4(a) to apply for the period 1 October 2021-30 September 2022 (as voted or around the 15 April 2021) shall be disapplied and not used for any Code purpose.
2. The AUG Table for the AUG Year 01 October 2021 – 30 September 2022 will instead be the following:

Supply Points					Metered CSEPs	
	Class 1	Class 2	Class 3	Class 4	Category	Allocation factor
<b>EUC</b>	<b>Allocation factor</b>				All Metered CSEPs as a single category	
1ND	0.22	5.28	45.30	120.98		
1PD	0.22	5.28	45.30	120.98		
1NI	0.22	5.28	45.30	120.98		
1PI	0.22	5.28	45.30	120.98		
2ND	0.22	5.28	13.68	117.79		
2PD	0.22	5.28	13.68	117.79		
2NI	0.22	5.28	13.68	117.79		
2PI	0.22	5.28	13.68	117.79		
3	0.22	4.93	9.17	15.29		
4	0.22	3.87	9.17	11.76		
5	0.22	2.47	8.56	8.04		
6	0.22	1.13	6.30	4.79		
7	0.22	0.33	5.14	2.47		
8	0.22	0.22	0.42	1.55		
9	0.22	0.22	0.22	0.22		

## 6 Impacts & Other Considerations

### **Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

No

### **Consumer Impacts**

None as UIG is allocated at a wholesale level to shippers.

### **Cross Code Impacts**

None

### **EU Code Impacts**

None

### **Central Systems Impacts**

None as the process will simply rollover the AUG Table from 2020/21.

As referenced in the Implementation Section, (Section 8), it was noted that the CDSP needs a degree of lead-time to input the Allocation Factors into the system.

### **Workgroup Impact Assessment**

Given the nature of the issue being discussed by the Workgroup, the views were, to a large extent, polarised and may be summarised as follows:

On one hand, some of the Workgroup felt that the modification was superfluous as the AUG had delivered an AUG Statement which passed through all the relevant development and production stage-gates and was in a fit state to be applied.

On the other hand, some Workgroup participants expressed concern that, given the new “bottom-up” methodology that had been developed, as opposed to simply refining a pre-existing methodology, insufficient time for scrutiny and third-party analysis was provided for in the standard annual process, as set-out in the Framework Document. Accordingly, for the industry to gain confidence in the methodology, a further year of refinement should be incorporated into the development cycle.

As these positions were unlikely to be reconciled during the development stages of the Modification or lead to a further iteration of the Modification Proposal, it was agreed that they should be recorded in the Workgroup Report to advise Panel that the disparate views, which first became evident during the AUG Sub-committee discussions, still exist.

At the March Workgroup, (and recorded in the minutes<sup>5</sup>), the Authority representative raised a number of questions relating to the process for determining the AUG Statement. Following considerable discussion at the April Workgroup, participants decided that the questions should be consolidated, condensed, and included in

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<sup>5</sup> Workgroup 758 Minutes of 25 March meeting

Draft Modification Report as consultation questions as the suggestion was that further views on the process, and circumstances which have given rise to this Modification, should be for individual shippers to explain and, as such, would be better documented as consultation responses.

It was also noted during discussions that, while this Modification linked to the start of the Gas Year, should a decision require an implementation occur after this date the legal text may need to be amended. It was confirmed that it is not intended that there would be a retrospective application of the proposed AUG Table should a decision be made after 01 October 2021, with due consideration made for system data input requirements.

The proposed draft questions are set out in the Recommendations Section, (Section 10), of this Report.

## 7 Relevant Objectives

### Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	Positive
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Owing to the limited time which was available for its development, the AUG Table and accompanying statement that was presented to the industry on 30 December 2020 does not represent as detailed an assessment as the AUG Table in place for 2020/21. Extending the AUG Table for 2020/21 to cover the AUG Year 2021/22 would result in more accurate cost targeting and so further competition between shippers and would give further time for the requirements of the Framework for the Appointment of an Allocation of Unidentified Gas Expert to be discharged.



## 8 Implementation

No specific implementation date is proposed, but the modification would need to be implemented as soon as possible to provide certainty to shippers on the AUG Table for the AUG Year 2021/22.

It was noted at the Workgroup that, in the event the Authority direct implementation, there may be issues regarding the legal text should implementation occur after 01 October 2021. Accordingly, the Workgroup encourage the Authority to provide a direction as early as feasibly possible to provide certainty for the arrangements that would be in operation for Gas Year 2021/22.

The CDSP noted that a decision in early September would be preferable to allow time for the Allocation Factors to be input into the system.

## 9 Legal Text

### Text Commentary

As this modification would effectively extend the 2020/21 AUG Table, (in the form specified in Modification 0711<sup>6</sup>), for a further 12 months, the textual change should be placed in Transition Document.

Reference	Explanation
<b>TRANSPORTATION PRINCIPAL DOCUMENT</b>	-
<b>TRANSITION DOCUMENT, PART II – TRANSITIONAL RULES</b>	-
New paragraph 24.2 (heading)	AUG Table for AUG Year 2021/22
New paragraph 24.2.1	The AUG Table approved by the Committee for the AUG Year 2021/22 shall, (notwithstanding such approval), not apply. Instead the table and the values set out in paragraph 24.2.3 shall apply for AUG Year 2020/21.
New paragraph 24.2.2	The Committee is required to publish the table and values set out in paragraph 24.2.3.
New paragraph 24.2.3	Sets out in the required format the table and values to apply for AUG Year 2021/22 for the purposes of determining a User's User LDZ Unidentified Gas on a day in AUG Year 2021/22.
New paragraph 24.2.4	When preparing the AUG Statement for AUG Year 2022/23 the starting point for the purposes of updating the methodology shall be the AUG Statement approved by the Committee for AUG Year 2021/22.

### Legal Text (version of 12 April)

#### TRANSITION DOCUMENT: PART IIC – TRANSITIONAL RULES

Add new paragraph 24.2 to read as follows:

#### 24.2 AUG Table for AUG Year 2021/22

24.2.1 In respect of AUG Year 2021/22 notwithstanding the Committee approving the AUG Statement and the AUG Table in accordance with TPD Section E9.4.3:

<sup>6</sup> [Modification 0711: Update of AUG Table to reflect new EUC bands](#)

- (a) the AUG Table approved by the Committee ("**approved AUG Table**") shall not apply (and accordingly Section E9.4.4(a) and (b) shall not apply in respect of the approved AUG Table); and
- (b) the AUG Table set out in paragraph 24.2.3 ("**transitional AUG Table**") shall apply in its place, and the transitional AUG Table shall:
  - (i) not be subject to later modification in relation to AUG Year 2021/22;
  - (ii) be binding for the purposes of the Code.

24.2.2 The Committee shall publish the transitional AUG Table (and make clear in doing so that the approved AUG Table shall not apply).

24.2.3 The AUG Table for AUG Year 2021/22 shall be as follows:

Supply Points					Metered CSEPs	
	Class 1	Class 2	Class 3	Class 4	Category	Allocation factor
<b>EUC</b>	<b>Allocation factor</b>				All Metered CSEPs as a single category	
1ND	0.22	5.28	45.30	120.98		
1PD	0.22	5.28	45.30	120.98		
1NI	0.22	5.28	45.30	120.98		
1PI	0.22	5.28	45.30	120.98		
2ND	0.22	5.28	13.68	117.79		
2PD	0.22	5.28	13.68	117.79		
2NI	0.22	5.28	13.68	117.79		
2PI	0.22	5.28	13.68	117.79		
3	0.22	4.93	9.17	15.29		
4	0.22	3.87	9.17	11.76		
5	0.22	2.47	8.56	8.04		
6	0.22	1.13	6.30	4.79		
7	0.22	0.33	5.14	2.47		
8	0.22	0.22	0.42	1.55		
9	0.22	0.22	0.22	0.22		

24.2.4 For the purposes of TPD Section E9.4.1(d) and preparing the AUG Statement for AUG Year 2022/23 the methodology to be updated shall be the methodology contained in the AUG Statement approved by the Committee for AUG Year 2021/22.

Workgroup were comfortable that Legal Text delivers the intent of Solution but noted that it is optimised for implementation on 01 October 2021, (with a decision prior to that date), and would need to be amended to accommodate an implementation after the commencement of the 2021 Gas Year.

## 10 Recommendations

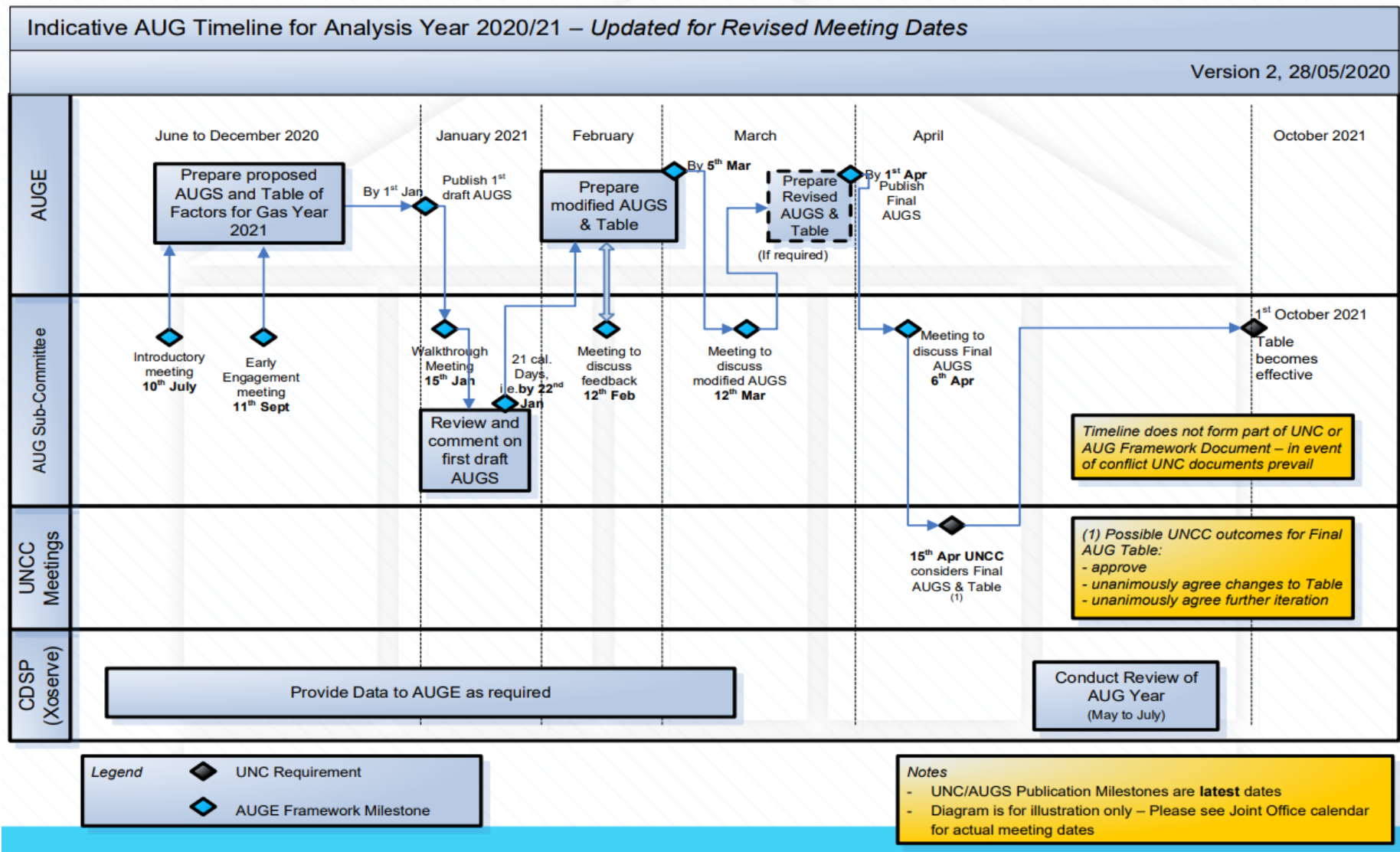
### Panel's Recommendation to Interested Parties

The Panel have recommended that this report is issued to consultation and all parties should consider whether they wish to submit views regarding this modification.

Panel have also asked respondents to:

1. Please provide your views on whether the 2021/22 AUG Statement production process has been robust.
2. Please provide your views on whether the 2021/22 AUG Statement production process has delivered a robust result and provide an explanation to support your response.
3. With reference to the existing governance arrangements, please provide your views regarding the effectiveness of the governance of the AUG Statement approval process, including, (but not limited to), the UNC and CDSP contracting arrangements, and the application of the Framework Document, including the UNC Committee stages.
4. Please provide a reasoned opinion as to whether the request for a direction on this Modification could be seen as placing a validation role of the AUG Statement on the Authority.

11 Appendix 1 – Further Information on the AUG Statement Production Process



To accompany the above schematic, the CDSP has provided a list of activities carried out during the process to provide more information on the steps shown in the diagram:

- An Introductory meeting in July 2020 where the AUG explained its high-level approach, data sources and list of topics for detailed investigation.
- An Early Engagement meeting in September 2020 where the AUG gave an update on UIG Contributors and an overview of the methodology or initial investigations for each contributor.
- An additional engagement meeting in November 2020 to give more detail on proposed methodologies and get stakeholder feedback.
- The AUG provided the first draft of the AUG Statement for Gas Year 2021 to Joint Office on 30 December 2020, (the deadline set in the Framework is 31 December), including a first draft of the Table of Weighting Factors; Joint Office issued an email to its UNC mailing list to announce the publication.
- Any interested parties had a 22-day window to submit feedback: this timescale is set out in the AUG Framework document.
- During the January 2021 feedback window there was a “walkthrough” meeting of the AUG Sub-Committee where the AUG explained the proposed methodology in detail.
- Xoserve received feedback from 7 Shippers and 1 trade association (ICoSS) during the window, ranging from very supportive to very critical.
- Following the feedback window there was a further AUG Sub-Committee meeting in February 2021 where the AUG presented its responses to the comments raised in the feedback window, with 16 Shipper/Supplier/Trade Association attendees.
- Following that meeting the AUG published an updated version of the Statement including a revised Table of Weighting Factors – some factors changed significantly from the previous draft but most did not change very much.
- There was a sixth AUG Sub-Committee meeting of the cycle in March 2021 where the AUG explained the changes between the first draft and second drafts of the Statement.
- The final version of the Statement (including the final Table of Weighting Factors) was published on 31 March 2021.
- There was a final AUG Sub-Committee meeting in April (before the UNC Committee meeting) where the AUG presented the final AUG Table which was unchanged since the 05 March 2021 version.
- The April UNC Committee meeting (on 15 April 2021) considered the Final AUG Table as published on 31 March 2021: as permitted in UNC Section E one party proposed an alternative Table of Weighting Factors (identical to the current Gas Year 2020 Table) but this proposal received 4 votes for and 8 votes against; UNC requires a unanimous vote in favour of an alternative.
- There was no proposal to repeat any part of the process, (which is also permitted in UNC Section E), so the proposed AUG Table was automatically approved.

The AUG Framework also includes a “Review of the AUG Year” to gather feedback from interested parties on the operation of the AUG process: the request for feedback was issued via Joint Office distribution list on 20 April 2021 with a closing date of 17 May 2021. The CDSP will prepare a summary of the responses with any relevant recommendations for changes to the process or Framework document for consideration at UNC Committee.