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30th December 2011
Your Reference:UNC Modification Proposal 0326VV

'UNC Modification Proposal 0326VV:
Allocation of unidentified gas following the appointment of the Allocation of Unidentified Gas Expert
(AUGE)'

Dear Bob,

Do you support or oppose implementation?

~~Support/Qualified Support/Neutral/Not in Support/Comments*~~ *delete as appropriate*

Thank you for your invitation seeking representations with respect to the above Modification Proposal for which National Grid Gas Distribution (NGD) does not support.

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

This Modification Proposal provides for a previously 'closed out' AUGE Year to be retrospectively reopened in lieu of completely new unidentified gas topics being forthcoming. NGD believes this undermines the fundamental principles behind the Allocation of Unidentified Gas Expert - AUGE regime as implemented under UNC Modification 0229 'Mechanism for correct apportionment of unidentified gas' and is inefficient and unnecessary.

Are there any new or additional issues that you believe should be recorded in the Modification Report

Principles

Modification Proposal 0326VV identifies that a previously 'closed out' AUGE Year can be reopened as a consequence of an Unidentified Gas 'issue' which was prevailing at that time being identified, notified to, and accepted by, the AUGE.

Modification 0229 introduced the Unidentified Gas reallocation regime whereby an organisation (the AUGE) is required to identify a reallocation of energy following a specific process to a timeline which results in the production of an AUG Statement and population of an AUG table. This represents a

finalised position for which charges are applied and the process followed again for the following year (the AUGS being updated with current data e.g. number of unconfirmed sites etc). To intervene in this cycle of activity in the manner identified by Modification Proposal 0326VV challenges this principle and introduces some complexity to the process.

Any new 'issue' identified as being within the remit of this Modification Proposal would require a reassessment of previously 'closed out' AUG Statements to reduce the Unidentified Gas allocated to existing issues so that a quantity of Unidentified Gas can be allocated to the 'new' issue.

To date, the AUGS has identified a value of Unidentified Gas by taking the total throughput less the 'known' consumption and has used the current Unidentified Gas issues to determine the proportion of Unidentified Gas attributable to each market segment.

The principle 'unknown' Unidentified Gas source is considered to be theft of gas. Consequently, once the other issues (being unregistered sites, CSEPS, etc) are calculated, the remaining Unidentified Gas source is assumed to be theft of gas. Therefore, if a new issue is identified it would effectively reduce the theft of gas value. Any new issue would need to be considered in the Smaller Supply Point (SSP)/Larger Supply Point (LSP) apportionment previously determined by the AUGS and the theft of gas quantity re-worked accordingly.

It is therefore important to understand that the new issue identified under Modification Proposal 0326VV would not increase the overall quantity of Unidentified Gas; it would merely change its apportionment. We would therefore challenge the extent to which this would be of value to historical periods from when the methodology will have moved on as the AUGS refines each sub-set as a result of increasing quantities of data being forthcoming each year?

Our conclusion is that any new issue cannot be material to historic periods. The AUGS currently being finalised has been subject to two in-depth consultations and other than refinements to existing issues, no new issues have been identified.

Process

We would like to draw attention to an apparent lack of detail on how precisely an energy 'future issue' reallocation would be reapportioned back to the relevant year; i.e. it is unclear whether this would be invoiced for on a month by month basis over the relevant year or as an aggregate value for the entire year or 'applicable period'.

We note that issues would only be reconciled back to the 1st April 2012 date, where it can be demonstrated that the issue was prevailing at that time. Regardless of the principles contained within the Modification Proposal we agree with the Proposer that the provisions of Section S1.4.4 relating to the Code Cut off Date should apply.

We anticipate that there may be some unforeseen implications should the appointed AUGS change over the period whereby a retrospective reallocation of energy occurs. It is quite possible that each AUGS in place over the 'retrospective period' may have applied a different methodology to determine the appropriate energy apportionment. Therefore there may be a question over what the implications may be where one appointed AUGS is required to make changes to another organisations output. We have also not assessed the implications concerned with an AUGS's appointed responsibilities under their contract with the Transporters Agent.

A further area which would benefit from clarification is the rules which would need to be applied to the retrospective period appertaining to Users who have since exited the market. A scenario could occur whereby an LSP Shipper bears a proportion of a smeared debit as a consequence of the AUG Statement in an AUG Year. That User may then exit the LSP market. If then in a subsequent year a

'retrospective' LSP energy debit is identified by the AUGÉ, it is unclear how the energy allocation should be treated (i.e. should the remaining LSP Users incur the energy debit which would have otherwise been borne by the erstwhile User?).

The AUGÉ 'guidelines' (Allocation of Unidentified Gas Document) would require amendment. If 'retrospective' changes are identified it is conceivable that the AUGÉ would need to undertake a complete cycle of consultation for the new issue to gain agreement and for a revised statement to be approved by the UNC Committee. As a minimum this could create delay.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

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.

We concur with the views expressed by some parties within the Draft Modification Report that allowing retrospective cost allocations creates risk and uncertainty, potentially reducing the benefits introduced through the establishment of fixed annual values, applied prospectively, via the AUGÉ process.

f) Promotion of efficiency in the implementation and administration of the Code:

We question the extent to which this relevant objective is facilitated given the very low likelihood of any 'new' issue being identified. We would suggest that unnecessary complexity could be introduced to the UNC leading to inefficiency and uncertainty in the operation of the AUGÉ regime.

Impacts and Costs:

The contract price for the services from the AUGÉ would increase regardless of whether any new 'issues' are identified. At present the AUGÉ is contracted to provide a service to create the AUGS each year, with the various activities detailed in schedules to the contract. In the event this Modification Proposal is implemented the contract with the AUGÉ would need to be amended to accommodate this historic issues requirement. This would change the way the AUGÉ is required to hold all current data as this data may be subject to re-assessment if /when a new 'issue' is identified and accepted by the AUGÉ. It is likely that any costs associated with this would be charged through the contract.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

Modification Proposal 0326V could be implemented with immediate effect. We believe this would then apply in respect of the 2013 AUG Year.

Legal Text:

NGD has provided legal text and supporting commentary with respect to this Modification Proposal. We have received approval for this from the Proposer and are satisfied that this meets the requirements of the Modification Proposal.

Is there anything further you wish to be taken into account?

We have not identified any further issues.

We trust that this information will assist in the compilation of the Final Modification Report.

Please contact me on 01926 653541 (chris.warner@uk.ngrid.com) should you require any further information

Yours sincerely,

Chris Warner
Network Code Manager, Distribution