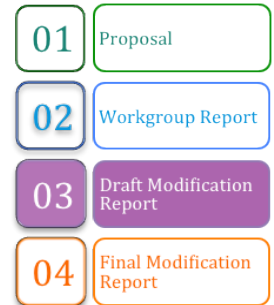


## Stage 03: Draft Modification Report

# 0326VV:

## Allocation of unidentified gas following the appointment of the Allocation of Unidentified Gas Expert (AUGE)

What stage is this document in the process?



This modification will ensure any issue(s) identified by the AUGE is reconciled back to the period to which it relates, irrespective of when the issue was identified by the AUGE. Such issues would only be reconciled back to the Application Date of 1st April 2012, where it can be demonstrated that the issue was prevailing at that time.



Responses invited by 06 January 2012.



High Impact:



Medium Impact:



Low Impact:  
Shippers and Gas Transporters

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- 1 Summary
- 2 Why Change?
- 3 Solution
- 4 Relevant Objectives
- 5 Impacts and Costs
- 6 Implementation
- 7 The Case for Change
- 8 Legal Text
- 9 Recommendation

## About this document:

This document is a Draft Modification Report, which was issued for consultation responses, at the request of the Panel on 17 November 2011.

The close-out date for responses is 06 January 2012.

The Panel will consider the responses and agree whether or not this modification should be made.



### 3 Any questions?

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# 1 Summary

## Is this a Self-Governance Modification

The Modification Panel determined that this modification should not follow Self-Governance procedures.

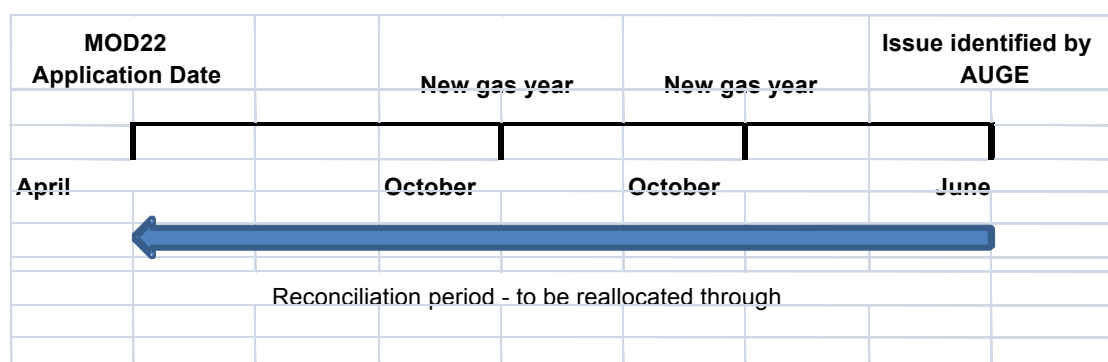
## Why Change?

The UNC does not ensure that the impact of new issues identified and established by the AUGÉ are reflected in relevant invoices for the historic period to which the issues relate.

## Solution

It is proposed that the Application Date is set at 1 April 2012, but that coupled with this, any future issue, with the exception of any previously agreed methodologies, identified by the AUGÉ is reconciled back to the period to which it relates, irrespective of when the issue was identified by the AUGÉ. Such issues would only be reconciled back to the Application Date of 1st April 2012, where it can be demonstrated that the new issue was prevailing at that time. We believe that the additional incentives require to be put in place to ensure that newly discovered issues that contribute to the level of unidentified gas are recognised and brought to the attention of the AUGÉ at the earliest possible opportunity. For the avoidance of doubt, the application date will roll forward in line with the invoicing rules set in accordance with UNC i.e. Section S 1.4.4.

This principle is demonstrated below:



This proposal will allow newly discovered issues, such as Transporter notified metering errors, to be allocated to both the LSP and SSP sector, where the unidentified gas has involved both market segments. It also represents a rebasing of the risk to ensure that the LSP and SSP markets face the same risks of unidentified gas.

This proposal would apply to both credit and debits. If the proposal were not accepted, then it would remain that the SSP market is cross-subsidising the LSP market, if issues go beyond a one year period. Therefore, potentially significant amounts of energy will continue to be allocated to the incorrect sector. This is not an effect that was contemplated within modifications 229 and 317/A, which look to ensure energy costs are appropriately and correctly assigned to the relevant market sector.

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## Impacts & Costs

Xoserve estimates that implementation costs would be at least £30k, but probably not more than £80k. In addition, the costs of the AUGÉ may be increased.

Xoserve anticipate that there will be additional operational costs associated with managing reconciliation charges each year. These costs can be considered to be in the range of £0 (no reconciliation charges to be processed) to £20,000 (a complete reconciliation of charges for all periods).

## Implementation

An implementation date of 1 April 2012 is proposed if an Authority decision is received before 20 March 2012.

An implementation date of 1 April 2012 is proposed if an Authority decision is received before 1 April 2012.

An implementation lead time of one business day is proposed if a later Authority decision is received.

The reasons for these dates are to deliver implementation with effect from 1 April 2012, and are presented in this format to comply with the Modification Rules.

## The Case for Change

Implementation would ensure that newly discovered issues identified and established by the AUGÉ are backed through the period to which they relate. This could be expected to more appropriately allocate costs between Shippers over the period concerned and so facilitate the securing of effective competition, but this would be at the expense of introducing retrospectivity. There was no Workgroup agreement on which of these impacts would be greatest and hence whether the Relevant Objectives would be positively or adversely impacted if the modification were implemented.

## Recommendations

All parties are invited to consider whether they wish to submit views regarding this modification.

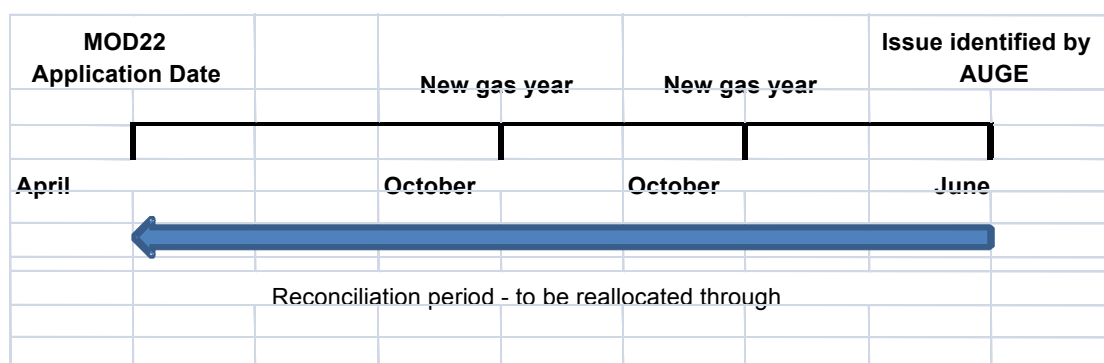
## 2 Why Change?

At present, the AUGE process delivers a fixed allocation of costs which applies prospectively. Some Shippers are concerned that there is potential for new issues to be identified that would have applied in the past. The UNC does not provide for such issues that are identified and established by the AUGE to be applied retrospectively over the period to which they relate.

### 3 Solution

This Proposal seeks to ensure that any future issue identified by the AUGÉ can be retrospectively adjusted to the AUG Application Date of 1st April 2012 or the maximum invoice date as set out in UNC Section S 1.4.4. It is proposed that any future newly discovered issue identified by the AUGÉ is reconciled back to the period to which it relates, irrespective of when the issue was identified by the AUGÉ. Such new issues would only be reconciled back to the Application Date of 1st April 2012, where it can be demonstrated that the issue was prevailing at that time. We believe that the additional incentives require to be put in place to ensure that any new issues that contribute to the level of unidentified gas are recognised and brought to the attention of the AUGÉ at the earliest possible opportunity. For the avoidance of doubt, the application date will roll forward in line with the invoicing rules set in accordance with UNC i.e. Section S 1.4.4 and any previously agreed methodologies will be outside of the scope of this proposal, whereas new metering errors are not.

This principle is demonstrated below:



This proposal will allow new issues, such as Transporter notified metering errors, to be allocated to both the LSP and SSP sector, where the unidentified gas has involved both market segments. It also represents a rebasing of the risk to ensure that the LSP and SSP markets face the same risks of unidentified gas.

This proposal would apply to both credit and debits. If the proposal were not accepted, then it would remain that the SSP market is cross-subsidising the LSP market, if issues go beyond a one year period. Therefore, potentially significant amounts of energy will continue to be allocated to the incorrect sector. This is not an effect that was contemplated within modifications 229 and 317/A, which look to ensure energy costs are appropriately and correctly assigned to the relevant market sector.

## 4 Relevant Objectives

Implementation could better facilitate the achievement of **Relevant Objective d.**

Workgroup's view of the benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	No
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.	No
c) Efficient discharge of the licensee's obligations.	No
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.	Yes
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.	No
f) Promotion of efficiency in the implementation and administration of the Code	No

### Standard Special Condition A11.1 (d):

Some parties believe that the apportionment of unidentified gas costs associated with issues over the period in which these costs have been incurred, rather than just prospectively, could result in additional unallocated gas costs being attributed to the appropriate Shippers. Accurate allocations of costs support the development of competitive markets, and hence implementation would be consistent with facilitating the securing of effective competition between Shippers.

Other parties believe 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. The increased risk and uncertainty would be counter to facilitating the securing of effective competition between Shippers, and may be particularly difficult for smaller shippers to manage since they do not have portfolios that provide an effective hedge.

Some parties are concerned that introducing the ability to implement retrospective financial adjustments may incentivise a delay in new issues being brought to the attention of the AUGÉ, thereby creating less accurate cost allocations initially - notwithstanding more accurate final allocations. This would be because parties may build the evidence in support of their case before submitting an issue, thereby

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increasing the chance of acceptance by the AUGS as a new issue and implementation within the AUGS. The short-term reduction in accuracy of cost allocations could be counter to securing effective competition between Shippers. However, having the best possible case built and evidence presented could also be regarded as positive which would benefit cost allocations and hence competition.



## 5 Impacts and Costs

### Consideration of Wider Industry Impacts

Implementation of this modification should have no impact upon wider industry developments.

### Costs

#### Indicative industry costs – User Pays

##### Classification of the Proposal as User Pays or not and justification for classification

The development and implementation of the reconciliation systems and processes for the management of unidentified gas reconciliations will cost Xoserve at least £30k, but probably not more than £80k, to deliver.

The broadness of the range reflects the unknowns associated with the business rules and the data required to be held and when in the Modification 0229 development life cycle Modification 0326 is approved.

Xoserve has appointed the AUGÉ based upon the scope of Modification 229 - Mechanism for the Correct Apportionment of Unidentified Gas. Modification 229 does not have a retrospective invoicing concept.

The contract between Xoserve and the AUGÉ contains a mechanism to request additional services in the event of a change in scope of the Modification 229 service e.g. as a result of a further UNC Modification. Xoserve will await approval of Modification 326V prior to approaching the AUGÉ for a quotation for the services envisaged by the modification.

It is anticipated that there will be additional ongoing operational costs associated with managing reconciliation charges each year. These costs can be considered to be in the range of £0 (no reconciliation charges to be processed) to £20,000 (a complete reconciliation of charges for all periods). Any costs would be incurred in the relevant year and added to the costs to be recovered by the GTs for the provision of ongoing services for unidentified gas.

##### Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

On a User Pays basis as provided for in Modification 0229

##### Proposed charge(s) for application of Users Pays charges to Shippers

On the same charging basis for Modification 0229, as defined in the ACS:

[http://www.gasgovernance.co.uk/sites/default/files/AgencyChargingStatement\\_live%20%20July%202010.pdf](http://www.gasgovernance.co.uk/sites/default/files/AgencyChargingStatement_live%20%20July%202010.pdf)

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Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve

Awaited.

## Impacts

### Impact on Transporters' Systems and Process

Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"><li>Changes will be required to the systems being developed to support implementation of Modification 0229.</li></ul>
Operational Processes	<ul style="list-style-type: none"><li>None identified</li></ul>
User Pays implications	<ul style="list-style-type: none"><li>This is a User Pays Modification.</li></ul>

### Impact on Users

Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"><li>Some Users are likely to face small administrative and operational costs to manage additional invoices from GTs and the contractual requirement to pass these costs through to consumers. This modification will expand the timescales that these additional bills can be applied from.</li><li>Implementation of this modification may also result in the subsequent recovery of these costs through contractual terms with their customers. Additional administration may be introduced in order to manage these processes.</li></ul>
Development, capital and operating costs	<ul style="list-style-type: none"><li>Some Shippers may need to make changes to their systems.</li></ul>
Contractual risks	<ul style="list-style-type: none"><li>None identified</li></ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"><li>None identified</li></ul>

## Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

**0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location:

<http://www.gasgovernance.co.uk/sites/default/files/0565.zip>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>As above</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>As above</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>None identified</li> </ul>
Standards of service	<ul style="list-style-type: none"> <li>None identified</li> </ul>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> <li>None</li> </ul>
UNC Committees	<ul style="list-style-type: none"> <li>None</li> </ul>
General administration	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Code	
Code section	Potential impact
TPD Section E	

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None

Impact on UNC Related Documents and Other Referenced Documents	
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	None
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None

## 6 Implementation

An implementation date of 1 April 2012 is proposed if an Authority decision is received before 20 March 2012.

An implementation date of 1 April 2012 is proposed if an Authority decision is received before 1 April 2012.

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The reasons for these dates are to deliver implementation with effect from 1 April 2012, and are presented in this format to comply with the Modification Rules.

## 7 The Case for Change

None in addition to that identified the above.

## 8 Legal Text

Text provided by National Grid Distribution

### TPD Section E; DAILY QUANTITIES, IMBALANCES AND RECONCILIATION

*Amend paragraph 10.4.4 as set out below:*

10.4.4 For the purposes of the Code:

- (a) the AUG Methodology and AUG Table...and (subject to paragraph 10.5.5 below), shall not be subject to modification...
- (b) ...the Code.

*The amendments here identify the principle that a previously closed out AUG Year can be reopened 'retrospectively' under certain conditions.*

*Add new paragraphs 10.5.5 and 10.5.6 as set out below:*

10.5.5 In circumstances where a new Unidentified Gas Source (which for the avoidance of doubt shall not include any source of unidentified gas which has previously been used by the AUG for the purpose of determining an AUG Methodology) is identified by the AUG in any particular AUG Year (the "Current AUG Year") and leads to a quantity of Unidentified Gas to apply to prior AUG Years in addition to the Current AUG Year, paragraph 10.5.6 shall apply for each applicable prior AUG Year back to and including 1 April 2012 (where relevant and subject to Section S 1.4.4) as set out in paragraph 10.5.6 below.

*This paragraph sets the terms whereby 'new' unidentified gas can be identified an industry allocation of gas expert (the AUG) and that this can be applied 'retrospectively' to previously closed out years (back to 2012 being the first effective year for the Mod 0229 regime). The reference to Section S refers to the relevant reconciliation 'close out' period. This 'overrides' the retrospective applicability of the Mod 0326VV terms such that changes cannot be made in respect of any AUG Year which predates the relevant reconciliation 'backstop' date (being the Code Cut Off Date as defined in TPD E1.3.9 and GT C1)'. Consequently, over time the 2012 date will 'roll forward' given the existing 4-5 year period.*

10.5.6 As soon as reasonably practicable following the adoption of the AUG Table for the Current AUG Year, where applicable in accordance with paragraph 10.5.5 above, a reconciliation and adjustment shall be made, for each User and each Reconciliation Billing Period in each prior AUG Year between:

*This paragraph establishes that previously closed out 'AUG Years' can be reopened.*

- (a) the User Unidentified Gas Amount as determined on the basis of the AUG Table for the Current AUG Year; and
- (b) the User Unidentified Gas Amount as determined on the basis of the revised AUG Table (taking into account the new Unidentified Gas Source) as applicable for each prior AUG Year in which such new Unidentified Gas Source is deemed to apply;

and the net adjustment amount shall be calculated and paid by or to such User (and shall be invoiced and payable in accordance with TPD Section S), without interest in respect of the period prior to the due date of the relevant invoice for such adjustment amount.

*The above paragraphs set out how adjustments are made, applied and invoiced once a new unidentified gas source has been identified.*

## 9 Recommendation



All parties are invited to consider whether they wish to submit views regarding this modification.

The close-out date for responses is 06 January 2012, which should be sent to [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk).

A response template which you may wish to use is at [www.gasgovernance.co.uk/0326](http://www.gasgovernance.co.uk/0326).

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**Consultation Ends**

On 06 January 2012