

Workgroup Report
Clarification of the AUG Year in respect of UNC Modification 0229
Modification Reference Number 0339

Version 1.0

This Workgroup Report is presented for the UNC Modification Panel's consideration. The Distribution Workgroup considers that the Modification is sufficiently developed and should now proceed to the Consultation Phase.

1 The Modification Proposal

Nature and Purpose of this Proposal

Uniform Network Code (UNC) Modification Proposal 0229 'Mechanism for correct apportionment of unidentified gas' was implemented with effect from 10th June 2010.

Included within Proposal 0229 was the business rule: "Changes to the volumes in the Large Supply Point Unidentified Gas allocation table would be announced and could only be implemented for the following year....."). Although no specific date for the first AUG Year was contained within the Proposal, in order to create certainty in terms of the mechanics of the AUG process, the legal text contained a definition of an AUG year as ".....the twelve month period commencing 1 April 2011....."

As a consequence of industry development and review of the Allocation of Unidentified Gas Document (currently entitled 'Guidelines for the appointment of an Allocation of Unidentified Gas Expert'), it is clear that the AUG's determination in the form of an approved AUG Methodology (statement) will not be completed by 1st April 2011. This means that the legal text directed upon by Ofgem and implemented in respect of UNC Modification 0229 is not consistent with the intentions of the Proposal.

As a result, there is a mismatch between the intention of the Proposal and the legal text currently contained within the UNC and, as the parties responsible for the implementation of Proposal 0229, the Transporters would like to ensure absolute clarity exists in terms of the AUG Year to which the first energy reconciliation would apply.

This ambiguity has been noted by numerous UNC parties and prompted British Gas (BGT) to raise UNC Modification Proposal 0313 'Application Date for MOD0229'. This proposal reinforced the application of 1st April 2011 as being the first AUG Year. Under the circumstances stated above, NGD welcomed this proposal as a measure to create absolute clarity as to the date of the first AUG Year and in a note issued to the Uniform Network Code Committee (UNCC) dated 11th August 2011 provided suggested legal text with respect to the UNC Transition Document. This clearly set out the fact that irrespective of when the AUG Methodology became available, energy charge adjustments would be applied from 1st April 2011. BGT withdrew Proposal 0313 on 14th September and provided a note to the industry explaining its reasons for this action.

While we respect BGT's right to withdraw the Proposal, we believe that the additional text which would have been included in the UNC by the implementation

of Proposal 0313 would have provided the additional clarity that we now believe to be imperative for implementation. Since this Proposal has been withdrawn it is now necessary for the Transporters to gain further regulatory and contractual assurance to provide all parties with certainty over the date of the first AUG Year.

As the timeline for the appointment of the AUGGE has developed, it has become clear that there will be no AUG Methodology available on 1st April 2011. Therefore to have an AUG Year commencing on 1st April 2011 would be inconsistent with the intent of Modification 0229. The June 2010 meeting of the UNCC approved implementation of Version 2 of the Allocation of Unidentified Gas Document. This sets out a timetable of events leading to the appointment of an AUGGE and the requirements and responsibilities of the various organisations involved in identifying and agreeing an AUG Methodology. Using a timetable consistent with delivering the relevant 'milestones' set out in the Allocation of Unidentified Gas Document, the Transporters believe that the first AUG Year consistent with the rules specified within Proposal 0229 would be 1st April 2012.

Consequently NGD proposes that the definition of the first AUG Year be defined as this date.

Note: Transporters are financially neutral to the allocation of costs associated with Unidentified Gas between Users operating in the two market sectors. Indeed, it is a condition of our licence that we treat all Users in a non-discriminatory way and this proposal is not intended to confer any advantage on any individual User through its effects on the timing of the reallocation of energy costs. The proposal has been raised to provide Transporters and all Shippers with absolute clarity as to what Transporters are expected to do and by when we are expected to do it.

In addition to the views of the Proposer as set out above, the contents of this Modification Proposal are endorsed by:

Scottish and Southern Gas Networks, Wales & West Utilities and Northern Gas Networks.

Suggested Text

TPD Section E10

10 Allocation of Unidentified Gas ("AUG")

10.1 Interpretation

10.1.1 For the purposes of the Code:

- (a) ...
- (i) "AUG Year" means the twelve month period commencing 1 April 2012 and the twelve month period commencing on each subsequent 1 April; and in relation to an AUG Year a reference to the preceding year is to the twelve month period ending 31 March before the start of the AUG Year.

2 User Pays

a) **Classification of the Proposal as User Pays or not and justification for classification**

No changes to User Pays Services are proposed. Consequently this Modification Proposal is not classified as User Pays.

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

No User Pays charges applicable.

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

No User Pays charges applicable to Shippers.

d) **Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

No charges applicable for inclusion in ACS.

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph (a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): *so far as is consistent with sub-paragraphs (a) to (c) the 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;*

Some Workgroup members believed that the modification ensures the correct allocation of energy from 01 April 2012, thus being a benefit to competition. However, some members believed that this was the purpose of the 0229 Proposal and this modification was to confirm some technicalities and clarity of the AUG year.

Some Shippers believed that the legal text currently in the UNC meant that cost allocation would occur from 01 April 2011, the effect of this modification would be to extend the period for which we have incorrect allocation of costs, damaging competition to the extent that the interim payment considered in code (0317) is insufficient.

Standard Special Condition A11.1 (e): *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) are satisfied as respects the availability of gas to their domestic customers;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): *so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.*

This modification removes ambiguity from the UNC and clarifies the date the AUG statement applies – the first AUG year will be applied from 01 April 2012.

4 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

5 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) implications for operation of the System:

There are no implications for operation of the System.

b) development and capital cost and operating cost implications:

Some additional administrative costs could be incurred undertaking an associated reconciliation between the annual charge identified 0317 and the AUG statement.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Not applicable.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No consequences have been identified.

6 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence is anticipated.

7 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

There are no development implications for the Transporters' UK-Link system or any other Transporter system. The Proposer is not aware of the implications for Users computer systems.

8 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

No implications have been identified.

Development and capital cost and operating cost implications

No implications have been identified.

Consequence for the level of contractual risk of Users

Some Workgroup members believed that the timing of the application of the first AUG Year could have an impact on a Users contractual risk in terms of the extent of their liability for Unidentified Gas costs so incurred. If the AUGE does not produce a statement in time for 01 April 2012, costs would still be reconciled back to the 01 April 2012.

Should the AUG statement be provided and accepted by 01 April 2012 there would be no requirement to prospectively apply the terms of UNC0317, for that AUG Year. However, should the AUGS be delayed beyond 2012 there would be a consequential impact associated with UNC0317 i.e. £2.75m would not be netted off against the AUG Statement.

9 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No implications have been identified.

10 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Ensures that the date for the first application of the reallocation of Unidentified Gas is clearly set out within the UNC.

Disadvantages

- Should the AUGS be delayed beyond 2012, some Workgroup members consider this Modification will not deliver the intent of Mod0229 and its interaction with Mod0317 ie the potential duplication of charges resulting from the AUGS and Mod0317.

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workstream Report)

No written representations have been received.

13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirement has been identified.

15 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works would be required as a consequence of implementing the

Modification Proposal.

16 Proposed implementation timetable (including timetable for any necessary information systems changes)

It is recommended that this Modification Proposal be implemented immediately upon direction.

17 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Workstream recommendation regarding implementation of this Modification Proposal

The Distribution Workgroup considers that the Modification is sufficiently developed and should now proceed to the Consultation Phase.