

Stage 03: Draft Modification Report

0442 and 0442A:

Amendment to the implementation date of the Allocation of Unidentified Gas Statement (AUGS) for the 2013/14 AUG Year

At what stage is this document in the process?



It is proposed that, for 2013/14 only, the AUGS shall be required to produce a revised final AUG Table and for the values therein to be effective from about two months later.



Responses invited by 22 February 2013.



High Impact:
Certain Consumers and Shipper Users

Contents

1 Summary	3
2 Why Change?	4
3 Solution	5
4 Relevant Objectives	7
5 Implementation	9
6 Legal Text	10
7 Recommendation	12

About this document:

This Draft Modification Report is issued for consultation responses, at the request of the Panel on 04 February 2013. All parties are invited to consider whether they wish to submit views regarding these modifications.

The close-out date for responses is 22 February 2013, which should be sent to enquiries@gasgovernance.co.uk. A response template, which you may wish to use, is at www.gasgovernance.co.uk/0442.

The Panel will consider the responses and agree whether or not either of these modifications should be made.


Contact: Joint Office
 enquiries@gasgovernance.co.uk
 0121 623 2115
Proposer: 0442 Graham Wood
 graham.wood@britishgas.co.uk
 07979 567686
Proposer: 0442A Marie Clark
 marie.clark@scottishpower.com
 0141 568 3284
Systems Provider: Xoserve
 commercial.enquiries@xoserve.com

1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that these are not self-governance modifications.

Why Change?

The Allocation of Unidentified Gas Expert (AUGE) is consulting on a revised methodology. If the AUGE concludes that this is the approach that should be adopted, the existing timetable provides for the revised methodology to be effective from April 2014. The revised methodology may have a material impact on the volume of gas allocated between the LSP and SSP sectors. A UNC change is necessary in order to reduce the delay before the AUGE's recommended approach is implemented.

Solution

0442

It is proposed that following the completion of the consultation of the 2nd Draft 2012 AUGS, as referred to in GL Noble Denton's letter of 8 January 2012, that:

- a) The AUGE shall propose a final AUG Methodology based upon the output of the aforementioned consultation and submit a final AUG Table to the Committee, both for approval, adoption and publication by 1 April 2013.
- b) Should the Committee adopt the final AUG Table submitted by the AUGE under a), the Committee shall publish the adopted AUG Table by 1 April 2013.
- c) The final AUG Table adopted within b) shall be implemented by 1 June 2013.
- d) This final AUG Table shall replace the AUG Table implemented on 1 April 2013 and continue in force until 31st March 2014.

0442A

As detailed in Section 3 "Solution"

Relevant Objectives

Workgroup 0442 considers that the securing of effective competition is impacted by the modifications. Some believe implementation would improve cost allocations earlier than otherwise and hence would facilitate this objective since accurate cost allocations support the securing of effective competition.

Some believe overwriting the process and timetable that has been established for the allocation of unidentified gas process would create uncertainty in the market, and hence be detrimental to the securing of effective competition since reducing risk and uncertainty supports the securing of effective competition.

Some believe that overwriting the established processes and requiring the AUGE to work to an amended timetable at short notice would be counter to the promotion of efficiency in the implementation and administration of the Code. However, others believe there would be no impact on the AUGE and that it would be inefficient not to use the analysis that has already been undertaken by the AUGE, such that implementation would positively impact this relevant objective.

Implementation

While no implementation timescale is proposed, either modification could be implemented immediately following an Ofgem decision.

2 Why Change?

Under Transportation Principal Document (TPD) Section E10 of the Uniform Network Code, the Allocation of Unidentified Gas Expert (AUGE) is responsible, for each AUG Year, for preparing an AUG Methodology and an AUG Table. The AUG Year is defined within the UNC as the twelve month period commencing 01 April each year.

Within the Allocation of Unidentified Gas Document ('Guidelines for the Appointment of an Allocation of Unidentified Gas Expert and the provision of the Allocation of Unidentified Gas Statement', the Guidelines) paragraph 7.1.6, the AUGE is required to publish the proposed Allocation of Unidentified Gas Statement (AUGS), for the next AUG Year, by 01 August. Once approved the AUGE is required to produce indicative Unidentified Gas volumes for inclusion in the AUG Table by 01 October and to provide final Unidentified Gas volumes by 01 January.

In this, the second AUGE Year, the AUGE has been investigating a different methodology to that used for AUG Year 2012/13 – the "consumption based" methodology. The work undertaken by the AUGE to investigate this methodology is ongoing and was not completed within the timescales detailed in the Guidelines and the UNC. The AUGE has not proposed that the consumption based methodology be adopted for AUG Year 2013/14. The earliest opportunity for implementation under the existing UNC provisions is therefore April 2014.

The AUGE has continued work to consider the consumption based methodology and expects to be in a position to decide whether or not to recommend moving to the consumption based methodology shortly, well ahead of the timetable for introducing a changed methodology in AUGE Year 2014/15. Modifications 0442 and 0442A have been proposed in order to reduce the delay prior to the introduction of any proposed change, thereby ensuring that cost allocations are moved to the recommended basis at two months notice rather than in April 2014.

3 Solution

0442

It is proposed that following the completion of the consultation of the 2nd Draft 2012 AUGS, as referred to in GL Noble Denton's letter of 8 January 2012, that:

- a) The AUGE shall propose a final AUG Methodology based upon the output of the aforementioned consultation and submit a final AUG Table to the Committee, both for approval, adoption and publication by 1 April 2013.
- b) Should the Committee adopt the final AUG Table submitted by the AUGE under a), the Committee shall publish the adopted AUG Table by 1 April 2013.
- c) The final AUG Table adopted within b) shall be implemented by 1 June 2013.
- d) This final AUG Table shall replace the AUG Table implemented on 1 April 2013 and continue in force until 31st March 2014.

0442A

Solution – Mod 442A

TPD Section E10.4 is dis-applied and replaced with the rules as set out below which are to be undertaken to approve and adopt an AUG Methodology and AUG Table, following conclusion of the consultation of the 2nd Draft 2012 AUGS as referred to in GL Noble Denton's letter dated 8th January 2013.

The rules referred to above are detailed below:

1. The AUG Expert shall prepare a draft AUG Methodology.
2. Following conclusion of the consultation referred to in GL Noble Denton's letter of 8th January 2013, the AUG Expert will prepare and publish a proposed AUG Methodology by 12th March 2013.
3. UNC Code Parties may provide responses to the UNCC on the proposed AUG Methodology by the 9th April 2013. The Transporters will publish all responses received. The AUG Expert may prepare a revised AUG Methodology subject to the outcome of the consultation.
4. A meeting of the UNCC will be organised by the Joint Office with the AUG Expert to consider the proposed AUG Methodology by 1st May 2013.
5. At the meeting the UNCC shall approve and publish the proposed AUG Methodology unless they unanimously agree changes to any part of the document. Any changes directed by the Committee will be implemented by the AUGE immediately.
6. The AUGE shall implement the AUG Methodology and shall be required to prepare a proposed AUG Table by 2nd May 2013 based on the AUG Methodology adopted by the UNCC.
7. UNC Code Parties may provide responses to the UNCC on the proposed AUG Table no later than 5 Business Days prior to the next UNCC meeting. Transporters will publish all responses received.
8. Subject to the responses received the AUG Expert shall prepare a final AUG Table.
9. A meeting of the UNCC's will be organised with the AUGE for consideration of the final AUG Table by 1 June 2013.
10. The Committee shall adopt the final AUG Table unless by unanimous resolution the Committee determines that the AUG Table is not an accurate reflection of the AUG Methodology and revises the submitted AUG Table accordingly to reflect the AUG Methodology before adopting this revised final AUG Table.
11. Subject to the UNCC's decision, the UNCC shall publish the AUG Table or the revised AUG Table on 1st June 2013
12. It is proposed that the values in this final AUG Table will be implemented two calendar months after 1st June and will remain in place until the end of the AUG Year i.e. 31 March 2014.
13. Where the AUG Expert fails to meet the timescale for the preparation and adoption of the final AUG Table on 1st June, the AUG Expert shall use best endeavours to complete the outstanding requirements at the earliest opportunity.
14. Where the final AUG Table is adopted on any calendar day other than the 1st of the month, then it shall be deemed to be completed on the 1st calendar day

of the following month and the final AUG Table will be implemented two calendar months thereafter.
15. For the avoidance of doubt UNC Section E 10.4 and AUGE Guidelines will apply as necessary to allow for the adoption of the 2014/15 AUG Table.

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
Changes to Xoserve's system for calculating AUG costs are expected to be necessary to implement either modification, and hence the modifications would fall within the definition of User Pays and be classified as such.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
Shippers would be users of the service and bear 100% of the cost because there is no benefit for Transporters.
Proposed charge(s) for application of User Pays charges to Shippers.
It is proposed that the costs associated with implementation should be added to other AUGE costs and be billed as part of that sum, as already provided for in the Agency Charging Statement.
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
Xoserve's estimated implementation cost is in the low category, and would be expected to be under £50k.

4 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.	Impacted
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.	Impacted
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

The Workgroup recognised that the intent of both the original (0442) and alternative (0442A) modification is to bring forward the date at which any revision to the AUG Methodology becomes effective. This is achieved by the AUG being required to produce a final AUG Table by 1 April 2013 in the case of Modification 0442, with the values in that table becoming effective from 1 June. Modification 0442A adds two months to this timetable, allowing for additional industry consultation and requiring the AUG to produce a final AUG Table by 1 June 2013 which would be effective from 1 August. In addition, Modification 0442A provides that if a final AUG Table is provided later than 1 June 2013, the values would become effective a minimum of two months subsequent to this such that, unlike Modification 0442, the Alternative cannot be "timed-out" in AUG year 2013/14.

Views at the Workgroup were diametrically opposed regarding whether or not implementation would be expected to facilitate achievement of the relevant objectives. Those in favour of implementation argued that the AUG has identified a superior methodology, and is consulting on the basis that this methodology should be used. Since this is the AUG's best view of the appropriate allocation of costs, and since the envisaged change is likely to lead to a material change in cost allocations (potentially of the order of £50m, based on a verbal indication given by the AUG to the UNCC that an additional 1.5 to 2.5Twh may be allocated to the LSP sector), it was argued that delaying implementation would unnecessarily ossify inappropriate cost allocations. This would therefore continue a cross subsidy between the LSP and SSP sectors, which, having been identified, should be corrected. Accurate cost allocations underpin effective competition and hence implementation would facilitate the achieving of effective competition by ensuring that costs are allocated to the responsible party earlier than would otherwise be the case. Provided a direction to implement is received prior to April 2013, and the AUG provides a final AUG Table by 1 April, this benefit would be greater under Modification 0442 than 0442A since 0442 provides for an earlier change in cost allocations. If a direction to implement were

received after 1 April 2013, or if the AUGE were to provide the same final AUG Table after 1 April 2013, Modification 0442A would provide a greater benefit since a change to cost allocations would still be introduced earlier than otherwise - Modification 0442 would be timed out and have no effect if no decision or AUG Table were received by 1 April.

Those in favour of implementation also argued that implementation of either modification would facilitate efficient administration and implementation of the UNC since it would be inefficient to delay the introduction of a methodology change that the AUGE recommends, and for which the AUGE has published a timetable that indicates completion of its process can be accommodated within the suggested timeframes and with no implications for the AUGE's ability to produce a considered, independent, recommendation.

Those opposed to implementation argued that there is an established process that supports the AUGE in reaching independent conclusions on appropriate allocations each year, including consultation, industry input and clear notice periods. This provides parties with expectations about the process that will be followed; confidence that the AUGE will have an opportunity to hear and consider feedback before reaching conclusions; and notice of allocations that can then be reflected in the terms offered to customers. They suggest that the importance of the confidence this provides is explicitly recognised in the UNC, which provides that "the AUG Methodology and AUG Table established for an AUG Year for the purposes of paragraph 10.4.1 shall be those adopted by the UNCC under paragraph 10.4.3, and shall not be subject to modification in relation to such AUG Year".

By overwriting the established process, those opposed to implementation argue that the modifications would undermine the AUGE process and the independence of the AUGE (as a result their decisions being challenged through the modification process rather than through the agreed process), and thereby generate risk and uncertainty in the market. Increasing risk and uncertainty is detrimental to the development of effective competition, and hence implementation would negatively impact the relevant objective the securing of effective competition. In addition, overwriting established processes and notice periods would be inconsistent with the efficient administration and implementation of the UNC. Those opposed also argued that Modification 0442 was particularly detrimental to the relevant objective of promoting efficiency in the implementation and administration of the UNC since it has the potential to be timed out, and hence creates pressure for the modification process to be compressed, imposing costs on UNC parties and creating the risk of an inefficient and incomplete assessment process, as well as putting undue pressure on the AUGE to meet the revised timeline.

5 Implementation

Either modification could be implemented immediately following an Ofgem decision.

While no timescale for implementation is proposed, it is recognised that Modification 0442 would be timed out and so ineffective if not implemented prior to the earliest date identified for actions to be completed – 20 March 2013.

6 Legal Text

Text

The Workgroup reviewed the following legal text. While satisfied with the text for 0442A, the Workgroup noted that the dates in the text for 0442 do not match those in the proposed solution. British Gas indicated that they intend to amend the modification to match the text.

0442 Legal text provided by SGN:

**UNIFORM NETWORK CODE - TRANSITION DOCUMENT
PART IIC – TRANSITIONAL RULES**

Transition Document TPD Section E10

Instruction - Please insert as paragraphs 4,5 and 6 in the TDIIC – Transition Rules document under the existing heading of Transition Document TPD Section E10

Legal Text

4. TPD Section E10.4 are dis-applied and replaced with the rules as set out below which are to be undertaken to approve and adopt an AUG Methodology and AUG Table, following conclusion of the consultation of the 2nd Draft 2012 AUGS as referred to in GL Noble Denton's letter dated 8 January 2013.
5. The rules referred to in paragraph 4 are as follows:
 - a. The AUGE will prepare an AUG methodology following the conclusion of the consultation referred to in paragraph 4, and the AUGE will propose a final AUG Methodology by 20 March 2013.
 - b. A meeting of the Committee will be organised with the AUGE for the approval of the final AUG Methodology on 21 March 2013.
 - c. The Committee shall approve adopt and publish the final AUG Methodology, in the form presented by the AUGE in paragraph 5(a), unless they unanimously agree changes to any part of the AUG Methodology. Any changes directed by the Committee will be implemented by the AUGE immediately.
 - d. Subject to the Committee's decision in paragraph 5(c), the AUGE shall implement the AUG Methodology and submit a final AUG Table based upon the adopted AUG Methodology under paragraph 5(c) to the Committee by 25 March 2013.
 - e. A meeting of the Committee will be organised for the adoption of the final AUG Table submitted by the AUGE in paragraph 5(d) by 27 March 2013.
 - f. The Committee shall adopt the final AUG Table referred to in paragraph 5(d), unless by unanimous resolution the Committee determines that the AUG Table is not an accurate reflection of the AUG Methodology and revises the submitted AUG Table accordingly to reflect the AUG Methodology before adopting this revised AUG Table.
 - g. Subject to the Committee's decision in paragraph 5(f) the Committee shall publish the AUG Table or the revised AUG Table as adopted under paragraph 5(f) by 1 April 2013.
 - h. The AUG Table published under paragraph 5(g) shall be implemented on 1 June 2013 and continue to apply until the commencement of the following AUG Year.
6. For the avoidance of doubt UNC Section E 10.4 will apply as necessary to allow for the adoption of the 2014/15 AUG Table and all subsequent AUG Tables.

**UNIFORM NETWORK CODE - TRANSITION DOCUMENT
PART IIC – TRANSITIONAL RULES**

Transition Document TPD Section E10

Instruction - Please insert as paragraphs 4,5 and 6 in the TDIIC – Transition Rules document under the existing heading of Transition Document TPD Section E10

Legal Text

4. TPD Section E10.4 are dis-applied and replaced with the rules as set out below which are to be undertaken to approve and adopt an AUG Methodology and AUG Table, following conclusion of the consultation of the 2nd Draft 2012 AUGS as referred to in GL Noble Denton's letter dated 8 January 2013.
5. The rules referred to in paragraph 4 are as follows:
 - (a) The AUGE will prepare a draft AUG methodology following the conclusion of the consultation referred to in paragraph 4, the AUGE will prepare and publish a proposed AUG Methodology by 12 March 2013.
 - (b) UNC Code Parties may provide responses to the Committee on the proposed AUG Methodology by the 9 April 2013 and the Transporters will publish all responses received.
 - (c) Subject to the consultation under paragraph 5(a) the AUGE may prepare a revised Methodology.
 - (d) A meeting of the Committee will be organised with the AUGE to consider the proposed AUG Methodology by 1 May 2013.
 - (e) The Committee shall approve and publish the proposed AUG Methodology under paragraph 5(d) unless they unanimously agree changes to any part of the document. Any changes directed by the Committee will be implemented by the AUGE immediately.
 - (f) Subject to the Committee's decision in paragraph 5(e), the AUGE shall implement the AUG Methodology and submit a proposed AUG Table based upon the adopted AUG Methodology to the Committee by 2 May 2013.
 - (g) UNC Code Parties may provide responses to the Committee on the proposed AUG Table under paragraph 5(f) by no later than 5 Business Days prior to the next Committee meeting. The Transporters will publish all responses received.
 - (h) Subject to the responses received under paragraph 5(g) the AUGE shall prepare a final AUG Table.
 - (i) A meeting of the Committee will be organised with the AUGE for the consideration of the final AUG Table by 1 June 2013.
 - (j) The Committee shall adopt the final AUG Table referred to in paragraph 5(i), unless by unanimous resolution the Committee determines that the table is not an accurate reflection of the AUG Methodology and revises the submitted AUG Table accordingly to reflect the AUG Methodology before adopting this revised final AUG Table.
 - (k) Subject to the Committee's decision in paragraph 5(j) the Committee shall publish the final AUG Table or the revised final AUG Table on 1 June 2013.
 - (l) Where the AUGE fails to meet the timescales set out in paragraph 5(i), then the AUGE shall use best endeavours to complete the outstanding requirements provided in this paragraph 5 at the earliest opportunity.
 - (m) Where paragraph 5(k) is completed on any calendar day other than the first day of a calendar month, then it shall be deemed to be completed on the first calendar day of the following month.
 - (n) The AUG Table shall be implemented two calendar months after 1 June 2013 or such other date as provided for under paragraph 5(m) and continue to apply until the commencement of the following AUG Year.
6. For the avoidance of doubt UNC Section E 10.4 will apply as necessary to allow for the adoption of the 2014/15 AUG Table and all subsequent AUG Tables.

7 Recommendation

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