

## Stage 04: Final 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.



Panel did not recommend implementation of either Modification 0442 or Modification 0442A



High Impact:  
Certain Consumers and Shipper Users

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## About this document:

This Final Modification Report will be presented to the Panel on 28 February 2013.

The Authority will consider the Panel's recommendation and decide whether or not either of these changes should be made.


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# 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

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 8 January 2013.

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 will prepare an AUG methodology following the conclusion of the consultation, 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, 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, the AUGE shall implement the AUG Methodology and submit a final AUG Table based upon the adopted AUG Methodology 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, by 27 March 2013.
- f) 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 AUG Table.
- g) Subject to the Committee's decision the Committee shall publish the AUG Table or the revised AUG Table by 1 April 2013.
- h) The AUG Table published shall be implemented on 1 June 2013 and continue to apply until the commencement of the following AUG Year.

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.

### 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

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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

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 8 January 2013.

The rules referred to in paragraph 4 are as follows:

- a) The AUGE will prepare an AUG methodology following the conclusion of the consultation, 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, 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, the AUGE shall implement the AUG Methodology and submit a final AUG Table based upon the adopted AUG Methodology 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, by 27 March 2013.
- f) 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 AUG Table.
- g) Subject to the Committee's decision the Committee shall publish the AUG Table or the revised AUG Table by 1 April 2013.
- h) The AUG Table published shall be implemented on 1 June 2013 and continue to apply until the commencement of the following AUG Year.

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.

### 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.

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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 AUG Expert 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 AUG Expert 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. This small change is estimated to cost less than £50k.

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 AUG Expert 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 <b>Relevant Objectives:</b>	
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 AUGE 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 AUGE 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 AUGE has identified a superior methodology, and is consulting on the basis that this methodology should be used. Since this is the AUGE'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 AUGE 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 AUGE 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.

In its consultation response, British Gas considers that the aims and objectives of Modification 0442 and 0442A promote effective and efficient competition between relevant shippers and suppliers, and allow for an ongoing equitable distribution of Unidentified Gas charges between market sectors. Implementation of either 0442 or 0442A will prevent all consumers that are connected to Smaller Supply Points (approximately 21.4m supply points – 20.9m of which are domestic consumers) from being exposed to another full year of inaccurately apportioned Unidentified Gas costs.

British Gas considers that should either Modification 0442 or 0442A not be approved and the 'rolled over' figures from the 2012/13 AUG Year remain in place until 1 April 2014, then a significant cross subsidy, across the SSP and LSP sectors will knowingly continue to be in place. This would be to the detriment of securing effective competition within the market and result in SSP consumers (whom are predominantly

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domestic consumers, including a significant proportion which are classified as fuel poor) picking up significant charges, which should be allocated elsewhere.

Both DONG Energy and Gazprom considers Modifications 0442 and 0442A would negatively impact relevant object (d) Securing of effective competition; by undermining the AUGE's decisions made through an established AUGE process, which would be challenged through the modification process. As a result this would generate risk and uncertainty in the market and have a damaging effect on effective competition.

DONG Energy, Gazprom and GDF Suez are concerned that changing the established AUGE processes and timelines would not give adequate notice periods to implement such changes, adversely impacting relevant objective (f) Promotion of efficiency in the implementation and administration of the Code.

GDF Suez considers both modifications would be detrimental to competition given the likely disproportionate benefit to domestic suppliers. This may either result in a windfall benefit or may be used to cross subsidise activity in the non-domestic sector to the detriment of non-domestic only suppliers.

RWE npower considers that the correct, accurate and appropriate cost allocation between industry parties secures effective competition. The cross subsidy that appears to be in place where domestic customers support I&C customers would continue under the current methodology and is contrary to effective competition. RWE npower also consider it is inefficient to delay the implementation of a superior methodology produced by an independent party and therefore the intention of these modifications promotes efficiency in the code.

ScottishPower considers that if either of these modifications are implemented they will facilitate the introduction of the consumption based AUG Methodology, which the AUGE believes is an improvement over the 2011 Methodology. This will allow for greater accuracy of the estimation of Unidentified Gas and allocation to the correct market sector and should provide improved stability of the estimates going forward. This is in line with what the AUGE believed the consumption methodology would deliver. In addition, implementation of these modifications would prevent consumers connected to SSPs from being further exposed to another year of inappropriate Unidentified Gas costs. ScottishPower feels that in these tough economic times, it is essential that any known and demonstrated cross subsidy from the mainly domestic SSP market to the mainly LSP non-domestic market is addressed at the earliest opportunity.

Statoil is concerned that implementation of either of these modifications would undermine the independence and authority of the AUGE. This would create risk and uncertainty in the market, which would have a detrimental impact on the development of effective competition.

Statoil considers allowing a change to the established AUGE processes and timelines via a UNC modification creates uncertainty in the regime and would result in compressed timescales and an inefficient and incomplete assessment process. This would put undue pressure on the AUGE and also allow insufficient time for notification of any changes to consumers, all adversely impacting efficiency in the implementation and administration of the UNC.

Total considers these modifications would adversely impact competition between shippers and suppliers as they would create pricing uncertainty in the LSP sector. It would also disadvantage Suppliers without very large domestic portfolios with potential for cross subsidisation between market sectors.

## 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.

British Gas agrees with the proposed minimum two month lead time, between the date that the final AUG Table is published and the date from which the published final AUG Table will be implemented and become effective. This lead time aligns with previous iterations of the AUG process where for the 2013/14 AUG Year a final AUG Table was published on 1 February 2013, for implementation on 1 April 2014 and for the 2012/13 AUG Year where clarification of the final AUG Table to be used was published on 13 March 2012.

Gazprom considers that it is important to note that the AUG currently is in the process of consulting on the methodology and data and that initial independent analysis has already raised concerns over the robustness of the proposed approach. This may impact on the ability of the AUG to provide an alternative AUGS.

## 6 Legal Text

### 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.

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**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.

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## 7 Consultation Responses

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?		Stated Preference
	0442	0442A	
British Gas	Support	Support	0442
Corona Energy	Not in Support	Not in Support	-
DONG Energy	Not in Support	Not in Support	-
EDF Energy	Support	Support	0442
Gazprom	Not in Support	Not in Support	-
GDF Suez	Not in Support	Not in Support	-
National Grid Transmission	Support	Support	-
RWE npower	Support	Support	0442A
ScottishPower	Support	Support	0442
SSE	Support	Support	0442
Statoil	Not in Support	Not in Support	-
Total	Not in Support	Not in Support	-

### 0442

Of the 12 representations received 6 supported implementation and 6 were not in support.

### 0442A

Of the 12 representations received 6 supported implementation and 6 were not in support.

Of the 12 representations received 4 expressed a preference for **0442**.

Of the 12 representations received 1 expressed a preference for **0442A**.

## Summary Comments

British Gas is concerned that during the development phase of the Modifications 0442 and 0442A, discussions have touched upon the need to preserve arrangements, which are currently set out in the UNC. Since its inception, the UNC has been designed with rigorous governance processes to ensure that only modifications, which are considered to better facilitate the relevant objectives, are made. British Gas notes that no arrangements established by the UNC have ever been made to be ring-fenced from change. All arrangements established under the UNC are open to modification providing, on balance, the relevant objectives are better facilitated. Evolution of UNC arrangements is therefore entirely appropriate in the light of new information, evidence and experience and change of this nature is a necessary feature of the GB gas shipping and supply business which all UNC signatories have signed up to and are expected to structure their business around.

British Gas notes that as a major supplier within the LSP market sector, British Gas does not share the same concerns as some other code parties that costs cannot be passed through to consumers. It is their view that suppliers generally retain the right

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to 're-open' contracts so that they can take account of new regulatory or industry charges such as those associated with the allocation of Unidentified Gas.

Corona Energy notes that as a smaller company they are far less able to mitigate the uncertainty that would be introduced by these modifications or to adjust to the mid-year changes proposed by them. Any uncertainty over AUG costs, or mid-year fluctuation in those costs, will have a more significant impact on Suppliers that do not have access to a large domestic portfolio that can absorb those costs.

Corona Energy is concerned that the UNC is a contract between Transporters and Shippers. In any contract, certainty of terms is critical. While the parties to the contract accept that the UNC change process will alter the terms, it is expected that critical clauses relating to key cost sensitive processes will not be altered at short notice or retrospectively in unpredictable ways.

Corona Energy notes that Shippers have collectively pushed in recent years to reduce the variability and volatility of non-gas costs across the industry. It was with this in mind that Ofgem made its recent decisions on volatility, which introduced increased information requirements and a time lag in how certain costs feed into transportation charges. Both of these modifications, by proposing mid-year changes to unallocated gas costs will have the contrary impact. They increase uncertainty by creating the possibility of an as yet unknown mid-year change in unallocated gas costs.

DONG Energy, Statoil and Total are concerned that the implementation of Modifications 0442 and 0442A would undermine the legitimate expectation of Code Parties that the defined processes outlined in UNC TPD section E and the AUGÉ Guidelines would be followed as anticipated. This would further undermine the trust and confidence that Code Parties place in the governance framework, which must at all cost, preserve its stability and reliability to enable business certainty.

EDF Energy would prefer that Modification 0442 were implemented as they feel that this gives adequate time for any questions around the methodology to be resolved and they consider the methodology laid out by the AUGÉ is proven to be more robust than the methodology used in previous years.

Gazprom considers it is important to recognise that the consultation on the new methodology and data which would be applied is still ongoing and that initial analysis raises a number of issues relating to both the methodology itself and the quality of data underpinning the methodology.

Gazprom notes that should either modification be implemented they would have to take into account the potential transfer of cost to customers at short notice and outside the window customers expect in accordance with the agreed process.

GDF Suez is concerned that the overall cost to consumers will be increased as a result of a within year intervention and there could be a significant windfall benefit to domestic gas suppliers. It is difficult to ascertain how any potential savings (based on a projected reduced attribution to SSPs) will be passed through to domestic customers given that the magnitude of cost re-distribution will be small on an individual basis; around £1.50 per gas meter and £0.75 per dual fuel account. It is uneconomic to make tariff changes of such a small magnitude. At the same time it is likely that the effect of changes to the allocation for the non-domestic segment will be felt immediately, particularly where such charges are levied on a pass-through basis. Hence consumers overall will be disadvantaged.

RWE npower is concerned that a lack of flexibility within the governance process, which in turn results in an inaccurate methodology being implemented is not good governance. It seems perverse to appoint an independent body to produce this methodology and ignore calculation improvements due to a date issue.

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RWE npower is concerned that any costs that are incorrectly allocated to and picked up by the SSP sector will negatively impact SSP suppliers' costs to serve and will therefore contribute to the future level of pricing for such customers. This is clearly inequitable given that the AUGE has established that some of these costs are in fact attributable to the LSP sector.

ScottishPower notes that the AUGE publicly described the consumption based Methodology which is currently out for consultation with the Industry thus "The AUGE believes the proposed methodology provides an improvement over the 2011 methodology for the previous year in terms of the accuracy of the estimation of Unidentified Gas and allocation to market sectors, and provides improved stability of the estimates going forward". The Industry has been fully engaged with the AUGE and understand the AUGE rationale for preparing a consumption based AUG Methodology. At an early stage, it was communicated by the AUGE that the consumption based Methodology would produce a more accurate calculation of unidentified gas and contribution to each market sector.

Both ScottishPower and SSE feel the AUG Methodology should be considered on its merit of appropriateness and suitability in calculating the level and contributory factors of unidentified gas. They therefore feel that it is entirely unacceptable that the adoption and implementation is delayed for a further year due to a minor technicality and a 10 day delay in publication.

SSE would prefer Modification 0442 to be implemented as they feel that there is sufficient time for its implementation and it would give a fairer reallocation of unidentified gas at the earliest opportunity. The analysis has shown, and it has been stated by the AUGE, that the consumption based method is a more accurate method than the previous RbD method, and it has been stated by the AUGE that it will be the method that will be used for next year's AUGS.

SSE notes that it could not have been anticipated during the development of the AUG process that there would be fundamental differences in methodologies used by the AUGE from one year to the next that were so very time critical in their development, and that any rollover of figures would have resulted in potentially such large differences in reallocation amounts. However, there is sufficient time for the implementation of either modification and for any system changes, which are minor, to be made.

Statoil is concerned that the compressed timescales for the proposed changes, particularly in Modification 0442, do not allow time for a full and proper consultation or for I&C suppliers in particular to accurately reflect the amended cost allocations in the terms and conditions supplied to their customers.

## **Additional Issues Identified in Responses**

Following review of the latest draft version of the consumption based AUG Methodology, British Gas considers it is evident that the consumption based AUG Methodology represents a major step forward towards the achievement of a more ongoing equitable distribution of Unidentified Gas charges between market sectors.

British Gas notes that the AUGE has recommended that the consumption based method of estimating Unidentified Gas is utilised moving forward. In doing so the AUGE makes reference to the fact that this method of calculating Unidentified Gas is a more simple and intuitive concept.

British Gas notes that the AUGE has also confirmed that the consumption based methodology is statistically more accurate when directly compared with the RbD bias methodology. The consumption based methodology utilises a larger data sample, which statistically increases accuracy.

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Corona Energy notes that the Allocation of Unidentified Gas Document at para 9.5 clearly prescribes a course of action should the AUGE not produce volumes: "If, for whatever reason, the AUGS does not produce volumes, The UNCC will meet as soon as possible and to either decide by unanimous vote to apply volumes that The Committee decides as appropriate or to roll over any previous Unidentified Gas volumes from a Previous Year." Clause 9.5 is, therefore, clear that there are two choices for the UNCC in the event that there are no volumes produced in the AUGS: one, apply the volumes that the UNCC decides are appropriate; and two, roll over the previous years' volumes.

It is Corona Energy's view that in this provision there is absolutely no role created for the UNC change processes in such a scenario, nor is there any scope for the UNCC, or any other entity for that matter, to alter the timetable associated with the AUG process or the setting of the AUG figures. Therefore, para 9.5 of the Allocation of Unidentified Gas Document, coupled with the express statement in para 14.4.4 (b) that the AUG Methodology is binding for the purposes of the code, shows that the use of UNC change processes to change the AUG methodology at an advanced stage of the AUG process for the upcoming AUG Year is completely inappropriate.

Corona Energy, DONG Energy and Gazprom consider the AUGE's independence to be of critical importance to the process, and close adherence to its agreed-upon rules and procedures, is critical to achieving its goals of allocating Unidentified Gas, free from industry pressures. Moreover, a clearly defined and respected AUGE process underpins the central aim of the UNC as a contract seeking to provide all parties in the market with the certainty that they require to operate in that market. Ensuring the AUGE maintains its independence and adherence to its procedures is therefore critical to achieving the aim of facilitating effective competition across the market.

Corona Energy notes that the AUG Year is clearly defined in UNC TPD section E 10.1.1 (i) as the twelve month period from April 1 each year. To allow a mid-year change to the AUGE figures would conflict with and undermine the definition of the "AUG Year" in the UNC. Individual Shippers and participants across the industry set up systems and processes to respond to a change in AUGE figures on April 1 and to then work with that set of figures for the following 12 month period. A large number of processes depend on the AUG Year remaining as per the definition in the UNC. To alter the AUG Year to allow mid-year alterations would therefore have a large number of knock-on ramifications across industry. This could cause a great deal of disruption across Shippers, Suppliers, Transporters and crucially customers.

Gazprom notes that this year the AUGE experienced some significant problems in its attempts relating to its decision to examine updating its methodology used for allocating Unidentified Gas between the SSP and LSP sectors. Throughout the process the AUGE encountered a number of obstacles that have contributed to it failing to create a robust methodology within the established timescales of the AUGE process. The agreed process specifically caters for contingency arrangements in the event that the AUGE is unable to meet the agreed timetable. Because of this, the AUGE decided that instead of using an untested and unproven methodology to allocate material and irreversible Unallocated Gas costs, it would revert to the previously used and proven methodology.

ScottishPower is concerned that a contract relating to such significant sums of energy allocation has been agreed without liabilities included or for the parties who are subject to issues with the process being able to scrutinise the contract itself. If liability clauses had been included, as would normally be the case, it might have resulted in more resources being employed by the contracted parties (Xoserve/GL Noble Denton) to ensure that the methodology was presented to industry as expected.

ScottishPower considers that the constitution and voting rights of the UNC and UNCC require to be reviewed urgently and that no one party or group of parties should be able to apply undue influence over proceedings and decisions.

Total is concerned that there is no supporting data to justify these modifications as the AUGE hasn't produced the output from the new methodology and the industry hasn't had the chance to review this and comment. The AUGE has acknowledged that there

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have been considerable difficulties due to data issues, which have caused the significant delay to the process.

Total considers there is potential under recovery of AUGGE charges and the administrative burden of passing amended charges through where end consumer contracts permit this at a time of year when customers are not expecting it or accounting for it. Any justification or explanation by suppliers would be incomprehensible to end consumers, especially trying to explain why there has been a change in methodology.

## Consumer Feedback

A number of consumer representatives provided their views on the modifications by email rather than as formal representations.

The MEUC was concerned when it was first proposed to re-allocate unidentified gas between different sectors of consumers in the gas industry after a period of more than 10 years using the existing methodology. However, they accepted the appointment of an independent gas expert as a sensible way forward, with the emphasis on INDEPENDENT. They are concerned that shippers are trying to interfere with the process by attempting to control the activity of the expert using the UNC modification process and would urge that the independence of the expert is maintained by ensuring that the expert is allowed to carry out his task without pressure being exerted by others in the industry.

Two consumer representatives expressed concerns that to adopt the proposed changes to the process before April 2014 would possibly prompt inappropriate actions from those that would be taken if the process was adopted after April 2014.

Both agree the detailed approach being taken by the AUGGE to this issue of unallocated gas appears to be robust. In addition, based upon the detailed methodology being agreed, customers do recognise the requirement for reallocation of energy, and therefore funds, from one market sector to another and also recognise that to the winners it being more important to some in the market, however it could be injurious to others.

They conclude that following the existing AUG guidelines timeline should allow the market to account for the changes within the fluctuations in the gas and energy markets over the next few months. This will then allow a measured change and be less adversely impactful to any of the players in the market.

## 8 Panel Discussions

The Panel Chair summarised that the intent of both the original (0442) and alternative (0442A) modification is to require the AUGE to propose an AUG methodology, and to bring forward the date at which any revision to the AUG Methodology becomes effective. This is achieved by the AUGE producing a methodology by 20 March 2013 and a final AUG Table by 1 April in the case of Modification 0442, with the values in that table becoming effective from 1 June 2013. Modification 0442A allows for additional industry consultation, requiring the AUGE to produce a methodology by 12 March 2013, and a final AUG Table by 1 June which would be effective from 1 August. In addition, Modification 0442A provides that if a UNCC meeting to consider a final AUG Table is not held by 1 June 2013, the values would become effective a minimum of two months subsequent to the date on which a final AUG table is adopted.

Panel Members' views 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 AUGE has identified a superior methodology, and is consulting on the basis that this methodology should be used. Since this is the AUGE'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, 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.

Members recognised that, provided a direction to implement is received early in March 2013, and the UNCC approves on 21 March a final methodology provided by the AUGE by 20 March, and the AUGE provides a final AUG Table by 25 March that the UNCC adopts by 27 March, the impact on the relevant objectives would be greater under Modification 0442 than 0442A since 0442 provides for an earlier change in cost allocations. If the AUGE were to provide the same final AUG Table later than this, Modification 0442A could provide a greater benefit since a change to cost allocations could still be introduced earlier than otherwise - Modification 0442 would be timed out and have no effect if no decision or AUG Methodology were received by 20 March 2013.

Members 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.

Members 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".

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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.

Panel Members then voted and, with four votes cast in favour, did not determine to recommend implementation of Modification 0442. With three votes cast in favour, Panel Members did not determine to recommend implementation of Modification 0442A.

Members then voted regarding, if either were to be implemented, which of the two modifications would better facilitate the achievement of the relevant objectives. Four Members voted that Modification 0442 would better facilitate the Relevant Objectives than 0442A, and three Members that Modification 0442A would better facilitate the Relevant Objectives than 0442. Four Members suggested they were unable to distinguish between the modifications in terms of their impact on the Relevant Objectives.

## 9 Recommendation

### Panel Recommendation

Having considered Modification Report 0442/0442A, the Panel:

- Failed to determine to recommend that Modification 0442 should be made;
- Failed to determine to recommend that Modification 0442A should be made; and
- Determined that Modification 0442 better facilitates the Relevant Objectives than Modification 0442A.