

Stage 01: Modification

0442:

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?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This is a modification proposal to give effect to the new consumption based AUG Methodology and associated AUG Table for the 2013/14 formula year with effect from 1st June 2013.



The Proposer recommends that this modification should:

- be issued for consultation



High Impact: Certain Consumers, Shipper Users



Medium Impact:



Low Impact:

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About this document:

This document is a proposal to modify the Uniform Network Code, to be considered at the UNC Panel meeting on 04 February 2013.

Failure to progress this modification in a timely manner would preclude the timely implementation of the AUGE's new consumption based AUG Methodology and subsequent AUG Table. This consumption based AUG Methodology has been recognised by both industry parties and the AUGE as being more robust and statistically more accurate than the previous version. The new consumption based AUG Methodology does not contain the known limitations of the previous Reconciliation by Difference (RbD) bias method.



Any questions?

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1 Summary

Is this a Self-Governance Modification?

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

Why Change?

As per 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 1 April each year and ending on 31 March of the following year.

Within the 'Guidelines for the Appointment of an Allocation of Unidentified Gas Expert and the provision of the Allocation of Unidentified Gas Statement' paragraph 7.1.6, the AUGE is required to publish the proposed Allocation of Unidentified Gas Statement (AUGS), for the next AUG Year, by 1st August, with approval of the final document expected to take place on or around 1st September.

Once approved the AUGE is required to produce the indicative Unidentified Gas volumes for inclusion in the AUG Table by 1st October and to provide final Unidentified Gas volumes by 1st January.

The Guidelines provide for a query process which runs until the last day of February.

The degree and nature of the development and analysis work that has been required to be undertaken by the AUGE this year has meant that the timescales detailed within the Guidelines have not been able to be achieved. The AUGE has provided updates to industry parties during the year and within their letter dated 23rd November 2012¹, proposed a timeline in order to publish a set of final figures by 31st January 2013, as detailed below.

- Publish 2nd draft AUGS: 7th December 2012
- AUGS meeting to present/discuss methodology: w/c 10th or 17th December TBC
- Consultation Period: 7th December 2012 – 11th January 2013
- Responses to AUGS: 17th January 2013
- Approval by UNCC: 24th January 2013 or suitable date around that time
- Publish Final Figures: 31st January 2013

However, on 11th December 2012² the AUGE issued a further communication advising that due to unexpected operational issues they were unable to produce the AUGS during w/c 3rd December 2012. The AUGS was subsequently issued by the AUGE on 17th December 2012.

The delayed release of the AUGS by 10 days does have a slight impact upon the above timetable, however the proposer is of the view that the process could still be undertaken in a timely manner and completed by the end of February 2013 or March 2013 at the very latest.

At a recent UNCC meeting held on 20th December 2012, some Users indicated that they believed that they would not have enough time to review the work of the AUGE and complete the process in order for the new methodology and values to be implemented on 1st April 2013. It should be noted however that other Users (who represent the vast majority of sites registered within both the Smaller Supply Points and Larger Supply Point sectors) are of the opinion that

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¹ http://www.gasgovernance.co.uk/sites/default/files/2012%20AUGS%202013_14%20Progress%20Update%2021112012.pdf

² http://www.gasgovernance.co.uk/sites/default/files/2012%20AUGS%202013_14%20UNCC%20Letter%2011122012.pdf

completion of the process is not only possible but also essential. These Users have expressed a view for urgent conclusion of the process.

The new consumption based AUG Methodology has been developed and communicated by the AUGÉ over the past few months, therefore this methodology has been commonly socialised and is in a position where it is already well understood by all code parties, and which has been confirmed by the AUGÉ as being more robust and statistically more accurate than the current RbD bias AUG Methodology.

Whilst, as per the guidelines it is the responsibility of the AUGÉ to make 'the decision as to the most appropriate methodologies', the AUGÉ presented to the UNCC three way forward options for consideration within their letter dated 11th December.

Following an extensive debate, the UNCC undertook an indicative, non-binding vote which indicated a preference towards an option which proposes to rollover figures from the 2012-13 AUG year, for use during the AUG Year 2013/14. The proposed new consumption based AUG Methodology would therefore subsequently be implemented within the 2013 AUGS for the AUG Year 2014/15 (commencing on 1st April 2014).

The proposer is concerned that this approach could perversely result in the industry not introducing, at the earliest possible opportunity, a knowingly more robust and statistically accurate AUG Methodology which would provide a fairer and more representative split of Unidentified Gas Costs between the SSP and LSP sectors.

At the UNCC meeting on 20th December, the AUGÉ provided an indication of the materiality between the RbD bias AUG Methodology and the new consumption based AUG Methodology. The AUGÉ advised the group that the estimated volume, based on the new analysis, is around 11TWh to 12TWh, with the LSP share expected to be between 2.5TWh to 3.5TWh and using an average SAP of 2 pence per kWh, about £70m might be projected. The previous year's AUG Methodology had produced a figure of £26m within the AUG Table (£20m utilising the same 2 pence per kWh price).

Upon review of the new consumption based AUG Methodology issued on 17th December 2012³, it is evident to the proposer that this AUG Methodology represents a major step forward towards a more robust and accurate allocation of unidentified gas within the industry. The consumption based method of Unidentified Gas calculation has been proven to be statistically more accurate and negates previous concerns regarding the Reconciliation by Difference Bias method. In addition, the sector theft allocation contained within the 2011 AUG Methodology for the 2012/13 AUG Year has since been shown to be highly inaccurate, which has a significant overall effect, and this new consumption based AUG Methodology addresses this issue.

It is evident to the proposer that the 2011 AUGS with included the RbD bias AUG Methodology has been proven to be no longer fit for purpose and when rolled forward and utilised for the 2013/14 AUG Year, will yield an inaccurate output – an outcome which the proposer believes is wholly inappropriate and unacceptable. The effect of knowingly taking this course of action would perpetuate this very long standing cross-subsidy from the mostly domestic SSP sector to the mostly commercial LSP sector. This is specifically the issue that the AUG process was designed to tackle. Given that the industry has seen significant pressures on household incomes and, given the impact of recent energy prices, the proposer believes it prudent that any opportunity to more correctly and equitably allocate costs should be realised at the earliest opportunity.

The first RbD bias AUG Methodology produced by the AUGÉ in 2011, for the AUG Year 2012/13, allocated approximately 1TWh of Unidentified Gas, out of a total of approximately 6TWh, to the Larger Supply Point sector, which in financial terms equated to £26m out of a total of £160m.

This compared to the year 2011/12, which immediately preceded the implementation of the AUGÉ, when the approved Modification Proposal 0317 allocated just £2.75m of Unidentified Gas to the Larger Supply Points.

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³ <http://www.gasgovernance.co.uk/sites/default/files/AUGS%202012%20Version%202.0.pdf>

Prior to this, from the inception of the Uniform Network Code, the Smaller Supply Point sector has by default been erroneously exposed to all costs associated with Unidentified Gas, which over the years has meant that Smaller Supply Point (predominantly domestic) consumers have been exposed to hundreds of millions of pounds of undue cost.

The Allocation of Unidentified Gas process has played a critical role in addressing this historic deficiency and it is the view of the proposer that it would be perverse for the industry not to implement a more robust, statistically more accurate and fairer methodology as soon as possible, and ensure that consumers connected to Smaller Supply Points do not continue to be unfairly disadvantaged, especially given the current challenging economic climate and focus on energy prices.

The proposer is of the view that this proposal will provide more time for Gas Transporters and xoserve to implement the new consumption based AUG Methodology for the 2013/14 AUG Year and introduce the necessary changes in a low cost/low impact manner, enabling the avoidance of what would be a major and avoidable industry cross-subsidy, although even under the current timetable this would be low cost and relatively straightforward.

This proposal would introduce a small delay of two months (when compared to the implementation date of 1st April 2013 for the new consumption based AUG Methodology and associated AUG Table) which was originally envisaged and expected. This will ensure that the AUGE and code parties will have sufficient time to complete the process required to finalise and approve the new consumption based AUG Methodology and associated AUG Table, whilst still being implemented in a timely fashion to ensure that the known misallocation of costs across market sectors is resolved at the earliest opportunity.

Solution

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.

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Relevant Objectives

The proposer is of the view that this proposal meets the following Relevant Objective.

- 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.

The proposer considers that the aims and objectives of this proposal promote effective and efficient competition between parties, and allow for an ongoing equitable distribution of unallocated gas charges between sectors. Further, the proposal will improve transparency and accuracy in the allocation of RbD gas to the contributing sector.

In the view of the Proposer, and for the reasons explained in Section 2 above, implementation of this proposal will prevent consumers connected to Smaller Supply Points from being exposed to another year of inaccurately apportioned Unidentified Gas costs, which given the early indication of Unidentified Gas volume figures by the AUGÉ, could ultimately be as much as an additional £50m (dependant upon the outcome of the final figures published by the AUGÉ).

Should the proposal not be approved, for the AUG Year 2013/14, a significant cross subsidy will prevail across the SSP and LSP sectors, which in addition to having a significant commercial impact upon parties and consumers, will also have an adverse impact on competition on shipping and supply.

Implementation

While no specific implementation timescale is proposed, it is recommend that this proposal be implemented immediately upon direction by Ofgem.

A rapid decision by Ofgem will provide both code parties and the AUGÉ with clarity and certainty over the revised timescales by which the AUG process for the 2013/14 AUG year needs to be completed, to enable a revised AUG Table to take effect from 1st June 2013.

2 Why Change?

As per 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 1 April each year and ending on 31 March of the following year.

Within the 'Guidelines for the Appointment of an Allocation of Unidentified Gas Expert and the provision of the Allocation of Unidentified Gas Statement' paragraph 7.1.6, the AUGE is required to publish the proposed Allocation of Unidentified Gas Statement (AUGS), for the next AUG Year, by 1st August, with approval of the final document expected to take place on or around 1st September.

Once approved the AUGE is required to produce the indicative Unidentified Gas volumes for inclusion in the AUG Table by 1st October and to provide final Unidentified Gas volumes by 1st January.

The Guidelines provide for a query process which runs until the last day of February.

The degree and nature of the development and analysis work that has been required to be undertaken by the AUGE this year has meant that the timescales detailed within the Guidelines have not been able to be achieved. The AUGE has provided updates to industry parties during the year and within their letter dated 23rd November 2012⁴, proposed a timeline in order to publish a set of final figures by 31st January 2013, as detailed below.

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However, on 11th December 2012⁵ the AUGE issued a further communication advising that due to unexpected operational issues they were unable to produce the AUGS during w/c 3rd December 2012. The AUGS was subsequently issued by the AUGE on 17th December 2012.

The delayed release of the AUGS by 10 days does have a slight impact upon the above timetable, however the proposer is of the view that the process could still be undertaken in a timely manner and completed by the end of February 2013 or March 2013 at the very latest.

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Prior to this, from the inception of the Uniform Network Code, the Smaller Supply Point sector has by default been erroneously exposed to all costs associated with Unidentified Gas, which over the years has meant that Smaller Supply Point (predominantly domestic) consumers have been exposed to hundreds of millions of pounds of cost.

The Allocation of Unidentified Gas process has played a critical role in addressing this historic deficiency and it is the view of the proposer that it would be perverse for the industry not to implement a more robust, statistically more accurate and fairer

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methodology as soon as possible, and ensure that consumers connected to Smaller Supply Points do not continue to be unfairly disadvantaged, especially given the current challenging economic climate and focus on energy prices.

The proposer is of the view that this proposal will provide more time for Gas Transporters and xoserve to implement the new consumption based AUG Methodology for the 2013/14 AUG Year and introduce the necessary changes in a low cost/low impact manner, enabling the avoidance of what would be a major and avoidable industry cross-subsidy, although even under the current timetable this would be low cost and relatively straightforward.

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3 Solution

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.
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- 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.

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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 Modification 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 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.

This small change to a non-central system is estimated to cost less than £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.	Positive
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.	None
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 proposer considers that the aims and objectives of this proposal promote effective and efficient competition between parties, and allow for an ongoing equitable distribution of unallocated gas charges between sectors. Further, the proposal will improve transparency and accuracy in the allocation of RbD gas to the contributing sector.

In the view of the Proposer, and for the reasons explained in Section 2 above, implementation of this proposal will prevent consumers connected to Smaller Supply Points from being exposed to another year of inaccurately apportioned Unidentified Gas costs, which given the early indication of Unidentified Gas volume figures by the AUGÉ, could ultimately be as much as an additional £50m (dependant upon the outcome of the final figures published by the AUGÉ).

Should the proposal not be approved, for the AUG Year 2013/14, a significant cross subsidy will exist across the SSP and LSP sectors, which in addition to having a significant commercial impact upon parties and consumers, will also have an adverse impact on competition on shipping and supply.

5 Implementation

While no specific implementation timescale is proposed, it is recommend that this proposal be implemented immediately upon direction by Ofgem.

A rapid decision by Ofgem will provide both code parties and the AUGÉ with clarity and certainty over the revised timescales by which the AUG process for the 2013/14 AUG year needs to be completed, to enable a revised AUG Table to take effect from 1st June 2013.

6 Legal Text

Legal Text to be provided by the Gas Transporter.

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7 Recommendation

The Proposer recommends that this proposal is issued for consultation.

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