









UNC Modification	At what stage is this document in the process?
<h1 data-bbox="134 322 657 414">UNC 0840:</h1> <h2 data-bbox="134 450 1034 591">Equalisation of prepayment and non-prepayment AUG factors</h2>	<div data-bbox="1209 309 1469 629"> <div data-bbox="1209 309 1469 383">01 Modification</div> <div data-bbox="1209 394 1469 468">02 Workgroup Report</div> <div data-bbox="1209 479 1469 553">03 Draft Modification Report</div> <div data-bbox="1209 564 1469 638">04 Final Modification Report</div> </div>
<p data-bbox="129 683 507 719">Purpose of Modification:</p> <p data-bbox="129 736 1452 813">This Urgent Modification proposes to remove the differential treatment of prepayment meters and non-prepayment meters in the allocation of Unidentified Gas.</p> <p data-bbox="129 833 1452 909">This proposal is to amend the process prior to the finalisation of the AUG Table for Gas Year 2023 2024</p>	
<p data-bbox="129 947 306 983">Next Steps:</p> <p data-bbox="129 1001 1396 1077">The Proposer recommends that this Modification should be treated as Urgent and should proceed as such under a timetable agreed with the Authority.</p>	
<p data-bbox="129 1128 399 1164">Impacted Parties:</p> <p data-bbox="129 1182 676 1218">High: Suppliers, Shippers, Consumers</p> <p data-bbox="129 1236 296 1272">Low: CDSP</p> <p data-bbox="129 1290 408 1326">None: Transporters</p>	

Contents		
1	Summary	3
2	Governance	3
3	Why Change?	4
4	Code Specific Matters	5
5	Solution	5
6	Impacts & Other Considerations	6
7	Relevant Objectives	8
8	Implementation	9
9	Legal Text	9
10	Recommendations	9
Timetable		
Modification timetable:		
Date Modification Raised	06 March 2023	
Ofgem Decision on Urgency	07 March 2023	
Draft Modification Report issued for consultation	08 March 2023	
Consultation Close-out for representations	13 March 2023	
Final Modification Report available for Panel	15 March 2023	
Modification Panel decision	16 March 2023	
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1 Summary

What

The current process for deriving Allocation of Unidentified Gas (AUG) weighting factors (referred to in the Uniform Network Code – Framework for the Appointment of an Allocation of Unidentified Gas Expert as “UGS Weighting Factors”) permits different factors to be assigned to prepayment and non-prepayment End User Categories (EUCs). This Modification seeks to mandate that there should be no differentiation in AUG weighting factors for prepayment and non-prepayment EUCs in the same sector and product class.

Why

In an efficient market the costs faced by Consumers should reflect the costs they impose on the system. Shippers and suppliers will pass through the costs of unidentified gas based on expected AUG weighting factors. However, having different factors for prepayment and non-prepayment EUCs in the same sector and product class creates an unnecessary level of risk and unpredictability. This damages effective competition and ultimately leads to higher costs for Consumers.

This Modification will significantly reduce existing consumer detriment for domestic prepayment Consumers. Since the AUG Table was updated to permit different weightings between prepayment and non-prepayment, the weighting factors for domestic prepayment Consumers have been considerably higher than domestic non-prepayment Consumers – from 3 times higher in 2021/22 to 4 times higher in the current year factors and almost 6 times higher in the latest proposed draft factors for gas year 2023/24. We consider that the differential in the weighting factors between domestic Consumers creates an increasing penalty on Consumers with a prepayment meter.

How

It is proposed to remove the differentiation in AUG weighting factors for prepayment and non-prepayment EUCs in the same sector and product class. This would lead to the creation of:

- A single weighting factor for EUC1 Domestic (EUC1ND & EUC1PD) for each product class
- A single weighting factor for EUC2 Domestic (EUC2ND & EUC2PD) for each product class
- A single weighting factor for EUC1 Non-Domestic (EUC1NI & EUC1PI) for each product class
- A single weighting factor for EUC2 Non-Domestic (EUC2NI & EUC2PI) for each product class

For the avoidance of doubt, the change will not lead to any redistribution of UIG across sectors within the AUG Statement. However, it is acknowledged that the resulting factors may lead to a minimal increase or decrease in actual UIG allocation to Shippers depending on relative EUC sizes at an LDZ level and observed levels of UIG.

2 Governance

Justification for Urgency

Ofgem’s guidance for the circumstances under which a Modification Proposal would be considered for Urgent procedures, specifies that it should be linked to an imminent or current issue that if not urgently addressed may cause a significant commercial impact on parties, Consumers or other stakeholders. It is proposed that this Modification follows an Urgent timetable as it relates to an imminent and current issue, that if not urgently addressed will have a significant commercial impact on Consumers.

There are significant concerns about the number of Consumers who are struggling with their energy bills amid the ongoing cost-of-living crisis. For some Consumers prepayment meters are an option that can help them to budget, and help mitigate the risk of going into, or exacerbating existing, debt. The current and proposed differential in the weighting factors between domestic Consumers creates an increasing penalty on Consumers with a prepayment meter compared to those using a non-prepayment meter.

Based on the proposed weighting factors in the latest draft AUG Statement, this issue will become even more pronounced with domestic prepayment Consumers being allocated almost 6 times more UIG than domestic non-prepayment Consumers.

Granting of Urgency will allow the revised equalised factors proposed by this Modification to be discussed in the UNC AUG Sub-Committee meeting and the new factors to be captured in the publication of the final AUG Statement – currently scheduled for 31st March 2023 (if the Modification is approved by the Authority).

The AUG Table will then follow its usual "approval" process at the April UNCC meeting, concluding the AUG process within its usual annual cycle. UNC TPD Section E by Paragraph 9.4.4 makes clear that once the AUG Statement is approved, no further revisions are permitted.

Therefore, this Modification is recommended to follow Urgent Procedures as it is likely to have a material impact on domestic Consumers and if not approved ahead of publication of the AUG Statement, the equalised factors will not be able to take effect until the 2024/25 Gas Year.

Related Modification 0838 was withdrawn due to incompatibilities between the solution text and the legal text. This Modification clearly sets out the process to equalise the allocation factors for the listed pairs of Categories of System Exit Points after the existing process has been completed.

Requested Next Steps

This Modification should be treated as Urgent and should proceed as such under a timetable agreed with the Authority.

This is a targeted Modification proposal that is seeking to remove an existing and material consumer detriment and which does not affect the allocation of UIG across market sectors. Therefore, the proposal should be issued directly to consultation without workgroup assessment.

3 Why Change?

In an efficient market the costs faced by Consumers should reflect the costs they impose on the system. Shippers and suppliers will pass through the costs of UIG based on expected AUG weighting factors. However, having different factors for prepayment and non-prepayment EUCs in the same sector and product class creates an unnecessary level of risk and unpredictability. This damages effective competition and will ultimately lead to higher costs for Consumers.

We also believe the change will significantly reduce existing consumer detriment for domestic prepayment Consumers. Since the AUG Table was updated to permit different weightings between prepayment and non-prepayment, the weighting factors for domestic prepayment Consumers have been considerably higher than domestic non-prepayment Consumers – from 3 times higher in 2021/22 to 4 times higher in the current year factors and almost 6 times higher in the latest proposed draft factors for gas year 2023/24.

We do not believe it is fair and equitable to allocate almost 6 times more UIG to small domestic prepayment Consumers compared to non-prepayment Consumers. We do not believe that applying the "Polluter Pays"

approach at a meter type level is fair because in the case of gas theft, by definition, the polluter is *not* paying: the approach places the cost of theft increasingly on those who are *not* stealing gas simply because theft detection rates have been higher for Consumers with similar meter types.

We previously expressed concern in our response to UNC 0711, which updated the AUG Table to allow separate allocations to prepayment and non-prepayment Consumers:

“It is expected that the change will shift UIG costs further towards residential and particularly pre-payment customers. The consideration of this impact has been explicitly removed from the remit of the AUG Expert, however it is relevant to the consideration of the UNC Panel and Ofgem.”

Since the AUG Table was updated, the weighting factors for domestic prepayment Consumers have been considerably higher than domestic non-prepayment Consumers and we do not believe that this impact has been subject to an appropriate governance process. Ultimately it should be for the Authority to decide whether this differential treatment of prepayment Consumers is justified and in line with policy goals.

This Modification proposal would equalise the weighting factors for prepayment and non-prepayment EUCs in the same sector and product class. This would ensure that any future proposal to differentiate between prepayment and non-prepayment EUCs would need to go through an appropriate governance procedure.

4 Code Specific Matters

Reference Documents

Code Subsidiary document - Framework for the Appointment of an Allocation of Unidentified Gas Expert.

Knowledge/Skills

None

5 Solution

Update the UNC TPD Section E Paragraph 9.4 to mandate that the AUG allocation factors for prepayment and non-prepayment EUCs in the same sector and product class are equal.

This will be achieved by implementing an additional process to equalise the allocation factors for the listed pairs of Categories of System Exit Points after the existing process has been completed:

- EUC1ND & EUC1PD
- EUC2ND & EUC2PD
- EUC1NI & EUC1PI
- EUC2NI & EUC2PI

The details of how this is done will be decided by the AUGE.

For the avoidance of doubt, the change will not lead to any redistribution of UIG across sectors within the AUG Statement. However, it is acknowledged that the resulting factors may lead to a minimal increase or decrease in actual UIG allocation to Shippers depending on relative EUC sizes at an LDZ level and observed levels of UIG.

6 Impacts & Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No.

Consumer Impacts

The Draft AUG Statement for 2023/24 estimates that the UIG percentage allocated to domestic prepayment meters (EUC1PD) will be 2.9% and 9.5% for product class 3 & 4 respectively. For non-prepayment Consumers (EUC1ND) these values are 1.0% and 1.7% respectively. Under this proposal it is estimated that all EUC1 Domestic Consumers will receive UIG allocations of 1.1% for product class 3 and 2.1% for product class 4. No impacts are anticipated to the AUG weighting factors of any other customer groups as the current factors and latest proposed draft factors are aligned between prepayment and non-prepayment (where there are Consumers currently in those matrix positions).

Below is a visualisation of the impacts of this Mod on estimated UIG as a percentage of throughput across the Categories of System Exit Points provided by the AUGE. For comparison is the same output from the Draft AUG Statement (p108). Although these outputs may change in the final version of AUG Statement they show the intention to equalise prepayment and non-prepayment factors without impacting other Categories of System Exit Points.

2023-2024 UIG as % of throughput

Draft AUG Statement

	CLASS				
	2023-2024	1	2	3	4
EUC BAND	1ND	0.0%	0.0%	1.0%	1.7%
	1PD	0.0%	0.0%	2.9%	9.5%
	1NI	0.1%	17.5%	3.2%	12.7%
	1PI	0.0%	0.0%	3.2%	12.7%
	2ND	0.0%	0.0%	1.3%	2.5%
	2PD	0.0%	0.0%	1.3%	2.5%
	2NI	0.0%	5.9%	1.7%	5.9%
	2PI	0.0%	0.0%	1.7%	5.9%
	3	0.1%	1.1%	0.9%	1.1%
	4	0.1%	1.1%	1.1%	1.2%
	5	0.1%	1.3%	1.1%	1.2%
	6	0.1%	1.4%	1.1%	1.3%
	7	0.1%	1.4%	1.1%	1.4%
	8	0.1%	1.2%	1.1%	1.2%
9	0.1%	0.7%	0.5%	0.6%	

2023-2024 UIG as % of throughput

AUGE analysis after prepayment equalisation

	CLASS				
		1	2	3	4
EUC BAND	1ND	0.0%	0.0%	1.1%	2.1%
	1PD	0.0%	0.0%	1.1%	2.1%
	1NI	0.1%	17.5%	3.2%	12.7%
	1PI	0.0%	0.0%	3.2%	12.7%
	2ND	0.0%	0.0%	1.3%	2.5%
	2PD	0.0%	0.0%	1.3%	2.5%
	2NI	0.0%	5.9%	1.7%	5.9%
	2PI	0.0%	0.0%	1.7%	5.9%
	3	0.1%	1.1%	0.9%	1.1%
	4	0.1%	1.1%	1.1%	1.2%
	5	0.1%	1.3%	1.1%	1.2%
	6	0.1%	1.4%	1.1%	1.3%
	7	0.1%	1.4%	1.1%	1.4%
	8	0.1%	1.2%	1.1%	1.2%
9	0.1%	0.7%	0.5%	0.6%	

What is the current consumer experience and what would the new consumer experience be?

Since the AUG Table was updated to permit different weightings between prepayment and non-prepayment, the weighting factors for domestic prepayment Consumers have been considerably higher than domestic non-prepayment Consumers – from 3 times higher in 2021/22 to 4 times higher in the current year factors and almost 6 times higher in the latest proposed draft factors for gas year 2023/24.

Under the proposed approach in this Modification there will be no differentiation in AUG weighting factors for prepayment and non-prepayment EUCs in the same sector and product class. This will result in a small increase in UIG allocation for domestic non-prepayment Consumers, and a material decrease in the UIG allocation for domestic prepayment Consumers.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability	None
<p>Lower bills than would otherwise be the case</p> <p>UIG allocations will be reduced for domestic prepayment Consumers. This will reduce the cost to serve these Consumers and will lead to lower bills. As the allocation of UIG is passed through in the wholesale allowance within Ofgem’s prepayment price cap there will be a substantial direct reduction in customer bills for those Consumers covered by it.</p> <p>UIG allocations will be increased for domestic non-prepayment Consumers. This will increase the cost to serve these Consumers and will lead to higher bills. As the allocation of UIG is passed through in the wholesale allowance within Ofgem’s price cap there will be a small direct increase in customer bills for those Consumers covered by it.</p> <p>No impacts anticipated to any other customer groups as the current factors and latest proposed draft factors are aligned between prepayment and non-prepayment (where there are Consumers currently in those matrix positions).</p> <p>Removing the differential between prepayment and non-prepayment significantly reduces the uncertainty around UIG allocations each year. This will facilitate more effective competition between suppliers and could lead to lower overall bills.</p>	Positive & Negative
Reduced environmental damage	None
Improved quality of service	None
<p>Benefits for society as a whole</p> <p>For some Consumers prepayment meters are an option that can help them to budget, and help mitigate the risk of going into, or exacerbating existing, debt. The differential in the weighting factors between domestic Consumers creates an increasing penalty on Consumers with a prepayment meter.</p>	Positive

Cross-Code Impacts

None.

EU Code Impacts

None.

Central Systems Impacts

There are no anticipated system impacts as a result of this Modification proposal. Providing that the CDSP have the approved weighting factors to load in the system by the 1st September 2023, this will go live as of 1st October 2023.

From a contractual perspective, the CDSP will need to ensure the AUGÉ can deliver the change proposed within the Modification this year and on an enduring basis. They will also need to ensure obligated milestones, are met and specifically for this year, obtain approval of the proposed AUG Statement and factors in April 2023 UNCC.

Based on early discussions with the AUGÉ, the proposed changes are believed to be relatively simple to deliver but the CDSP will need to ensure this is captured as a requirement on an enduring basis.

7 Relevant Objectives

Impact of the Modification on the Transporters' 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

Relevant objective (d) is better facilitated. In an efficient market the costs faced by Consumers should reflect the costs they impose on the system. Shippers and suppliers will pass through the costs of unidentified gas based on expected AUG weighting factors. However, having different factors for prepayment and non-prepayment EUCs in the same sector and product class creates an unnecessary level of risk and unpredictability. This damages effective competition and will ultimately lead to higher costs for Consumers.

8 Implementation

It is proposed that this Modification follows an Urgent timetable approved by the Authority, as it relates to an imminent and current issue that if not urgently addressed will have a significant commercial impact on some Consumers.

Implementation should be as soon as reasonably practicable following Authority direction to implement the Modification.

9 Legal Text

Suggested Text

Legal text to be provided by the legal text provider

10 Recommendations

Proposer's Recommendation to the Authority

The Authority is asked to agree that Urgent Procedures should apply.