

Modification proposal:	Uniform Network Code (UNC) 0831/0831A: Allocation of LDZ UIG to Shippers Based on a Straight Throughput Method (UNC0831) Allocation of LDZ UIG to Shippers (Class 2, 3 and 4) Based on a Straight Throughput Method (0831A)		
Decision:	The Authority ¹ has decided to reject this modification ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	06 February 2024	Implementation date:	N/A

Background

Unidentified Gas (UIG)³ refers to gas lost from the system for a number of reasons including theft, leakage, shrinkage and unregistered supply points. In order to apportion UIG between profile classes and End User Categories⁴, an independent Allocation of UIG Expert (AUGE) develops a methodology and a table of weighting factors, the AUG Table⁵, that is used to assign UIG to different classes of meter points on an annual basis.

The AUGE was introduced in 2010 following the approval of UNC229⁶. However, the role of the AUGE was amended following the implementation of Project Nexus in June 2017 which changed the way gas allocation, settlement and reconciliation is conducted. UNC473⁷ ensured an enduring role for the AUGE who is required to consider the evidence of the scale and

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ 'Unidentified Gas' is defined in Uniform Network Code TPF H2.6.1.

⁴ 'End User Category' is defined in Uniform Network Code TPD H1.2.1.

⁵ 'AUG Table' is defined in Uniform Network Code TPD E9.1.1 (e).

⁶ UNC 229 'The identification and apportionment of cost of Unidentified Gas'. Available: <https://www.gasgovernance.co.uk/sites/default/files/ggf/UNC229D.pdf>

⁷ UNC 473/473A 'Project Nexus – Allocation of Unidentified Gas'. Available: <https://www.ofgem.gov.uk/publications/uniform-network-code-unc-473-and-473a-project-nexus-allocation-unidentified-gas>

sources of UIG and calculate UIG weighting factors to share out UIG each day and to inform UIG reconciliation.

The modification proposal

On 4 November 2022, SSE (the "Proposer") raised UNC modification 0831 'Allocation of LDZ UIG to Shippers Based on a Straight Throughput Method'. On 6 March 2023, Brook Green Trading (the "secondary Proposer") raised UNC modification 0831A 'Allocation of LDZ UIG to Shippers (Class 2, 3 and 4) Based on a Straight Throughput Method' as an alternate proposal to UNC 0831.

The Proposer and secondary Proposer both assert that the allocation of UIG for each Local Distribution Zone (LDZ) has been a challenge within the gas industry. Gas LDZs refer to areas of the country which are served by a transporter who distributes gas within that specific area. Modification proposals 0831 and 0831A state that the AUGE methodology, which changed following the appointment of a new AUGE for gas year 20/21, creates volatility as to how UIG is allocated and has resulted in the creation of 'perceived winners and losers' as part of the allocation process. It is also noted that continued variation in sources of UIG, identified by the AUGE, makes targeting the reduction of overall UIG levels very difficult.

A UNC Request (0781R)⁸ was raised to assess what can be implemented to improve UIG allocation including universal allocation (known as the 'vanilla smear' option) which would flatly distribute UIG based on throughput. Out of eight options considered by the Request workgroup, this 'vanilla smear' approach was highlighted as the preferred option should any changes to the AUGE process be made.

The factors and sources that contribute to UIG, according to both Proposers have been historically difficult to identify accurately. Both the current and previous AUGE identified theft as a major source of UIG; however, recent analysis supported by industry denotes theft as a smaller contributor than previously reported.⁹ Other factors are thought to be larger contributors which affect UIG calculations, these include shrinkage calculations being too low,

⁸ Review of the Unidentified GAS process. Joint Office. Available: <https://www.gasgovernance.co.uk/0781>

⁹ Theft Estimation Methodology. RECCo. Available: <https://www.retailenergycode.co.uk/fs/wp-content/uploads/2023/01/TEM-report.pdf>

average temperature assumptions, pressure at meters being incorrect, metering inaccuracies and leakage from pipework.

0831

This proposal states that the AUG table should be updated with a set of permanent and common allocation factors so that UIG is allocated to all LDZ customers equally on throughput basis. As a result, the role of the AUG table will be removed from UIG allocation. If implemented, the UIG table will allocate each combination of End User Category and Class with a factor of '1'. The revised UIG table, under modification proposal 0831 is noted below:

Figure 1

Supply Meter Point Classification	Class 1	Class 2	Class 3	Class 4
EUC 1ND	1	1	1	1
EUC 1PD	1	1	1	1
EUC 1NI	1	1	1	1
EUC 1PI	1	1	1	1
EUC 2ND	1	1	1	1
EUC 2PD	1	1	1	1
EUC 2NI	1	1	1	1
EUC Band 3	1	1	1	1
EUC Band 4	1	1	1	1
EUC Band 5	1	1	1	1
EUC Band 6	1	1	1	1
EUC Band 7	1	1	1	1
EUC Band 8	1	1	1	1
EUC Band 9	1	1	1	1

The UIG table (Figure 1) will replace the annual AUG table within the UNC. This is due to the requirement within the UNC that a UIG table should be included within the code, as there are

references in paragraph 1 TPD Section E¹⁰ and paragraph 1 TPD Section C¹¹ to a table that is used to adjust energy volumes and Nomination Quantities which are subsequently used in other sections of the UNC.

The Proposer notes that this modification has the potential to lower price premiums for Suppliers in relation to UIG uncertainty and lower industry costs due to the lack of AUGE process and industry meetings required when developing the UIG table.

0831A

This proposal states that the AUG table will be updated with a set of permanent and common allocation factors so that UIG is allocated to all non-daily metered (NDM) customers equally on a throughput basis. Additionally, 0831A notes that the cost of UIG from Class 1 will be removed with an alternative workgroup raised in the future to appropriately widen access to Class 2 to allow for a second modification proposal to be raised to '0' out Class 2 values. This proposal will also remove the role of the AUGE from UIG allocation. If implemented, the UIG table will allocate each combination of End User Category and Class with a factor of '1' except those within Class 1 who will be allocated a factor of '0'. The revised UIG table, under modification proposal 0831A is noted below:

Figure 2

Supply Meter Point Classification	Class 1	Class 2	Class 3	Class 4
EUC 1ND	0	1	1	1
EUC 1PD	0	1	1	1
EUC 1NI	0	1	1	1
EUC 1PI	0	1	1	1
EUC 2ND	0	1	1	1
EUC 2PD	0	1	1	1

¹⁰ TPD Section E. Uniform Network Code. Available: <https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2023-12/7%20TPD%20Section%20E%20-%20Daily%20Quantities%20Imbalances%20and%20Reconciliation.pdf>

¹¹ TPD Section C. Uniform Network Code. Available: <https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2023-03/5%20TPD%20Section%20C%20-%20Nominations.pdf>

EUC 2NI	0	1	1	1
EUC Band 3	0	1	1	1
EUC Band 4	0	1	1	1
EUC Band 5	0	1	1	1
EUC Band 6	0	1	1	1
EUC Band 7	0	1	1	1
EUC Band 8	0	1	1	1
EUC Band 9	0	1	1	1

The secondary Proposer notes that this modification has the potential to lower volatility for Shippers, so Suppliers have greater certainty on wholesale costs, therefore risk premiums will be reduced. Additionally, 0831A (as with 0831) will lower industry costs due to the lack of AUGE processes and industry meetings on the UIG table.

This modification, 0831A, has been raised as an alternative to 0831 by the secondary Proposer as they consider that this proposal recognises the 'inherent' difference between daily metered and NDM customers when determining the level of contribution to UIG. Daily metered customers should not be allocated UIG, states the secondary Proposer, as they do not contribute to model error and any short-term estimates used for allocation to daily metered customers are swiftly corrected.

The UIG table (Figure 2) will replace the annual AUG table within the UNC. This is due to the requirement, also noted above, within the UNC that a UIG table should be included within the code as there are references in paragraph 1 TPD Section E and paragraph 1 TPD Section C to a table that is used to adjust energy volumes and Nomination Quantities which are subsequently used in other sections of the UNC.

UNC Panel¹² recommendation

At the UNC Panel meeting on 22 November 2023, the UNC Panel considered that UNC0831 and 0831A would not better facilitate the UNC objectives and the Panel therefore did not recommend implementation of these modifications.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 23 November 2023. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR. We have concluded that:

- implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the UNC;¹³ and
- directing that the modification is not made is consistent with our principal objective and statutory duties.¹⁴

Reasons for our decision

We consider that these proposals would not better facilitate UNC Relevant Code Objectives (d) and (f) and has a neutral impact on all other Relevant Code Objectives.

UNC Objective (d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

¹² The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

¹³ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence. Available: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

¹⁴ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

We consider that the proposals do not better facilitate Relevant Objective (d).

The Proposer and secondary Proposer note, within the FMR, that both these proposals will help to facilitate a 'more stable and consistent' UIG allocation across all parties since the AUGE table will not be updated on an annual basis. As a result, this would lower the UIG risk to Shipper Users and Suppliers and maintain cost stability which should increase competition. Whilst we acknowledge that the annual update of the AUG table may have an impact on UIG risk for both Shippers and Suppliers, we believe that the AUGE and the AUG table are necessary to ensure the allocation of UIG is allocated in a fair, accurate and independent manner.

In our decision on UNC229, we stated that the creation of the AUGE and AUG table offered a route to allocate risk based on a 'widely researched and transparent' analysis of the underlying causes of UIG and that the methodology can be 'refined in ongoing years'. We are still of the opinion that the AUGE is the appropriate approach to determining who has contributed towards UIG and we remain confident in its ability to utilise the best current and future evidence available when assessing UIG contributions and allocations.

Whilst we accept the secondary Proposer's view, regarding the solution outlined in 0831A, that Class 1 is likely to be a lower contributor to UIG than other classes since increased meter read frequency should reduce levels of UIG. However, it cannot be said for certain that it does not contribute to UIG at all. Therefore, we agree with the UNC Panel that allocating it a factor of '0' is not the correct approach as by not allocating it a contributing factor, it goes against the intention of the AUG table's role as a socialised cost-recovery model. Furthermore, it can be expected that Class 1 will likely contribute to UIG through issues such as read submissions, faulty assets or problems with measurement errors which are all factors which contribute to UIG.

The purpose of the AUGE and table is to ensure that UIG is allocated accurately and fairly, this proposal, the UNC Panel states, will not deliver this. We agree with the UNC Panel and respondents who noted that if there is a significant differentiation between UIG allocated classes, then we would expect an evidence base and supporting analysis to be provided which highlights this. Changes to the AUGE and AUG table should have a data driven rationale, and if

this rationale is robust, the AUGE should take it into account and reflect it in the AUG table accordingly. We agree with the UNC Panel and consultation respondents that these modifications remove a process which is there to independently determine UIG in an equitable and transparent manner and replaces it with an inherently less accurate allocation as a function of throughput. We believe it is in the interest of consumers, and in alignment with our statutory duty that consumers can rely on an independent expert to determine and allocate UIG fairly.

We urge UNC Parties to consider how the processes of the AUGE and AUG table can be improved to ensure the continued equitable allocation of UIG across all classes. We expect to see industry work to continually improve the quality of data and analysis what feeds into the AUGE's methodological considerations and ensure that it is robust and of a high quality to ensure UIG is apportioned in a fair and equitable manner.

(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code

We consider that the proposals do not better facilitate Relevant Objective (f).

The Proposer and secondary Proposer believe that 0831 and 0831A, if implemented, will both provide more certainty for customers by reducing UIG allocation volatility and the resulting risk premium being added into contracts. This is because, as part as the 0831 solution, UIG is apportioned across all classes via the 'vanilla smear' approach which is outlined in Figure 1 or as part of the 0831A solution, UIG is smeared equally across all classes except those withing Class 1 which is outlined in Figure 2. Whilst these approaches would remove, what both Proposers state is the 'volatile' nature of the annual AUG table production and in return may reduce risk premiums for customers, we believe that the modifications do not take steps to reduce overall industry-wide levels of UIG.

The Proposers state that the removal of the AUGE role will deliver direct cost savings (estimated at £300,000-£400,000 in the FMR) to industry by removing the industry processes and associated meetings which are required to facilitate the development of the annual AUG table. We have considered this and believe that, outside of potential cost savings, this is not a

robust enough argument to remove the AUGE and AUG table process from the UNC. If the AUGE is to be removed, sufficient evidence should be provided which illustrates that the current process is inefficient or untenable. We agree with the UNC Panel and other respondents to the consultation that unless it can be proven that the current cost of undertaking the AUGE process currently outweighs the benefit, then we are unable to form the opinion that the solutions outlined in the FMR improves upon the current process and in turn further promotes efficiency within the code.

UNC modifications 0831 and 0831A, the Proposer and secondary Proposer assert, will remove the need to annually recalibrate UIG allocation which will in turn lead to improvements within Shipper and Supplier billing processes. Whilst the modifications will remove the administrative burden and cost of the annual process, it will not provide the appropriate mechanisms to utilise new sources of information, that inform UIG calculations to target and reduce overall levels UIG allocation. For example, Ofgem approved UNC840¹⁵ which, when implemented, equalised prepayment and non-prepayment AUG factors. This modification was approved on the basis that the AUGE was unable to consider the Retail Energy Code Company's (RECC) Theft Estimation Methodology which suggested dataset bias in terms of theft amongst prepayment customers. We agree with the UNC Panel and other respondents that this modification will remove the ability of the AUGE, given it would no longer exist, to consider other future evidence when targeting UIG allocation.

We note that UIG only makes up a small proportion of gas in Great Britain; however, we expect industry to take steps to reduce the amount of overall UIG through proactive meter reads and improving settlement performance, facilitated by the continued rollout of smart metering systems to customers (though we are aware this obligation sits outside of the UNC). From our recent engagement with the UNC Performance Assurance Committee (PAC) and review of party performance we note that the levels of performance in relation to meter reads industry-wide is not at the level we would expect or code obligations. Focus should be given on what can be done to improve this performance, and to also have Parties be compliant with their obligations. The focus of industry should be on reducing overall UIG, rather than just addressing how it is allocated.

¹⁵ UNC840. 2023. Available: <https://www.ofgem.gov.uk/sites/default/files/2023-04/2023.04%20UNC%20840%20-%20Accept.pdf>

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transportation Licence, the Authority has decided that modification proposals UNC 0831 'Allocation of LDZ UIG to Shippers Based on a Straight Throughput Method' and UNC 0831A 'Allocation of LDZ UIG to Shippers (Class 2, 3 and 4) Based on a Straight Throughput Method' should not be made.

Michael Walls

Head of Retail Market Operations and Smart Metering

Signed on behalf of the Authority and authorised for that purpose