











UNC Draft Modification Report		At what stage is this document in the process?
<h1>UNC 0758:</h1> <h2>Temporary extension of AUG Statement creation process</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p>Purpose of Modification:</p> <p>To allow the new AUG to develop a robust AUG Statement in accordance with the Framework for the Appointment of an Allocation of Unidentified Gas Expert, (AUGE), and to rollover the existing AUG Table, repeating the process undertaken previously for the 2013/14 & 2016/17 AUG Years.</p>		
	Panel consideration is due on 17 June 2021	
	High Impact: Shippers	
	Medium Impact: None	
	Low Impact: None	

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Timetable		 0121 288 2107
Modification timetable:		Proposer: Andy Knowles Utilita Energy Ltd
Pre-modification consideration by Workgroup	25 February 2021	 enquiries@gasgovernance.co.uk
Presented to Panel	18 March 2021	 andyknowles@utilita.co.uk (Utilita Energy Ltd)
Modification considered by Workgroup	25 March 2021	 07392 197 760
Workgroup Report presented to Panel	20 May 2021	Transporter: Guv Dosanjh Cadent
Draft Modification Report issued for Consultation	20 May 2021	 Gurvinder.Dosanjh@cadentgas.com
Consultation Close-out for Representations	04 June 2021	 07773151572
Final Modification Report available for Panel	09 June 2021	Systems Provider: Xoserve
Modification Panel Decision	17 June 2021	 UKLink@xoserve.com
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1 Summary

What

To ensure that UIG is allocated between Shippers in accordance with the requirements of the UNC and its subsidiary documents, the industry must use the most accurate and verifiable UIG Allocation Adjustment Factors available to it. The AUG Statement proposed for the AUG Year 2021/22 has, owing to the limited time available, not had the same level of development as previous AUG Statements. The proposer believes that the area where the lack of development time is most pertinent is in the development of the principle of polluter pays. In previous AUG Statement the AUGE has not adopted the polluter pays concept for anything other than broad generalisations, (EUC and Product Class). With the new AUGE introducing a complete overhaul of the methodology, now is an appropriate time to improve the polluter pays concept and differentiate between customers settling gas on estimates versus actual meter reads which the proposer believes would be a significant improvement in line with the polluter pays principle. The proposer also believes that the data used to calculate the total gas volume and number of supply points by payment method does not align with the calculation of gas theft by payment method, resulting in a material error in UIG apportionment by payment method.

Why

There are two reasons for deferring implementation of the proposed AUG Statement, firstly the proposed AUG Table for 2021/22 does not go far enough in advancing the AUG methodology; and secondly, there is assurance needed to demonstrate that this methodology is an improvement on the previous methodology and not just a change. The proposed AUG Table for 2021/22 does not have the level of development as previous AUG Table and so does not represent the most robust view of Unidentified Gas available.

How

Concerns in the short term could be allayed by rollover the UIG Allocation Adjustment Factors that are currently in force the 2020/2021 AUG Year to the 2021/2022 AUG Year.

2 Governance

Justification for Authority Direction

According to the latest Xoserve estimate of 24 February 2021¹, UIG runs at approximately 2.42% of LDZ throughput, representing approximately 13TWh of gas annually, with an approximate annual materiality of £200-250 million². Any significant change to the AUG Table is therefore likely to result in the redistribution of these costs between shipper in the order of millions of pounds and so would be a material change, requiring Authority Direction.

¹ Xoserve UIG Graphs – Interim Reporting 24 February 2021

² Using a 30-day rolling average SAP price of 1.8444p/kWh on 13 February 2021

Requested Next Steps

This Modification should:

- be considered a material change and not subject to self-governance;
- be assessed by a Workgroup.

3 Why Change?

The development of a robust AUG Statement is a complex and difficult undertaking, which requires the assessment of multiple data sources and engagement with the industry as the methodology is developed. The timescales, as mandated by the Framework for the Appointment of an Allocation of Unidentified Gas Expert,³ (the Framework Document), are extremely tight, with the entire process required to be completed in less than a year.

Owing to a change in the AUG, the AUG Statement that was presented to the industry on 30 December 2020 represents a significant departure from previous methodology, as it:

- Uses a bottom-up approach to assess the current UIG, rather than a top-down approach.
- Determines UIG only at line in the sand, rather than the previous process of assessing temporary and permanent UIG during the lifetime of settlement.
- Has utilised an entirely different methodology for deriving both the size of theft and the apportionment of theft between market sectors. Theft comprises approximately 75% of the total of UIG.

The AUG Statement that was presented to the industry is demonstrably different to previous years and could not be said to be a simple evolution of previous statements and has been effectively developed from first principles in large part.

There are 2 prime examples where further development is required: achieving the principle of polluter pays and accurately allocating prepayment customer numbers.

The first principle of the proposed methodology is:

“Polluter Pays – we interpreted “fair and equitable” to mean that UIG should be allocated in the same proportions as it is created” source: Draft Allocation of Unidentified Gas Statement (For Gas Year 2021-2022)

The AUG Statement produced fails to fully deliver this. Currently, the proposed AUG Table results in UIG being allocated to customers in the same EUC Band and Product Class, as opposed to the polluters themselves. It takes no account of metering systems that settle regularly on actual meter reads and are logically and statistically less likely to be involved in theft. Smart meters have specifically been identified by the department of Business, Energy and Industrial Strategy (BEIS) as directly beneficial to the reduction of theft:

The introduction of smart metering has improved energy suppliers’ ability to detect and manage energy theft. More granular data on consumption will help alert suppliers to patterns of behaviour that could be indicative of theft, enabling them to better target their enforcement activity, reducing the amount of energy theft incurred. BEIS Smart Meter Rollout Cost Benefit Analysis (2019)

³ [Framework for the Appointment of an Allocation of Unidentified Gas Expert](#)

The BEIS 2019 Smart Meter Rollout Cost Benefit Analysis attributes £913million in benefits to reduced theft and losses because of smart meters being installed.

The proliferation of smart meters and the enhanced data they provide (including daily meter reads and tamper alerts) should play a part in better identifying the polluters (or more accurately, the non-polluters).

The AUG Statement must reflect a true and accurate number of customers in each group; the current number of prepay customers included in the AUG Statement is approximately 2m, however, Ofgem data from 2020 states there are 3.4m prepayment meters⁴. The AUGE has used the best available data to calculate the amount of gas theft associated with prepayment and credit customers, (data not provided by the CDSP), but this does not align with the AUGE's assessment of both supply points and volumes by payment method, (data which was determined from CDSP's EUC band data). The AUG Statement must reflect a true and accurate number of customers in each group and, while CDSP data may be preferred where available, it is clearly inaccurate in this case and needs further development; failure to correct this error would result in materially inaccurate allocation of UIG by payment method within certain EUC bands.

Whilst the draft AUG Statement represents a reasonable foundation upon which to develop a robust methodology it is clear that more time is required. The AUGE appointment process commenced in 2011 with the first AUG Statement in 2012/13 being recognised as an interim development to replace the high-level assessment of UIG then in place. This Statement was then rolled over for the 2013/14 AUG Year to allow time for a more robust consumption method to be developed for 2014/15. The AUG Statement was rolled over again for the AUG Year 2016/17 to allow time for the AUGE tendering process to complete.

Considering these concerns and being mindful of the time it took for the previous AUGE to present a robust statement that was accepted by the industry, it is clear that the process has not given sufficient time for the AUGE to develop a new statement to the standard required for the industry to rely upon with a high degree of confidence. As a fully developed and tested AUG Statement is available, (unlike at the start of the process), we believe that additional time should be given for a robust statement to be developed by the new AUGE and the AUG Table from 2020/21 should be extended to 2021/22.

The current proposals substantially alter the impact of the AUG Statement under the new methodology. Not only have the extremely tight timescales impacted the new AUGE's time to develop the methodology they have also deprived industry of sufficient time for proper assurance work on a new and significant methodology.

For the avoidance of doubt, we have not considered whether there should be any changes to the Framework Document, as we consider the annual review process will give a suitable opportunity to do so.

4 Code Specific Matters

Reference Documents

- UNC TPD Section E9
- Framework for the Appointment of an Allocation of Unidentified Gas Expert.
- [Assessment of draft AUG Statement 2021/22 against the Framework for the Appointment of an Allocation of Unidentified Gas Expert \(provided by ICoSS to UNCC on 22 February 2021\)](#)
- [Letter to UNCC \(provided by ENGAGE on 17 March 2021\)](#)

⁴ [Ofgem Decision Document: Self-disconnection and self-rationing](#), (see Section 1.10)

- [Resource of AUG Statement documentation for Gas Year 2021/22](#)
- [Minutes of the April 2021 UNCC meeting where the AUG Statement 2021/22 was discussed](#)

Knowledge/Skills

- None

5 Solution

Business Rules

1. The AUG Table that is approved by the Committee under TPD E9.4.4(a) to apply for the period 1 October 2021-30 September 2022 (as voted or around the 15 April 2021) shall be disapplied and not used for any Code purpose.
2. The AUG Table for the AUG Year 01 October 2021 – 30 September 2022 will instead be the following:

Supply Points					Metered CSEPs	
	Class 1	Class 2	Class 3	Class 4	Category	Allocation factor
EUC	Allocation factor				All Metered CSEPs as a single category	
1ND	0.22	5.28	45.30	120.98		
1PD	0.22	5.28	45.30	120.98		
1NI	0.22	5.28	45.30	120.98		
1PI	0.22	5.28	45.30	120.98		
2ND	0.22	5.28	13.68	117.79		
2PD	0.22	5.28	13.68	117.79		
2NI	0.22	5.28	13.68	117.79		
2PI	0.22	5.28	13.68	117.79		
3	0.22	4.93	9.17	15.29		
4	0.22	3.87	9.17	11.76		
5	0.22	2.47	8.56	8.04		
6	0.22	1.13	6.30	4.79		
7	0.22	0.33	5.14	2.47		
8	0.22	0.22	0.42	1.55		
9	0.22	0.22	0.22	0.22		

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

None as UIG is allocated at a wholesale level to shippers.

Cross Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

None as the process will simply rollover the AUG Table from 2020/21.

As referenced in the Implementation Section, (Section 8), it was noted that the CDSP needs a degree of lead-time to input the Allocation Factors into the system.

Workgroup Impact Assessment

Given the nature of the issue being discussed by the Workgroup, the views were, to a large extent, polarised and may be summarised as follows:

On one hand, some of the Workgroup felt that the modification was superfluous as the AUG had delivered an AUG Statement which passed through all the relevant development and production stage-gates and was in a fit state to be applied.

On the other hand, some Workgroup participants expressed concern that, given the new “bottom-up” methodology that had been developed, as opposed to simply refining a pre-existing methodology, insufficient time for scrutiny and third-party analysis was provided for in the standard annual process, as set-out in the Framework Document. Accordingly, for the industry to gain confidence in the methodology, a further year of refinement should be incorporated into the development cycle.

As these positions were unlikely to be reconciled during the development stages of the Modification or lead to a further iteration of the Modification Proposal, it was agreed that they should be recorded in the Workgroup Report to advise Panel that the disparate views, which first became evident during the AUG Sub-committee discussions, still exist.

At the March Workgroup, (and recorded in the minutes⁵), the Authority representative raised a number of questions relating to the process for determining the AUG Statement. Following considerable discussion at the April Workgroup, participants decided that the questions should be consolidated, condensed, and included in

⁵ Workgroup 758 Minutes of 25 March meeting

Draft Modification Report as consultation questions as the suggestion was that further views on the process, and circumstances which have given rise to this Modification, should be for individual shippers to explain and, as such, would be better documented as consultation responses.

It was also noted during discussions that, while this Modification linked to the start of the Gas Year, should a decision require an implementation occur after this date the legal text may need to be amended. It was confirmed that it is not intended that there would be a retrospective application of the proposed AUG Table should a decision be made after 01 October 2021, with due consideration made for system data input requirements.

The proposed draft questions are set out in the Recommendations Section, (Section 10), of this Report.

7 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.	Positive
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

Owing to the limited time which was available for its development, the AUG Table and accompanying statement that was presented to the industry on 30 December 2020 does not represent as detailed an assessment as the AUG Table in place for 2020/21. Extending the AUG Table for 2020/21 to cover the AUG Year 2021/22 would result in more accurate cost targeting and so further competition between shippers and would give further time for the requirements of the Framework for the Appointment of an Allocation of Unidentified Gas Expert to be discharged.

8 Implementation

No specific implementation date is proposed, but the modification would need to be implemented as soon as possible to provide certainty to shippers on the AUG Table for the AUG Year 2021/22.

It was noted at the Workgroup that, in the event the Authority direct implementation, there may be issues regarding the legal text should implementation occur after 01 October 2021. Accordingly, the Workgroup encourage the Authority to provide a direction as early as feasibly possible to provide certainty for the arrangements that would be in operation for Gas Year 2021/22.

The CDSP noted that a decision in early September would be preferable to allow time for the Allocation Factors to be input into the system.

9 Legal Text

Text Commentary

As this modification would effectively extend the 2020/21 AUG Table, (in the form specified in Modification 0711⁶), for a further 12 months, the textual change should be placed in Transition Document.

Reference	Explanation
TRANSPORTATION PRINCIPAL DOCUMENT	-
TRANSITION DOCUMENT, PART II – TRANSITIONAL RULES	-
New paragraph 24.2 (heading)	AUG Table for AUG Year 2021/22
New paragraph 24.2.1	The AUG Table approved by the Committee for the AUG Year 2021/22 shall, (notwithstanding such approval), not apply. Instead the table and the values set out in paragraph 24.2.3 shall apply for AUG Year 2020/21.
New paragraph 24.2.2	The Committee is required to publish the table and values set out in paragraph 24.2.3.
New paragraph 24.2.3	Sets out in the required format the table and values to apply for AUG Year 2021/22 for the purposes of determining a User's User LDZ Unidentified Gas on a day in AUG Year 2021/22.
New paragraph 24.2.4	When preparing the AUG Statement for AUG Year 2022/23 the starting point for the purposes of updating the methodology shall be the AUG Statement approved by the Committee for AUG Year 2021/22.

Legal Text (version of 12 April)

TRANSITION DOCUMENT: PART IIC – TRANSITIONAL RULES

Add new paragraph 24.2 to read as follows:

24.2 AUG Table for AUG Year 2021/22

24.2.1 In respect of AUG Year 2021/22 notwithstanding the Committee approving the AUG Statement and the AUG Table in accordance with TPD Section E9.4.3:

⁶ [Modification 0711: Update of AUG Table to reflect new EUC bands](#)

- (a) the AUG Table approved by the Committee ("**approved AUG Table**") shall not apply (and accordingly Section E9.4.4(a) and (b) shall not apply in respect of the approved AUG Table); and
- (b) the AUG Table set out in paragraph 24.2.3 ("**transitional AUG Table**") shall apply in its place, and the transitional AUG Table shall:
 - (i) not be subject to later modification in relation to AUG Year 2021/22;
 - (ii) be binding for the purposes of the Code.

24.2.2 The Committee shall publish the transitional AUG Table (and make clear in doing so that the approved AUG Table shall not apply).

24.2.3 The AUG Table for AUG Year 2021/22 shall be as follows:

Supply Points					Metered CSEPs	
	Class 1	Class 2	Class 3	Class 4	Category	Allocation factor
EUC	Allocation factor				All Metered CSEPs as a single category	
1ND	0.22	5.28	45.30	120.98		
1PD	0.22	5.28	45.30	120.98		
1NI	0.22	5.28	45.30	120.98		
1PI	0.22	5.28	45.30	120.98		
2ND	0.22	5.28	13.68	117.79		
2PD	0.22	5.28	13.68	117.79		
2NI	0.22	5.28	13.68	117.79		
2PI	0.22	5.28	13.68	117.79		
3	0.22	4.93	9.17	15.29		
4	0.22	3.87	9.17	11.76		
5	0.22	2.47	8.56	8.04		
6	0.22	1.13	6.30	4.79		
7	0.22	0.33	5.14	2.47		
8	0.22	0.22	0.42	1.55		
9	0.22	0.22	0.22	0.22		

24.2.4 For the purposes of TPD Section E9.4.1(d) and preparing the AUG Statement for AUG Year 2022/23 the methodology to be updated shall be the methodology contained in the AUG Statement approved by the Committee for AUG Year 2021/22.

Workgroup were comfortable that Legal Text delivers the intent of Solution but noted that it is optimised for implementation on 01 October 2021, (with a decision prior to that date), and would need to be amended to accommodate an implementation after the commencement of the 2021 Gas Year.

10 Consultation

Panel invited representations from interested parties on 20 May 2021. The summaries in the following table are provided for reference on a reasonable endeavours' basis only. It is recommended that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Of the 15 representations received 6 supported implementation, 2 provided comments and 7 were not in support.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
British Gas	Oppose	d) negative f) none	<ul style="list-style-type: none"> The argument that more time is needed to develop the AUG Table has not been substantiated in the evidence provided by the Proposer. The cost uncertainty from potentially rolling over the AUG Table has a negative impact on the securing competition objective (d). British Gas cannot see any impact against the efficient code administration objective (f). British Gas make the following observations on the factors influencing the delivery timelines: <ul style="list-style-type: none"> the incumbent AUG Expert delivered against every milestone and has at no point indicated that more development time was required; British Gas understand that a detailed hand-over was provided between the contractors, so the incumbent AUG Expert was not starting afresh – if indeed there has been any time pressure from this aspect of the process, British Gas would have serious concerns over conflicts of interest as the previous contractor has subsequently been engaged by certain shippers to critique the new AUG Expert's work; the previous AUG Expert's methodology was more time-intensive and detailed (however as their methodology was reliant on incomplete and biased data this should not be conflated with a more accurate modelling outcome); and there were no substantive concerns over the timeline raised before the initial modelling outcomes were available. The advice from the CDSP at a workgroup meeting was that at least two weeks would be required prior to 01 October 2021 to make and test the required changes. Less than two weeks would see an increased risk of unsuccessful delivery of the change.

			<ul style="list-style-type: none"> • It is noted in the modification report “that it is not intended that there would be a retrospective application of the proposed AUG Table should a decision be made after 01 October 2021”. The legal text as written however implies that retrospective changes to the AUG Table would occur. British Gas oppose retrospectivity on principle, and it would harm the integrity of gas settlements as the rules for retroactive application of AUG factors are currently undefined. It follows that the proposer is bound to withdraw the modification in mid-September if a decision is not available by then. • No development costs are anticipated, but impacts will include pricing changes, changes to financial forecasts, and changes in trading positions. • As per the comments under Implementation, if not approved by 1 October 2021 the legal text becomes unsafe as it will imply a retrospective change to the AUG Table. • In general, British Gas are concerned that legal text as drafted places a fetter on the Authority’s decision-making process – the subject matter is detailed, and a decision should not be unduly rushed. <p>Answers to Panel Questions:</p> <ul style="list-style-type: none"> • Q1: As per our comments on the draft AUG Statement, British Gas are satisfied that the production process has been robust. • Q2: British Gas are satisfied that the 2021/22 AUG statement production process was robust and consequently has produced a robust result. A commonly cited concern with the AUG Statement is the attribution of ~14% of small business throughput to theft. As concerning as this may be, it is an outcome of adding the separate EUC sub-bands to the AUG Table (as per UNC 0711). An assessment suggests that had the split EUC bands been in place last year, the previous AUG Expert’s methodology would have arrived at an even higher percentage throughput as theft for small businesses. • Q3: Given this work is contentious and requires judgements on inherently unobservable variables, it is right that the bar is set high for a UNCC intervention to alter the AUG Table (i.e. a unanimous vote is required). • While there is no visibility of the contract terms between the CDSP and the AUG Expert, British Gas would expect the contract to deal with egregious examples of non-performance (e.g. missing delivery deadlines, non-attendance at industry meetings), but not with contention over the modelling outcomes.
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			<ul style="list-style-type: none"> Given the contentiousness of this process it is suggested that consideration is given to introducing an independent assurance role in the arrangements, to provide confidence to the industry that the AUG Expert has followed the framework, and that: <ul style="list-style-type: none"> the methodology proposed by the AUG Expert is reasonable; the best available data has been used, and that all reasonable steps have been made to triangulate and resolve discrepancies between sources; and all judgements where required to be made have been reasonable within the framework of analysis. <p>British Gas would not expect the assurance provider to replicate the modelling or analytical work undertaken by the AUG Expert.</p> <p>British Gas see this as a more efficient change to the arrangements than introducing dispute resolution to the process as per the proposals in Modification 0767 - Incorporation of AUG Framework Document into the UNC main body.</p> Q4: Given that the proposer notes that “there is assurance needed to demonstrate that this methodology is an improvement on the previous methodology and not just a change” British Gas take this modification as an explicit request for the Authority to take on a validation role. Given the proposal is to roll-over the current table it also implies an assessment is required of the previous AUG Statement, so that the Authority has confidence it is imposing a more accurate outcome on the market. Additional Analysis: It is important to note that despite many years of development there remain many outstanding issues with the methodology of the previous AUG Expert, for example: <ul style="list-style-type: none"> The previous AUG Expert used a top-down "differencing" approach which relied on accurate assessments of total close out UIG and all other contributors, and assumes all unattributed factors are theft. As a reference point, the previous AUG Expert's forecast of close-out UIG was out by a factor of 3 for 2018/19 and a factor of 2 for 2019/20, leading to inaccurate cost allocations. The previous AUG Expert had issues obtaining theft data and was forced to deal with inherent bias within the theft data that was available. This caused non-domestic theft to be underrepresented. The legal text implies retrospective reallocation of costs should a decision not be made before 1 October – a straightforward conditional clause could have circumvented
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			<p>this, however the proposer decided not to take this approach.</p>
Cadent	Oppose	<p>d) negative</p> <p>f) negative</p>	<ul style="list-style-type: none"> Does not support implementation as there is no compelling evidence that the process carried out by the current independent AUGÉ, in preparation of the AUG Table and AUG Statement, was not 'fit for purpose'. Believe that if the modification were to be approved that there would be a disconnect between the table within the 21/22 AUG Statement (approved by UNCC on 15 April 2021) and the proposed use of the previous year's AUG Table, given that they will not correspond and could cause industry confusion. Agree with the proposer that should the modification be approved then implementation should be prior to 01 October 2021. Agrees that the Legal Text meets the requirements of the Modification Solution.
Engage Consulting Ltd	Comments		<ul style="list-style-type: none"> As the AUGÉ, Engage does not consider it appropriate to comment extensively on this modification proposal. Engage have provided the following limited set of comments that they hope will prove helpful to industry parties and to Ofgem: <ul style="list-style-type: none"> Provided their views in relation to many aspects of this modification proposal in their letter of 17th March 2021 addressed to the UNC and DSC Contract Management Committees and would note these again: https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2021-03/DO%20NOT%20PUBLISH%206.2%20ENGAGE%20Letter%20-%20UNCC%20March%202021.pdf. The precedent created by implementation of the modification would increase the likelihood of future challenge to the AUGÉ's work by industry parties on commercial grounds. Such challenge could potentially delay the AUGÉ process and timetable and would undermine the independence of the AUGÉ. In the longer term, this would result in increased risk premiums inherent in the cost of future contracts. Contrary to the view expressed in the modification proposal, Engage believe that they have had more than sufficient time to deliver a robust Statement and AUG Table, underpinned by diligent and comprehensive analytical works.

EDF	Oppose	d) negative f) negative	<ul style="list-style-type: none"> Level of support for the 2020/21 UIG factors: This modification suggests carrying forward the 2020/21 UIG factors calculated by DNV GL (who are no longer the AUGÉ). During the 20/21 consultation concerns were raised by some industry members about the theft methodology used. The AUGÉ, as the appointed expert, went ahead with its proposed methodology. This brings into question Modification 0758's perception of the 2020/21 UIG factor's theft methodology as being more reliable than the new draft. Weakness of 2020/21 Undetected theft methodology: The top down method used in the calculation of the 2020/21 factors first quantified UIG for all sources apart from undetected theft and then assumed that the balance of total UIG was due to undetected theft. In 2020/21 two new sources were added to the set of non-theft UIG sources. Given that, as shown by these new sources, there is the potential for developments which identify more sources of UIG, which in EDF's view makes more sense to calculate the volume of theft directly. This has been done in the new draft AUGÉ statement. This is important due to the different proportions with which theft is shared between gas end users compared to other UIG sources. 1-3 Month lead time, with the implementation date of 1st October. <p>Answers to Panel Questions:</p> <ul style="list-style-type: none"> Q1: Yes, the Statement has been produced as per the established processes. Q2: A robust result has been delivered. It is noted that UIG is hard to measure, however the methods employed to measure it and the reason for their choice has been sufficiently explained. Q3: No further response. Q4: The modification is seeking more time rather than a validation
E.ON	Oppose	d) negative f) negative	<ul style="list-style-type: none"> Oppose the deferral of the implementation of the proposed AUG statement for AUG year 2021/2022. Agree that the development of a robust AUG statement is a complex and difficult undertaking, that is why it is undertaken by an appointed expert, following an agreed framework. The timeline to produce the AUG statement for AUG year 2021/2022 has followed the same timelines as every other year, as outlined in the Framework and the new AUGÉ has not reported having issues with these. The Framework allowed for a change of AUG contract and was discussed

			<p>in detail and agreed across all parties during the workgroup that defined this process and timeline.</p> <ul style="list-style-type: none"> • Recognises this is the first time the timings have applied for a change in AUGE and therefore may need a different timetable in the future but using the same timings as previous years has not been an issue for our review of the proposal. • The Framework for the Appointment of an Allocation of unidentified Gas Expert allows for industry parties to provide feedback on the approach and the data sources, for consideration by the AUGE; and the AUGE has presented its responses to the feedback received. At the April UNC Committee meeting, there was no proposal to repeat any of the process. • Notes there have been no concerns raised by the CDSP regarding the performance of the contract. • The AUG statements inevitably vary year on year, and E.ON does not consider this year to be exceptional. • Recognises that analysis was done at a much lower level and would recommend comments regarding this be considered for next year. The concerns raised by other parties have related to the outcome (the factors and the commercial impacts) rather than the methodology itself. In previous years, the factors have been weighted in a way which saw the domestic market picking up a larger proportion and where this has happened the recommendations of the expert have been accepted by the industry. • Does not support this modification without quantifiable evidence that the methodology has incorrectly apportioned the weighting. However, E.ON does support further growth and development of the modelling and welcome the work the AUGE is doing to innovate the model. • Would not support any retrospective application of the change in Weighting Factors. • If the decision is not made by late August/early September (for factors going live in October) then retrospective adjustments would be needed and this would cause significant issues and would potentially require contracts to be re-opened with customers. • The loading of the factors into E.ON's internal systems is a BAU process but should the decision on loading occur after October and further activity is required it would cost additional FTE and system support charges. This would be a small to medium cost. <p>Answers to Panel Questions:</p>
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			<ul style="list-style-type: none"> Q1: Yes, the process as outlined in The Framework for the Appointment of an Allocation of unidentified Gas Expert has been followed, methodology explained, and feedback considered. The AUG considered and responded to requests for explanation on methodology. E.ON do not feel it appropriate to agree a method but dispute the outcome. Q2: Supports both the methodology and the outcome of the 2021/2022 AUG statement production process. This is a complex process that will by its nature have elements others cannot model themselves, hence the need for an independent expert. Q3: This process has a high number of check points and the ability for all parties to present views and make their concerns known. There is also a referral process to UNC Committee that was built into the UNC and the contractual arrangements specifically to provide a backstop for issues. CDSP has managed the contract on behalf of the industry as they do for several other contracts such as PAFA, this appears to be a robust process with control and governance, and E.ON have no concerns about CDSP management of the contract and the application of the framework. The referral process and controls are similar to that applied for other areas where experts or independent parties are acting for the industry, notably DESC, PAFA and LDZ Metering error experts. Q4: Yes, it could be seen as such. The Authority is being asked to override a decision made by an appointed industry expert.
Gazprom	Support	d) positive f) positive	<ul style="list-style-type: none"> Gazprom Energy and several other stakeholders have raised concerns, throughout the process, in relation to the Allocation of Unidentified Gas Expert (AUGE's) proposals for 2021/22 including compliance with the Framework for the Appointment of an Allocation of Unidentified Gas Expert (the Framework Document). Believe the current AUG Table for 2021/22 is less robust when compared to the AUG Table for 2020/21 which Gazprom agrees should be carried forward for 2021/22. Believes the proposals for 2021/22 are unduly detrimental to Small & Medium Enterprises (SME), including Micro Business, consumers. The proposals are based on an assertion that circa 14% of SME throughout is attributed to theft. Despite this being challenged as being self-evidently erroneous throughout the process, no further justification has been provided and it has been retained. Thus, the proposals assert that circa 1 in 7 SME, including Micro Business, customers are stealing gas. As noted, this challenge, amongst others, have not been addressed and

			<p>the outcome of the data driven approach has been retained.</p> <ul style="list-style-type: none"> • Gazprom therefore believe that due to: - <ul style="list-style-type: none"> ○ The limited time available to a new AUGE within the current process to develop a robust set of proposals based upon a polluter pays principle; ○ The failure, to adequately address concerns raised throughout the stakeholder engagement; ○ The detrimental impact on classes of customers including Micro Business; ○ The fundamental changes to the methodology being proposed; ○ The issues in relation to compliance with the Framework Document; <p>then this modification should be implemented to allow sufficient time for the new AUGE to adequately address the issues that have been raised.</p> <ul style="list-style-type: none"> • Have not identified any significant costs associated with this modification. • Gazprom would like to see this modification implemented as soon as possible ahead of the 01 October 2021. Based on the Value at Risk (circa £100m's) Gazprom would expect Ofgem to prioritise a decision in line with its approach to other recent high value modifications. • Gazprom have not reviewed the Legal Text provided. • Notes that recognising the deficiencies in the current arrangements in relation to the Governance of the Framework Document, Gazprom have raised Modification 0767 - Incorporation of AUGE Framework Document into the UNC main body. <p>Answer to Panel Questions:</p> <ul style="list-style-type: none"> • Q1: Does not believe this has been done robustly for the reasons set out above and further outlined in the ICoSS letter in March 21 which detailed an assessment of the process against the Framework Document. Notes that no new AUGE has ever managed to develop a robust process in a single year and therefore support providing more time to the AUGE to complete its task thus repeating the process undertaken previously for the 2013/14 & 2016/17 AUG Years. • Q2: Please see previous comments above pertaining to Gazprom's reasons for supporting this modification. Notes Gazprom have been fully engaged in the annual AUGE process and have previously communicated their concerns at relevant points that there have been and continue to be several areas where the methodology
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			<p>developed does not seem to have been to a suitable standard for a process dealing with the allocations of £100m's.</p> <ul style="list-style-type: none"> Q3: The current Governance arrangements for the AUGE must strike a difficult balance with such a high level of interest in its output. Believe that Gazprom have identified a hitherto material unidentified deficiency in the existing process. The requirement that the AUGE complies with the Framework Document is key to stakeholder confidence, as Users are not parties to, nor have sight of, the AUGE service contract. <p>The Framework Document clearly allows for issues of compliance to be escalated to the UNCC however, when matters have been escalated in accordance with the Framework Document the UNCC have been unable to address those concerns.</p> <p>Recognising this deficiency and wishing to avoid the need for future modifications, Modification 0767 - Incorporation of AUGE Framework Document into the UNC main body has been raised to ensure that this will not be an issue in the future.</p> <ul style="list-style-type: none"> Q4: Believes the Modification should be considered in the context of its impact on the Relevant Objectives and any consequential impact arising as a result of a compliant modification is therefore out with the viries (sic) of this process. <p>Does not believe it creates such a role as the Authority is not being asked to validate the AUG Statement. Instead, it is being asked to judge whether the use of allocation factors from a new AUG Statement, developed in under a year by a new AUGE, which many parties have indicated concerns furthers the relevant objectives more than this proposal to use a tried and tested set of factors developed over many years.</p>
ICoSS	Support	d) positive f) positive	<ul style="list-style-type: none"> Agrees with the Proposer that the AUG statement for 2020/21 has not had sufficient time to be developed to a level that the industry can rely upon it as a robust assessment of Unidentified Gas. Preventing additional time to allow a comprehensive assessment to be developed will mean the misallocation of millions of pounds worth of costs in the market, distorting competition and resulting in windfall profits for some shippers. The fact that this proposal has had to be raised demonstrates a significant deficiency in the AUGE governance regime as the UNCC believed it was unable to address the concerns raised regarding a UNC subsidiary document for which it is responsible for.

			<ul style="list-style-type: none"> • Acknowledges Ofgem's concerns that these issues have required this modification, but do not agree that Ofgem is being asked to judge on the AUGE's performance. It is being asked to assess this change based on the relevant objectives which this modification will further by ensuring a more equitable allocation of costs and furthering the administration of the UNC by giving more time for the AUGE to fully comply with the framework document. • Going forward ICoSS would be supportive of a reassessment of the UIG allocation process by the CDSP to ensure that any concerns with the AUGE process do not require the raising of subsequent UNC modifications. • To provide certainty to the industry of the potential impact of this change on £100ms of costs, ICoSS would expect that Ofgem would seek to prioritise a decision on this proposal in accordance with its statutory requirements as soon as possible. • If the modification is not approved ICoSS members will have to pass on inaccurate UIG costs to its customers. As the price default cap methodology will not consider the resultant cross-subsidy to the domestic market it will also result in a windfall profit for large domestic suppliers. <p>Answer to Panel Questions:</p> <ul style="list-style-type: none"> • Q1: ICoSS have previously communicated to the UNCC that there have been several areas where the requirements of the AUGE framework document have not been fully discharged. Agrees that the process has not had sufficient time to develop a robust assessment. No AUGE has ever managed to develop a robust process in a single year and therefore support providing more time to the AUGE to complete its process. • Q2: ICoSS have previously communicated to the UNCC that there have been several areas where the methodology developed does not seem to have been undertaken to the level expected for such an important process. ICoSS have appended their detailed assessment, but many of the underlying assumptions used to apportion theft have not been fully explained or demonstrated to a level required in the framework document. Does not believe that the current statement is as robust as previous statements and so should not be used as the basis for apportioning millions of pounds of theft. • Q3: Believes that the current governance process for the AUGE regime is not fit for purpose. Despite the concerns raised by ICoSS and other parties who are directly affected by the AUGE process that the UNC code document (and
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			<p>by implication the code) is being breached, there is no process for considering this non-compliance.</p> <p>Notes that ICoSS concerns have not been found to be wrong or ill-founded after consideration; there is simply no mechanism for them to be addressed.</p> <p>Understands and supports the decision by the Proposer to raise this change as they had no other avenue to address their concerns regarding the loss of accuracy in UIG cost allocation.</p> <ul style="list-style-type: none"> Q4: Does not believe that this creates such a role. Agrees with the Proposer that they have had no choice but to raise a modification to grant additional time to the process to develop a robust regime. Notes that the modification does not seek to overwrite, censor the AUG or amend the AUG process; it simply seeks to use a more robust output for allocating UIG costs. <p>The Authority is not being asked to validate the AUG Statement. Instead, it is being asked to judge whether the use of allocation factors from a new AUG Statement (developed in under a year) which many parties have indicated concerns furthers the relevant objectives more than this proposal to use a tried and tested set of factors developed over many years.</p> <p>Please see "Assessment of draft 2021-22 AUG Statement against the Framework for the Appointment of an Allocation of Unidentified Gas Expert" appended to the representative submitted where ICoSS have provided details on the areas of non-compliance with the framework document.</p>
Ovo Energy	Oppose	d) Negative f) Negative	<ul style="list-style-type: none"> Does not support the purpose of raising this modification. The AUG's Allocation of Unidentified Gas Statement for 2021-2022 provides an allocation methodology that centralises around sound principles for the apportionment of UIG. For example, Polluter Pays is in line with the global push to reduce greenhouse gas emissions. Bottom-up Determination and Line in the Sand provide more accurate allocation that relies less heavily on estimation. States that the distribution of UIG has been done with the consumption landscape of 2021/22 in mind and it would therefore be wholly inappropriate to roll over Weighting Factors from 2020/21. Notes that the AUG is an independent expert, and as such is not commercially biased. This modification does not seem to be distributing UIG in a way which is fair and in line with the AUG's principles of integrity and impartiality. The rationale put forward by the Proposer contains assertions which must be reviewed:

			<ul style="list-style-type: none"> ○ The Proposer's assertion that there is a precedent for rolling over the Weightings Table is inaccurate/misleading and explored within the "Are there any errors or omissions in this Modification Report" section below. ○ The Proposer of 0758 supposes theft was not given appropriate consideration. This statement by the Proposer of 0758 does not consider previous allocation methodologies, which by the measure of the proposer of 0758 would be considered to have provided even less appropriate consideration. As noted by Engage Consulting, "<i>in previous gas years the top-down methodology left over 90% of UIG unexplained and simply assumed that it was all theft</i>". It must be considered that the calculations for gas year 21/22 quantify theft in a far more detailed manner than in previous years, and by extension of that logic are far more accurate. ○ 0758 sets out that the process did not allow enough time to engage with the process: <ul style="list-style-type: none"> ▪ On reviewing the minutes of the AUGE sub-committee it may be insightful to note that the proposer did not take part until February 2021, and as is noted by Engage Consulting, "<i>no concerns were expressed [to the AUGE] by any industry parties prior to publication of the Weighting Factors.</i>" • Does not support using the urgency requirements which essentially necessitate that the final word on the matter of 0758 must be had on the part of Ofgem. <ul style="list-style-type: none"> ○ This sets a precedent which undermines the core purpose of the AUGE which is to act as an independent expert. • Ovo Energy would like this modification to be carefully considered in a manner that does not rush to conclusions without having factored in the points raised in their response. If this Modification does get approved, implementation would need to be at any time prior to the start of the gas year. • The approval of this modification will have a deleterious effect on trading processes. • Concerned that the legal text of 0758 will set a precedent for future years that undermines the integrity and impartiality of the AUGE role. <p>Answers to Panel Questions</p> <p>Q1: OVO Energy fully supports the quality of the services provided by the AUGE. Their report was developed with sound</p>
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			<p>principles, as expanded upon in its letter to the UNC Committee (UNCC) dated 17 March.</p> <p>Engage's overall approach was founded on the principles of integrity and impartiality, and OVO Energy agree that the Final Statement as approved at the April UNCC meeting allocates Unidentified Gas (UG) in an equitable manner. Throughout the process the AUG engaged openly with all stakeholders and OVO Energy does not agree with the assertion in the modification that there was a 'lack of development time'. The assertion by the proposer that the timescales are 'extremely tight' could be due to attending AUG Sub-Committee sessions from February 2021 moving forward.</p> <p>Q2: Fully supportive that the 2021/22 AUG Statement production process has delivered a robust result and of the principles as set out by the AUG. The Final Statement and the methodology moves away from outmoded allocation methodologies based on unreconciled versus reconciled volumes. For example, the new methodology follows a 'polluter pays' principle where UG is allocated in the same proportion as it is created. This goes in line with the government's ambition in cutting emissions by 78% by 2035 compared to 1990 levels: https://www.gov.uk/government/news/uk-enshrines-new-target-in-law-to-slash-emissions-by-78-by-2035</p> <p>It should also be considered that the Weighting Factors used within the 2020/21 report are based on a consumption landscape that is vastly different to that which is currently in place, and therefore are inaccurate when applied to 2021/22. For example, the COVID pandemic has had a distinct effect on altering gas consumption. It would therefore be inappropriate to "roll over" the Weighting Factors as proposed by 0758.</p> <p>Q3: The Framework for the Appointment of an Allocation of Unidentified Gas Expert stipulates:</p> <p><i>(5.1.15) "The AUG Expert will act with all due skill, care and diligence when performing of its duties as the AUG Expert and shall be <u>impartial</u> when undertaking the function of the AUG Expert, ensuring that any values derived will be <u>equitable</u> in their treatment of Code Parties."</i></p> <p>Incorporating the AUG Framework Document into the UNC main body, as per 0767, would undermine 5.1.15 by removing its impartiality. It would no longer be able to allocate UG in an equitable manner, as it must pass its expert decisions by the commercial interests of the individuals that govern the UNC main body.</p> <p>If the proposer wishes to engage with the AUG at any point during the production of the AUG Statement they may do so through multiple channels, as detailed within the AUG Framework. No party is precluded from engaging in the Statement production process.</p>
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			<p>Q4: Yes, OVO Energy believes a direction on this Modification would amount to a request for the Authority to validate the AUGS and determine whether the Weighting Factors from 20/21 better reflects a fair and equitable distribution of UIG than the AUGE's proposed Weighting Factors for 21/22.</p> <p>It is OVO Energy's position that the Authority should not be required to validate the AUG Statement.</p> <ul style="list-style-type: none"> ○ This is an unnecessary duplication of efforts resulting in extra work and costs. ○ This undermines the independence of the AUGE. • Believes that the premise on which 0758 is built is misleading and should be taken as an indication of the quality of the modification report as a whole: <i>"Purpose of Modification: To allow the new AUGE sufficient time to develop a robust AUG Statement in accordance with the Framework for the Appointment of an Allocation of Unidentified Gas Expert, (AUGE), and to rollover the existing AUG Table, repeating the process undertaken previously for the 2013/14 & 2016/17 AUG Years"</i> • It states that this is the process undertaken previously for the 2013/14 & 2016/17. OVO Energy does not agree that this is repeating the process undertaken in 13/14 and 16/17. The circumstances under which the Weighting Table was rolled over in 13/14 and 16/17 are completely different and cannot be used for comparison here. • Not only are these dates pre-Project Nexus, but also the AUGE is very much against rolling over the UIG Weighting Factors for 21/22, unlike in 13/14, and is in no way asking for more time. Wishes to make it clear that no extra time was requested in 16/17. • 16/17 was rolled over from the previous year due to conflicting with the implementation of Project Nexus as seen here - it is not comparable at all, is therefore misleading, and should be removed from the modification report. • 13/14 was rolled over at the request of the AUGE, as they noted that they did not have enough time to analyse enough data - again, this is not the case with 21/22 and is not comparable, is therefore misleading, and should be removed from the modification report entirely.
ScottishPower	Oppose	d) Negative f) Negative	<ul style="list-style-type: none"> • ScottishPower does not support implementation of this modification which seeks to overturn a legitimate decision of UNCC to approve AUGE's proposed 2021/22 AUGS which was developed following a process compliant with the AUG Framework. • Does not see any material cause of concern in either their conclusions or the process. Xoserve have confirmed that

			<p>the AUGÉ has complied with the AUG Framework and their contract terms.</p> <ul style="list-style-type: none"> • The case that the process was defective is not convincing; there was no concern raised about the process prior to the AUGÉ publishing the AUGS. • Believes it could be taken to indicate that it was the AUG table itself, more than the AUG process, that resulted in concerns being expressed by ICOSS and some Shippers. • This modification effectively seeks to overturn a legitimate decision of the UNCC by which the AUGÉ's proposed 2021/22 AUGS was approved. • If approved the modification sets a dangerous precedent for challenging unfavourable decisions even where there is no convincing evidence of an error in the Code. • The 2021/22 AUGS was approved on 15th April 2021, so this modification presents several months of uncertainty for all shippers who may now need to alter the gas that they have already hedged for 2021/22 UIG with the following consequences: <ul style="list-style-type: none"> ○ increased costs to the industry and ultimately consumers ○ inefficiency in the running of the UNC • ScottishPower does not wish to see this modification implemented. • If the Authority approves this modification, this MUST be in time to implement and avoid any retrospective recalculation of UIG for the start of the 2021/22 Gas Year. ScottishPower believes that Corella have advised that must be at least 2 weeks before 1st October 2021. • ScottishPower would have no system change required. • Changes to UIG forecasting, hedging and current traded positions introduces additional gas costs, albeit relatively marginal. • In its current form the Legal Text could result in retrospective changes to UIG if Authority direction was received after the 1st October. In this situation the Authority are asked to direct changes to the legal text to prevent any retrospective change to UIG factors for the 2021/22 Gas Year. <p>Answers to Panel Questions:</p> <ul style="list-style-type: none"> • Q1: Modelling UIG is extremely difficult, but ScottishPower are satisfied with the methodology used and the assumptions it contains. The adoption by the new AUGÉ of polluter pays, line in the sand and bottom-up elements are improvements on the previous AUGÉ's approach which left c. 90% of UIG as a balancing figure, explained away as theft.
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			<p>Xoserve have confirmed that AUGE has complied with the AUG Framework.</p> <p>There are some minor improvements for next year but nothing significant enough to suggest it has not been robust. And this is a normal part of the annual AUGE process, demonstrating that the process works as approved.</p> <ul style="list-style-type: none"> Q2: ScottishPower feels a robust result has been delivered Reasonable assumptions on theft have been made supported by evidence brought in from other industries. Previous AUGE assessments of UIG factors and anticipated UIG levels did not reflect actual UIG witnessed so a change to the methodology was required. <p>The c. 14% SME theft included in the 2021/22 AUGS is cited as evidence of an incorrect result because it is more than last year. ScottishPower believes the two years cannot be compared since previous AUGE's factors did not have the new EUC sub-bands.</p> <ul style="list-style-type: none"> Q3: ScottishPower is satisfied with the existing governance arrangements. <p>The AUGE role should remain that of an independent and unbiased expert because the subject matter is highly complex, with no mechanistic means to calculate factors and what little evidence is available must be investigated carefully to arrive at reasonably argued judgments in an unbiased manner.</p> <p>For these reasons it is also correct that the UNCC process has a high threshold before it intervenes in the expert's proposal. As such the existing process is reasonable, where the AUGS is not in fact submitted for approval, but for unanimous rejection in the event that all parties agree there is a manifest error. If not rejected, then the expert's AUGS is deemed approved.</p> <p>It is inevitable that partisan arguments will be made for change, motivated by dislike of the result, but UNCC membership confers an obligation to act in the interests of GB industry, not in the narrow commercial interests of any particular party or segment.</p> <p>The involvement of CDSP in the procurement and management of the contracted services of the AUGE also ensures professional capability and independence. The performance of the current (now Correla) manager in these processes during the last AUG year is to be commended and is beyond reproach in the matters with which this modification is concerned.</p> <ul style="list-style-type: none"> Q4: ScottishPower's view is that, yes, this mod amounts to a request for the Authority to validate the AUG Statement and determine if the 2020/21 table or the proposed 2021/22
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			<p>table gives a fairer distribution of UIG for the period Oct-21 to Sep-22.</p> <p>The UNCC has exercised their duty to review the AUGS and not intervened in approval of the proposed statement. This mod therefore has the effect of asking the Authority to take a view on whether the proposed AUGS is 'fit for purpose'.</p> <p>The independence of AUGE is a critical aspect of the role. The AUGE has confirmed that it has complied with its obligations and the Framework and that it does not intend to change the 2021/22 AUGS. In view of this, if the Authority was to approve UNC0758 it would discredit the AUGE who may then be unable to comply with their contractual obligations to develop 2022/23 AUGS. This would have commercial/procurement impact on Xoserve/Correla that would further inhibit the delivery of next year's AUGS.</p> <p>In addition, if approved, the modification would be a precedent for overturning legitimate decisions made under Code but which are not in the interests of a party or segment and thereby result in further proposals.</p> <p>Additional Information:</p> <ul style="list-style-type: none"> ScottishPower notes that at the UNCC 15th April <ul style="list-style-type: none"> an Xoserve representative confirmed in response to a direct question from a Transporter Representative that AUGE had complied with the AUG Framework: <p><i>"D Lond (DL) noted that the AUGE contract is with Xoserve and asked whether Xoserve believed the AUGE had complied with the AUG Framework. FC advised on behalf of Xoserve that Xoserve believes the AUGE has been compliant."</i></p> <ul style="list-style-type: none"> The UNCC approved AUGE's proposed 2021/22 AUGS on 15th April after rejecting both i) Gazprom's proposal to roll over the 2020/21 AUG table and ii) the need to make any other changes to the table.
Shell Energy	Oppose	d) Negative f) Negative	<ul style="list-style-type: none"> Believes this modification would set an unfortunate precedent if approved by Ofgem. It is an attempt to change the results of a third-party process based on opinion. It logically suggests that you can raise a change modification if you do not like the outcome of a process engaged in good faith. There will naturally be a difference of opinion when the subject involves a redistribution of financial costs across the industry. The appointment of the Allocation of Unidentified Gas Expert (AUGE) was procured through an independent tender process. The timeline for the appointment of the

			<p>AUGE and the provision of the AUG Statement are clearly displayed on the roadmap and the AUG would have been fully aware of these requirements. The proposer suggests that the AUG have not had sufficient time to develop a robust statement due to the “extremely tight” timescales. The AUG have not expressed any concerns around time limitations on providing an AUG Statement nor the CDSP (contract owner) have not highlighted or raised any performance issues with the handling of the process.</p> <ul style="list-style-type: none"> • The annual AUG roadmap includes regular sub-committee meetings along with an open consultation for industry parties to engage with the AUG to discuss and formally appeal the work and/or calculations that make up the weighting factors. This modification and any subsequent modifications attempted in the future makes the formal process irrelevant and futile as a party could just rely on the modification to change the factors. • The attempt to roll over the previous year’s AUG weighting factors severely impacts our ability to accurately determine tariffs for our customers from October 2021. Ofgem have been placed in a difficult position whereby an instant decision is extremely unlikely. The diverse views and complex circumstances mean the longer it takes for a decision to be made, the larger impact will be felt across industry parties. • From the evidence provided above, this change modification is very detrimental to the gas industry. • Shell Energy Retail Limited have engaged in the year-long process in good faith and if this modification is approved it shows that you do not have to engage and raise a change modification if you do not like the outcome. • Does not believe this modification should be implemented. • Significant redistribution of costs and a short-term notice period if Ofgem decides to overrule the decision of an independently appointed expert. • Has not examined the Legal Text. <p>Answers to Panel Questions</p> <p>Q1: The production process of this AUG Statement has not fundamentally changed from previous years. The outcome has delivered different results for which a section of the industry does not like. The AUG are best placed to provide an opinion on the robustness of the process.</p> <p>Q2: Same as Q1.</p> <p>Q3: The recirculation of hundreds of millions of pounds around the industry should not be dictated by the current UNCC. Shell Energy Retail Limited would be more supportive if subsequent changes to the UNCC include appointing members not employed by Shippers.</p>
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			<p>Q4: An independently appointed expert means there should not be a role for the Authority to determine the validity of the AUG Statement.</p>
SSE	Support	<p>d) positive</p> <p>f) positive</p>	<ul style="list-style-type: none"> SSE believes that the new AUGE has not had sufficient time to fully develop their new methodology which is a fundamental change to the methodology employed by the previous AUGE. This has been the situation in the past, as when AUG statements using a new methodology have tried to be developed in one year by the relevant AUGE, it has not proven to be successful and the previous table has been rolled over into the following year. This is because AUG statements developed using a new approach were not able to be fully analysed in one year, and SSE believe that more time is required in order for the new AUGE to fully develop their alternative approach. From the above past experiences, SSE does not believe that the current AUG process allows a new AUGE sufficient time to develop a new methodology during the first year of their appointment and that this issue should be looked at by the industry in time for the next AUGE appointment. Therefore, agrees with the proposer that more time is needed to fully develop the new AUGE's approach and that if this time is not granted and the proposed table goes live on 1st October 2021 then it will lead to a misallocation of UIG within the gas industry. Also, due to the governance structure around the whole AUGE process, SSE agree that there is no alternative to the raising of a modification in order to prevent the new table, that is based on under developed data, going live in October 2021. SSE would like to see this modification implemented as soon as possible in order that clarity can be obtained on the UIG factors effective from October 2021. SSE would not face any costs. <p>Answers to Panel Questions:</p> <ul style="list-style-type: none"> Q1: Does not believe that the 2021/22 AUG statement process has been robust as the AUGE has not addressed a number of shortcomings in their analysis which have been published by parties in response to the draft AUG statements during the development of the 2021/22 AUG statement. ICOS have asked a number of fundamental questions, including some on more than one occasion, which have effectively been ignored and not responded to by the AUGE. Believes that the Framework Document has not been complied with. Q2: Due to the fact that the AUG Statement production process has not been robust, as a direct consequence it

			<p>has not delivered a robust result. There are a number of very serious shortcomings in the process including an incredulous assumption that 14% of gas in EUC 1 in the I&C sector is stolen, without any evidence to suggest that the truth is even close to this figure. This is hard to comprehend when compared to the overall theft of gas figure, which is assumed by the AUGGE to be 1.5%, as the mid-point of their estimate of between 1.25% and 1.75%, which is itself largely based on theft data from other non-energy industries. Assumptions such as these, which have no credible foundation, have a significant bearing on the UIG factors that will be used to allocate millions of pounds worth of gas in an inequitable manner across the gas industry.</p> <ul style="list-style-type: none"> • Q3: The production of the most recent AUG statement has highlighted a number of points of failure in the whole industry governance process surrounding it. Whilst a number of shortcomings have been identified, and in the opinion of a number of parties the AUGGE Framework document has not been complied with, there is no legal route to challenge these shortcomings and so we fully support this modification. The CDSP contract with the AUGGE is confidential and is not available to the wider industry to scrutinise. The whole AUGGE process, including the timings of the various stages of the process within the gas year, needs to be reviewed, but in the meantime the implementation of this modification will give some time for this to happen and will implement the previous table which had detailed statistical analysis at its foundation. • Q4: Does not believe that a request for this modification to be implemented places a validation role of the AUG statement on the Authority. <p>This validation role is being performed by the industry and it is for this reason that this modification has been proposed, recognising that the industry does not consider the revised table to be based on valid assumptions. Accordingly, the modification invites the Authority to consider whether the current process has delivered a better outcome than could be achieved by providing the industry a further 12 months to ensure the industry is provided with adequate time to ensure the revised tables are robust, and can be adequately validated. It is SSE's view that rolling over the existing table provides a better outcome for the industry and consumers by ensuring greater stability and confidence in pricing.</p> <p>In this context, SSE considers that it is possible for Ofgem to approve this modification without any expectation that it has performed a validation role.</p>
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			<p>Considers that the 'changeover' between AUGEs is likely to provide insufficient time for an incoming AUGE to adequately prepare a suitable robust methodology for the forthcoming year, although SSE recognise that industry expectations mean that any new AUGE is likely to believe that producing something is better than nothing, especially as they are not impacted by the UIG factors they produce and so have no direct commercial consequences for any shortcomings in the analysis. The decision that Ofgem is being asked to make is whether to allow a set of UIG factors based on an incomplete analysis by a new AUGE to go live or to keep the factors based on a full analysis by the previous experienced AUGE. SSE would see this decision as being a one-off and not something that would be repeated in future years under this AUGE.</p> <p>Believes that further consideration must be given to the AUGE process to mitigate the risk of this occurring in future periods when there is a changeover between AUGEs.</p>
Total Gas & Power	Support	d) - positive	<ul style="list-style-type: none"> Does not believe the process has given the newly appointed AUGE enough time to carry out the AUGE process and particularly as they have fundamentally changed the methodology. Believe the output is questionable as it has been data-led without the support of robust enough methodology and logic to support it. For example, the conclusion that 14% of SME throughput (or 1 in 7 SME customers) can be attributed to theft is clearly incorrect. Other examples of questionable data and methodology relating in-particular to consumption and theft can be found in the response to the consultation on the final AUGE table for 2021/2022 submitted by Total Gas & Power. Does not believe that the current AUG process properly supports the appointment of a new AUGE and allows them the time to make fundamental changes with backing data and revised methodology to support and as such last year's table should be carried forward into 2021/2022 while the industry resolves the issues that have been raised. A decision is required ASAP so that suppliers have clarity of cost base as soon as possible There are no development and implementation costs Agrees that the legal text will deliver the intent of the Solution. <p>Answers to Panel Questions:</p> <p>Q1: Does not believe this has been done as robustly as it could have for the reason outlined in the ICoSS letter in March</p>

			<p>21 which detailed an assessment of the process against the framework.</p> <p>Does not wish to see Mods raised every year and hope the industry finds a suitable way forward but as an immediate solution last year's table should apply for 2021/2022.</p> <p>Q2: The result is not robust because the output has spurious findings, for example 14% of SME throughput cannot be attributed to theft.</p> <p>Has concerns regarding the significant change to a bottom-up methodology that had been utilised and the lack of time allowed to evidence this new approach.</p> <p>This places great emphasis on the volumes calculated using limited and incomplete data rather than consumptions volumes recorded by Xoserve.</p> <p>Q3: UNCC have been unable to resolve the situation, hence the need for this modification. There is a need to fix the issues moving forward but clearly more time is required in this instance. As such Total Gas & Power support Modification 0767 which would bring the AUG framework into the main body of the UNC.</p> <p>Q4: Does not believe that is the case with respect to validation of the statement because the Authority does have a role to play in this case when the process has been called into question and the output has insufficient evidence to support it.</p> <p>Additional Analysis: Additional analysis was provided in the response the consultation on the final AUG table for 2021/2022</p>
Utilita	Support	d) positive f) negative	<ul style="list-style-type: none"> The 2021/2022 AUG Statement introduces a new methodology with a focus on the principle of 'Polluter Pays', which the recently voted upon 2021/2022 Statement does not sufficiently achieve. Utilita fully support the polluter pays principle, however, the approved new methodology fails to deliver in enough detail to target the polluters. This modification would provide the AUG with sufficient time to improve the Polluter Pays principle and should do so by distinguishing between the settlement of gas on actual meter readings vs estimates, leading to more efficient and correct apportionment of UIG; the rolling over of the 2020/2021 AUG Table to the Gas Year 2021/2022 should provide enough time to improve this principle. <p>The AUG Statement must include a true reflection of customer groupings. The approved AUG Statement indicates 2M prepayment customers, contradictory to</p>

			<p>Ofgem data from 2020 which states there are 3.4M customers within this category. The most accurate data available must be utilised to apportion UIG equitably and data inputs require revisiting so that this is achieved - rolling over the existing 2020/2021 AUG Table will facilitate this objective.</p> <ul style="list-style-type: none"> • Implementation for the beginning of the Gas Year 2021/2022. • Implementation would not result in any additional cost to Utilita. <p>Answers to Panel Questions:</p> <ul style="list-style-type: none"> • Q1: There are clear failures in the process. Utilita believe that the process has been completed as per the UNC, however, the lack of a sufficient challenge mechanisms particularly, demonstrates that a review of the process is required. • Q2: The process has not delivered a robust result. The overarching principle of 'Polluter Pays' has not been fully achieved and remains too broad and generic. The AUG must develop this principle further to target the actual polluters and should do so by differentiating between settlement on estimates versus actual meter readings. The final AUG Statement has been determined from inaccurate data with relation to the volume of prepay customers, resulting in inaccurate allocation of UIG. The AUG Statement indicates 2M prepay customers, which contradicts to Ofgem data from 2020 which states there are 3.4M gas prepayment customers; the AUG Statement must reflect an accurate number of customers within each group through making best use of the most accurate data available so that fair and equitable distribution of UIG can be achieved, the current result does not facilitate this. • Q3: The existing governance arrangements are not as effective as they should be and require revisiting. The existing arrangements have exhibited a framework and approvals process that is not sufficiently robust to challenge, and this is highlighted within UNC modification 0767. • Q4: Utilita does not see this as placing a validation role on the Authority for the following reasons: <ul style="list-style-type: none"> 1. A validation role would imply Authority involvement every year which must not be the case – UNC parties need to review and improve the approval process ASAP and this mod is a 'one-off' modification that is aimed at providing the incumbent AUG with sufficient time to further develop the AUG Statement.
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			<p>2. The UNC is not very well set up for changing AUG methodology – UNC parties need to review the transitional arrangements for future service provider changes and conduct a lessons learned exercise from this years' process.</p>
Utility Warehouse	Support	<p>d) Positive</p> <p>f) Positive</p>	<ul style="list-style-type: none"> States that due to the timescales imposed by the framework, there has not been sufficient opportunity for parties to robustly challenge the assumptions and methodologies used. Specifically those associated with the levels of theft. In the new statement the assumed level of theft associated with smart meters is equal to the level of theft associated with traditional meters. This assumption is counter intuitive as smart meters settle regularly on actual meter readings and provide real time alerts to indicate if the meter has been accessed or tampered with by an unauthorised party. Consumers are becoming increasingly aware of this which acts as a disincentive to commit theft. This increased level of information, coupled with regular meter readings, allows suppliers to identify any potential thefts significantly earlier. Utility Warehouse are of the view the total number of thefts relating to smart meters is likely to be lower than traditional meters, and the length of time for which a theft continues is likely to be far shorter. This should be reflected in the calculation. Believes that rolling forward the current (2020/21) AUG table into the 2021/22 gas year, will allow parties to robustly review and understand the methodology and assumptions, providing confidence the new weighting factors are reflective of where UIG occurs. Agrees with the timescale specified in the modification - it would need to be implemented as soon as possible and before the start of the new gas year on 01 October 2021. Agree the legal text will deliver the intent of the solution. <p>Answers to Panel Questions:</p> <p>Q1: The approach taken by the AUGE to review many of the existing assumptions and effectively start from scratch is welcome however the level of information provided to support the new methodologies behind the assumptions has been lacking. This has made it very challenging for parties to clearly understand what has driven the weighting factors and therefore lack the confidence required to fully support them. Especially as they are significantly different from the previous weighting factors.</p> <p>Believes that due to the timescale limitations imposed by the framework, coupled with a lack of detail behind some of the weighting factors, parties have not had sufficient time to</p>

			<p>robustly review and challenge the assumptions. There are a number of outstanding questions relating to some of the weighting factors, specifically those relating to theft.</p> <p>This has resulted in parties not being able to satisfy themselves that the new methodology is an improvement on the previous version and not just a change.</p> <p>Cannot confirm if the resulting table is robust. Further review of the detail behind the table will be required to confirm this.</p> <p>The effectiveness of the overall governance process is broadly good however the process this year has highlighted some areas that should be considered for review. Namely the length of time provided between AUG table production and approval and the approval mechanism.</p> <p>Believes that each year a longer time frame should be afforded to parties to properly review and challenge the table, if this time frame were to exceed the traditional UNC approval date of the table, then so be it.</p> <p>Believes that the quoracy on rejecting the new table each year should be reviewed. Currently the unanimous requirement could lead to further instances in the future of tables being approved without sufficient scrutiny. Moving to a simple majority could prevent this.</p> <p>Whilst there is a risk that this modification could be seen as asking the Authority to validate the statement, Utility Warehouse does not believe that this is the intention of the modification and is a result of the existing AUG production and approval process. If the production and approval processes were to be amended to allow a more flexible approach (e.g. The UNC having the ability to reject the AUG statement by majority instead of unanimously) there would be no need for direction from the Authority.</p>
Wales & West Utilities (WWU)	Comments	<p>d) None - (unclear)</p> <p>f) Negative</p>	<ul style="list-style-type: none"> Feels the disruption caused by late change to the AUGE table is a small negative for relevant objective (f) Promotion of efficiency in the implementation and administration of the Code. It is difficult to have a view regarding relevant objective (d); there is uncertainty as to whether and when this modification will be implemented, and uncertainty is regarded as negative for competition between Shippers. The real impact on competition is determined by whether the AUGE proposals are "correct", if they are, then the modification has a negative impact on relevant objective (d); if the AUGE proposals are not correct, and the current values are "correct" then the modification will have a positive impact on relevant objective (d). Notes that if this modification is implemented, it should be implemented as soon as possible due to the need to

			<p>provide as much notice as possible. As WWU is not a Supplier WWU are unaware of the impact on Suppliers that are subject to the price cap but anticipate that there may be consequential impacts of a decision to implement.</p> <p>Answers to Panel Questions</p> <p>Q1: Xoserve as the party contracting with the AUGÉ has not raised concerns that the process laid out in Framework for the Appointment of an Allocation of Unidentified Gas Expert has not been adhered to. Rather the issue raised seems to be that the AUGÉ has introduced new approaches and some parties believe that there has not been enough time for the industry to agree that this new approach is valid; however our understanding is that the framework does not allow for industry approval of the approach.</p> <p>Understand that this was a design feature of the process to enable the independence of the AUGÉ from industry influence reflecting parties' own interests.</p> <p>As the allocation of Unidentified Gas has a significant commercial impact it seems likely that parties' commercial positions will influence their position on this modification.</p> <p>Q2: It seems to have been compliant with the framework which is the point at issue. WWU do have some sympathy with the view that major changes need to be properly justified and rigorous and fully understood before being introduced; however, this is not part of the current arrangements.</p> <p>Q3: Before the change to Xoserve Funding, Governance and Operation in 2017 the Transporters were responsible for procuring the AUGÉ and did this using Xoserve, which at that time was their Agent. This would have allowed the disputes process in UNC General Terms A to apply; however now that Xoserve is a contractor to the Transporters this would not apply as Xoserve is not a party to the UNC. This is an unintended consequence of the change to Xoserve arrangements.</p> <p>The current arrangements place the control in the hands of the AUGÉ. Parties may make comments and suggestions, but it is up to the AUGÉ to decide how to take account of them. The UNCC approval arrangements make it virtually impossible for the AUGÉ's proposals not to be accepted.</p> <p>There is clearly a balance to be struck between independence of the AUGÉ and industry control over the AUGÉ's scope for making changes and this balance may need to change. The other extreme to the existing arrangements would be to move to an arrangement similar to the Demand Estimation sub-committee which agrees changes to methods with Xoserve for the creation of demand profiles. This is outside the scope of this proposal and more relevant to Modification 0767 Incorporation of AUGÉ Framework Document into the UNC main body which may take some time to come to a landing.</p>
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			<p>Q4: The Authority is being asked to decide between two sets of values that have significant commercial impact on Shippers. The modification is presented as asking for a roll-over of existing values because, in the view of the proposer, the AUGE has not had enough time to develop its new methods. The AUGE has not made such a statement or request. In principle it is decision a about whether significant changes to the AUGE methodology should be subject to more development, even though the framework does not provide for this. It is therefore not specifically about validating the AUGE statement nor whether the AUGE is competent or not, nor whether it has followed the framework or not; however, it is recognised that a decision may be interpreted as doing one or more of these. Notwithstanding the above, if this modification is implemented it seems likely that other parties may try similar arguments in future years if they do not like the proposed AUGE table.</p> <p>WWU notes that in 2019 Centrica brought objections to the AUGE table to the UNC Committee and proposed that the then existing table be rolled over, but their proposal did not achieve the unanimity support required. Centrica's argument as reported in the UNCC minutes was that non-domestic theft figures used was not accurate. Centrica did not subsequently raise a UNC modification to amend the AUGE values along the lines of this modification although they could have done so. Note that theft is identified as the largest component of Unidentified Gas.</p> <p>Recognises the efforts being made under UNC modification 0734 - Reporting Valid Confirmed Theft of Gas into Central Systems, to ensure that Supplier reported theft is taken account of the settlement process. This should reduce the amount of Unidentified Gas.</p>
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Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

Discussion

Consideration of the Relevant Objectives

Determinations

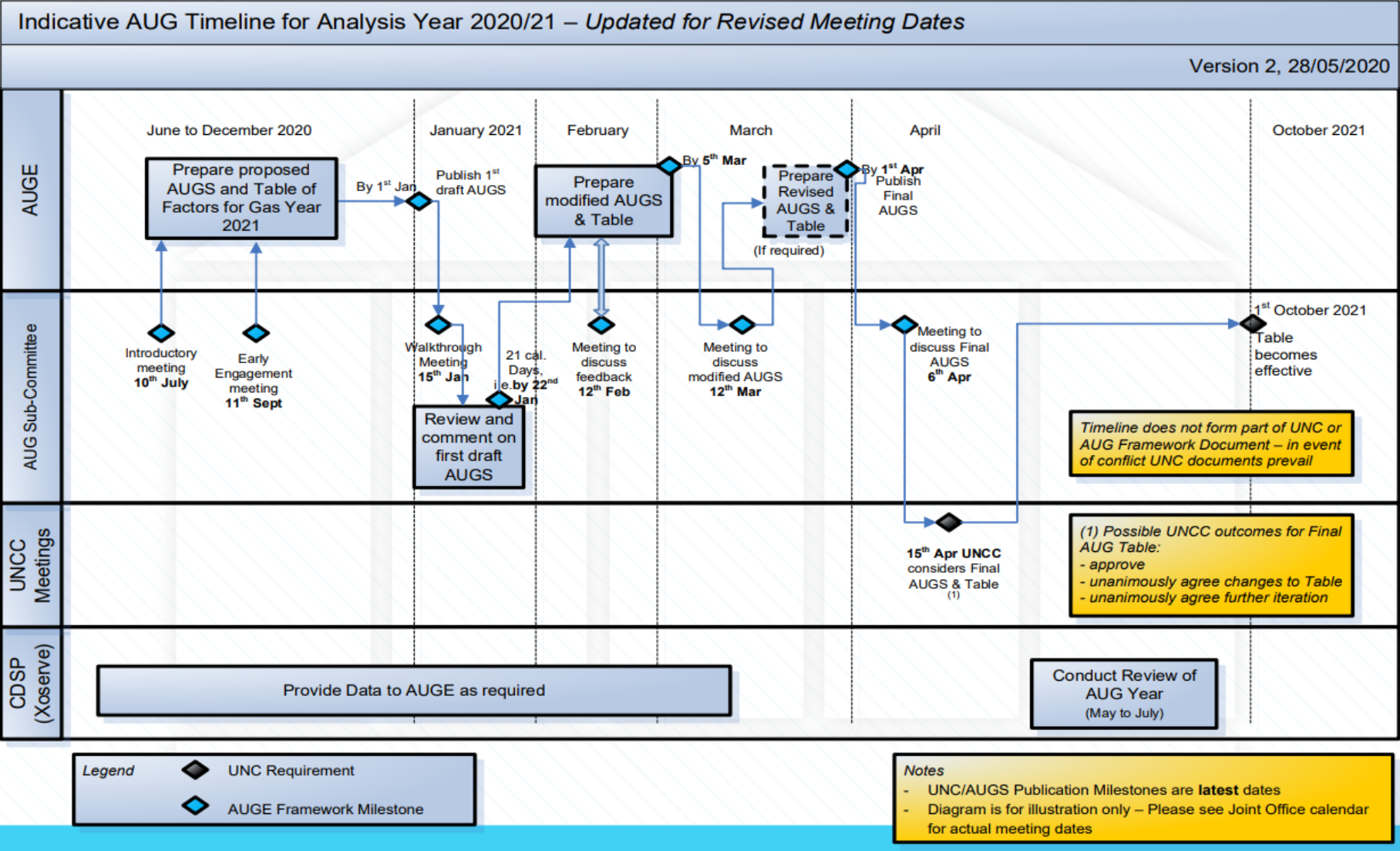
12 Recommendations

Panel Recommendation

Panel Members recommended:

- that Modification 0758 should [not] be implemented

13 Appendix 1 – Further Information on the AUG Statement Production Process



To accompany the above schematic, the CDSP has provided a list of activities carried out during the process to provide more information on the steps shown in the diagram:

- An Introductory meeting in July 2020 where the AUG explained its high-level approach, data sources and list of topics for detailed investigation.
- An Early Engagement meeting in September 2020 where the AUG gave an update on UIG Contributors and an overview of the methodology or initial investigations for each contributor.
- An additional engagement meeting in November 2020 to give more detail on proposed methodologies and get stakeholder feedback.
- The AUG provided the first draft of the AUG Statement for Gas Year 2021 to Joint Office on 30 December 2020, (the deadline set in the Framework is 31 December), including a first draft of the Table of Weighting Factors; Joint Office issued an email to its UNC mailing list to announce the publication.
- Any interested parties had a 22-day window to submit feedback: this timescale is set out in the AUG Framework document.
- During the January 2021 feedback window there was a “walkthrough” meeting of the AUG Sub-Committee where the AUG explained the proposed methodology in detail.
- Xoserve received feedback from 7 Shippers and 1 trade association (ICoSS) during the window, ranging from very supportive to very critical.
- Following the feedback window there was a further AUG Sub-Committee meeting in February 2021 where the AUG presented its responses to the comments raised in the feedback window, with 16 Shipper/Supplier/Trade Association attendees.
- Following that meeting the AUG published an updated version of the Statement including a revised Table of Weighting Factors – some factors changed significantly from the previous draft but most did not change very much.
- There was a sixth AUG Sub-Committee meeting of the cycle in March 2021 where the AUG explained the changes between the first draft and second drafts of the Statement.
- The final version of the Statement (including the final Table of Weighting Factors) was published on 31 March 2021.
- There was a final AUG Sub-Committee meeting in April (before the UNC Committee meeting) where the AUG presented the final AUG Table which was unchanged since the 05 March 2021 version.
- The April UNC Committee meeting (on 15 April 2021) considered the Final AUG Table as published on 31 March 2021: as permitted in UNC Section E one party proposed an alternative Table of Weighting Factors (identical to the current Gas Year 2020 Table) but this proposal received 4 votes for and 8 votes against; UNC requires a unanimous vote in favour of an alternative.
- There was no proposal to repeat any part of the process, (which is also permitted in UNC Section E), so the proposed AUG Table was automatically approved.

The AUG Framework also includes a “Review of the AUG Year” to gather feedback from interested parties on the operation of the AUG process: the request for feedback was issued via Joint Office distribution list on 20 April 2021 with a closing date of 17 May 2021. The CDSP will prepare a summary of the responses with any relevant recommendations for changes to the process or Framework document for consideration at UNC Committee.