

Stage 02: Draft Workgroup Report

0326VV:

Allocation of unidentified gas following the appointment of the Allocation of Unidentified Gas Expert (AUGE)

What stage is this document in the process?



This modification will ensure any issue(s) identified by the AUGE is reconciled back to the period to which it relates, irrespective of when the issue was identified by the AUGE. Such issues would only be reconciled back to the Application Date of 1st April 2012, where it can be demonstrated that the issue was prevailing at that time.



The Workgroup recommends that this modification should now proceed to Consultation



High Impact:



Medium Impact:



Low Impact:
Shippers and Gas Transporters

0326VV

Draft Workgroup Report

15 August 2011

Version 2

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About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 15 September 2011, on whether Modification 0326VV is sufficiently developed to proceed to consultation and to submit any further recommendations in respect of the definition and assessment of this modification.



3 **Any questions?**

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1 Summary

Is this a Self-Governance Modification

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

Why Change?

Ofgem approved Modification 0229, which will see the introduction of the Allocation of Unidentified Gas Expert (AUGE). Such an expert will create a methodology for the allocation of unidentified gas to rectify the current cross-subsidy where the SSP market is picking up costs associated with the LSP market, through the Reconciliation by Difference (RbD) process.

Modifications 0317 and 0317A, raised by Shell Gas Direct and Centrica respectively, propose an interim allocation solution which details a level of contribution to be made by the LSP sector until such time as the AUGE calculates and implements its own statement.

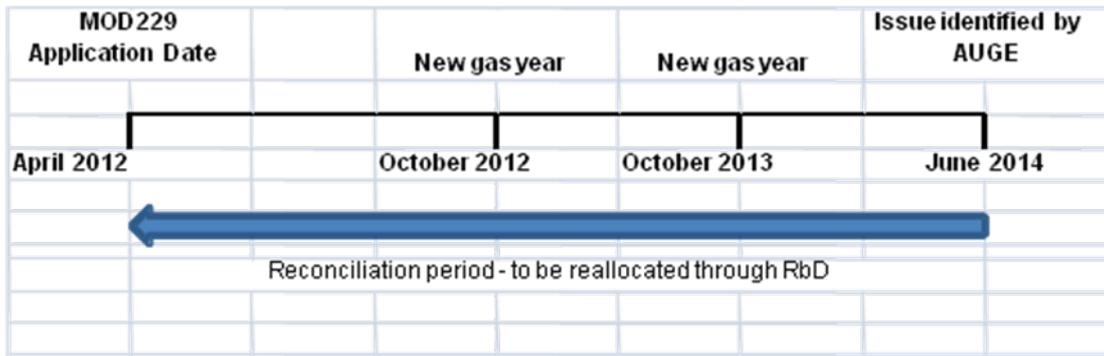
However, ScottishPower is concerned that there is the potential for new issues to remain unallocated over the applicable period, even when the AUGE is appointed. Equally the current proposal under Modification 0229 does not ensure when new issues are identified and established by the AUGE are then backed through the RbD process over the period to which they relate.

When Modification 0326 was originally raised (November 2010) it was predicated on the basis that the first AUGE year would start on 01 April 2011. Implementation of Modification 0339 has set now this as 01 April 2012. The variation request has therefore been raised to align 0326 with 0339 and this variation relates to Modification 326V.

Solution

It is proposed that the Application Date is set at 1 April 2012, but that coupled with this, any future issue, with the exception of theft of gas methodology, shipperless and unregistered sites, identified by the AUGE is reconciled back to the period to which it relates, irrespective of when the issue was identified by the AUGE. Such issues would only be reconciled back to the Application Date of 1st April 2012, where it can be demonstrated that the new issue was prevailing at that time. We believe that the additional incentives require to be put in place to ensure that newly discovered issues that contribute to the level of unidentified gas are recognised and brought to the attention of the AUGE at the earliest possible opportunity. For the avoidance of doubt, the application date will roll forward in line with the invoicing rules set in accordance with UNC i.e. Section S 1.4.4.

This principle is demonstrated below:



This proposal will allow newly discovered issues, such as Transporter notified metering errors, to be allocated to both the LSP and SSP sector, where the unidentified gas has involved both market segments. It also represents a rebasing of the risk to ensure that the LSP and SSP markets face the same risks of unidentified gas.

This proposal would apply to both credit and debits. If the proposal were not accepted, then it would remain that the SSP market is cross-subsidising the LSP market, if issues go beyond a one year period. Therefore, potentially significant amounts of energy will continue to be allocated to the incorrect sector. This is not an effect that was contemplated within modifications 229 and 317/A, which look to ensure energy costs are appropriately and correctly assigned to the relevant market sector.

Impacts & Costs

This proposal is based upon the principles of MOD 0229 invoicing requirements; hence it is expected the requirements for this MOD to be embedded within the introduction of MOD229 functionality. Therefore, impacts and costs should be minimal. However, some recognise that there is an additional requirement for the LSP market share to be recorded on a daily basis from the 1st April 2012 (rolling forward in line with the invoicing rules set in accordance with UNC i.e. Section S 1.4.4).

Implementation

1st April 2012

The Case for Change

As Modification 0229 does not ensure when newly discovered issues are identified and established by the AUGE are then backed through the RbD process over the period to which they relate. Given the fact that Mod 0229 was raised to address the current cross subsidy between the SSP and LSP markets in relation to unidentified gas and to ensure this is appropriately distributed it does not seem complete that an issue that is known to relate to a previous period is not addressed by being backed through RbD. ScottishPower are concerned that there is the potential for issues to remain unallocated over the applicable period, even when the AUGE is appointed.

Hence, ScottishPower considers this Proposal is required to ensure any issue(s) identified by the AUGE is reconciled back to the period to which it relates, irrespective of when the issue was identified by the AUGE. Such issues would only be reconciled back to the Application Date of 1st April 2012, where it can be demonstrated that the issue was prevailing at that time.

When Modification 0326 was originally raised (November 2010) it was predicated on the basis that the first AUGE year would start on 01 April 2011. Implementation of Modification 0339 has set now this as 01 April 2012. The Modification 0326V variation

request was therefore raised to align 0326 with 0339 and this subsequent variation request is made to add clarity on the issues, which would be considered by the AUGÉ.

Recommendations

[The Workgroup considers that the modification is sufficiently developed and should now proceed to consultation.]

2 Why Change?

It has been widely recognised and accepted (via a number of Modifications) that the allocation of unidentified gas required amendment, since currently only the SSP market bears the cost, with the LSP market not contributing. After much debate and a number of modifications Ofgem approved modification 0229, which will introduce the Allocation of Unidentified Gas Expert (AUGE). Such an expert will create a methodology for the allocation of unidentified gas to rectify the current cross-subsidy where the SSP market is picking up costs associated with the LSP market, through the Reconciliation by Difference (RbD) process.

Subsequent Modifications 0317 and 317A, raised by Shell Gas Direct and Centrica respectively, proposed an interim allocation solution which details a level of contribution to be made by the LSP sector until such time as the AUGE calculates and implements its own statement. Modification 0317 has since been approved by Ofgem (implementation 19th November 2010).

However, ScottishPower is concerned that there is the potential for new issues to remain unallocated over the applicable period, even when the AUGE is appointed. Equally the current proposal under Modification 229 does not ensure when new issues are identified and established by the AUGE are then backed through the RbD process over the period to which they relate.

When Modification 0326 was originally raised (November 2010) it was predicated on the basis that the first AUGE year would start on 01 April 2011. Implementation of Modification 0339 has set now this as 01 April 2012. The Modification 0326V variation request was therefore raised to align 0326 with 0339 and this subsequent variation request is made to add clarity on the issues, which would be considered by the AUGE.

3 Solution



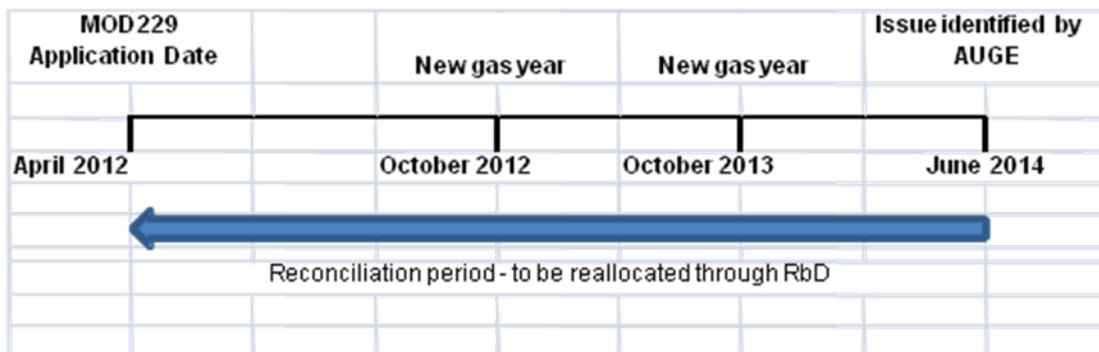
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This Proposal seeks to ensure that any future issue identified by the AUGE can be retrospectively adjusted to the AUG Application Date of 1st April 2012 or the maximum invoice date as set out in UNC Section S 1.4.4. It is proposed that any future newly discovered issue identified by the AUGE is reconciled back to the period to which it relates, irrespective of when the issue was identified by the AUGE. Such new issues would only be reconciled back to the Application Date of 1st April 2012, where it can be demonstrated that the issue was prevailing at that time. We believe that the additional incentives require to be put in place to ensure that any new issues that contribute to the level of unidentified gas are recognised and brought to the attention of the AUGE at the earliest possible opportunity. For the avoidance of doubt, the application date will roll forward in line with the invoicing rules set in accordance with UNC i.e. Section S 1.4.4 and theft of gas methodology, shipperless and unregistered site issues are excluded from this proposal, whereas new metering errors are not.

This principle is demonstrated below:



This proposal will allow new issues, such as Transporter notified metering errors, to be allocated to both the LSP and SSP sector, where the unidentified gas has involved both market segments. It also represents a rebasing of the risk to ensure that the LSP and SSP markets face the same risks of unidentified gas.

This proposal would apply to both credit and debits. If the proposal were not accepted, then it would remain that the SSP market is cross-subsidising the LSP market, if issues go beyond a one year period. Therefore, potentially significant amounts of energy will continue to be allocated to the incorrect sector. This is not an effect that was contemplated within modifications 229 and 317/A, which look to ensure energy costs are appropriately and correctly assigned to the relevant market sector.

4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objectives a, b, c, d and f.**

Workgroup's view of the benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	No
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.	No
c) Efficient discharge of the licensee's obligations.	No
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.	Yes
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.	No
f) Promotion of efficiency in the implementation and administration of the Code	Yes

Standard Special Condition A11.1 (d):

The early identification of new issues that contribute to the level of unallocated gas and the subsequent re-apportionment of costs associated with these issues over the period in which these costs have been incurred, will result in an improvement in the equitable distribution of unallocated gas costs between these market sectors. The [Workgroup considers] that there requires to be the appropriate incentives on all Users to readily bring forth, to the attention of the AUGE, matters that have the potential to affect the level of unallocated gas.

Should the AUGE's analysis conclude that a new issue(s) has consistently contributed to the level of unallocated gas, the ability to re-apportion energy charges back to the application date of 1st April 2011 or a period up to the maximum invoice period will give increased confidence to RbD Shippers on cost allocations.

Competition in the SSP market will be improved. This Modification will ensure that costs that do not relate to these consumers are not being met by the Shippers in that market. It will improve the attractiveness of the SSP market to new entrants.

Standard Special Condition A11.1 (f):

This proposal seeks to ensure the framework being introduced under Mod 0229 is complete in relation to ensuring costs of unidentified gas are appropriately associated and distributed to the correct market sector. Without this proposal unidentified gas costs that are clearly attributable to a period earlier than the one AUGE year will not be re-apportioned across the relevant market participants.

5 Impacts and Costs

Consideration of Wider Industry Impacts

Implementation of this modification should have no impact upon wider industry developments.

Costs

Indicative industry costs – User Pays	
Classification of the Proposal as User Pays or not and justification for classification	
This proposal is based upon the principles of Mod 0229 invoicing requirements; hence it is expected that the requirements for this modification to be embedded within the introduction of Mod 0229 functionality. However, it is recognised that there is an additional requirement for the LSP market share to be recorded on a daily basis from the 1st April 2012 (rolling forward in line with the invoicing rules set in accordance with UNC i.e. Section S 1.4.4.	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
On a User Pays basis as provided for in Mod 0229	
Proposed charge(s) for application of Users Pays charges to Shippers	
On the same charging basis for Modification 0229, as defined in the ACS: http://www.gasgovernance.co.uk/sites/default/files/AgencyChargingStatement_live%201%20July%202010.pdf	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	
To be determined, per above	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact

UK Link	<ul style="list-style-type: none"> It is expected that changes to UK Link to be extremely limited, if at all required since the proposal utilises the mechanism introduced by Mod 0229 and will simply require a reconciliation to take place back to a relevant date (no earlier than 1 April 2012). This concept already exists as introduced by Mod 0152V relating to the limitation on retrospective invoicing and invoice correction.
Operational Processes	<ul style="list-style-type: none"> None identified
User Pays implications	<ul style="list-style-type: none"> As above – none since incorporated within Mod 0229.

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> Some Users are likely to face small administrative and operational costs to manage additional invoices from GTs and the contractual requirement to pass these costs through to consumers. This modification will expand the timescales that these additional bills can be applied from. Implementation of this modification may also result in the subsequent recovery of these costs through contractual terms with their customers. Additional administration may be introduced in order to manage these processes.
Development, capital and operating costs	<ul style="list-style-type: none"> Some Shippers may need to make changes to their systems.
Contractual risks	<ul style="list-style-type: none"> None identified
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None identified

Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

0565 Transco Proposal for Revision of

Network Code Standards of

Service at the following location:

<http://www.gasgovernance.co.uk/sites/default/files/0565.zip>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> None identified
Development, capital and operating costs	<ul style="list-style-type: none"> As above – contained within Mod 0229 developments
Recovery of costs	<ul style="list-style-type: none"> Per Mod 0229
Price regulation	<ul style="list-style-type: none"> None identified
Contractual risks	<ul style="list-style-type: none"> None identified
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None identified
Standards of service	<ul style="list-style-type: none"> None identified

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none">
UNC Committees	<ul style="list-style-type: none">
General administration	<ul style="list-style-type: none">

Impact on Code	
Code section	Potential impact
TPD Section E	

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	
Storage Connection Agreement (TPD R1.3.1)	
UK Link Manual (TPD U1.4)	
Network Code Operations Reporting Manual (TPD V12)	
Network Code Validation Rules (TPD V12)	

Impact on UNC Related Documents and Other Referenced Documents	
ECQ Methodology (TPD V12)	
Measurement Error Notification Guidelines (TPD V12)	
Energy Balancing Credit Rules (TPD X2.1)	
Uniform Network Code Standards of Service (Various)	

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	
Gas Transporter Licence	

Other Impacts	
Item impacted	Potential impact
Security of Supply	
Operation of the Total System	
Industry fragmentation	
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	

6 Implementation

1st April 2012 if a decision to implement is issued by 15th March 2012; 1st June if a decision to implement is received by 18th May 2012. If a decision to implement is received after 1st June 2012, implementation 21 business days following the decision to implement.

7 The Case for Change

In addition to that identified the above, the Workgroup has identified the following:

Advantages

This Proposal seeks to ensure that any future issue identified by the AUGE can be retrospectively adjusted to the AUG Application Date of 1st April 2012 or the maximum invoice date as set out in UNC Section S 1.4.4. We believe the benefits of this proposal are that it will:

- Reduce the current cross-subsidy between the LSP and SSP sectors in a clear and simple way.
- Introduces an incentive on Users to identify to the AUGE at an early stage, those issues that may be contributing to the level of unallocated gas
- Introduces improved transparency and accuracy on the allocation of RbD
- Where the AUGE analysis determines that an issue has over a period of time contributed to the level of unallocated gas, that the retrospective adjustments can be made back to AUG Application Date of 1st April 2012 or to the maximum invoice period as set out in Section S 1.4.4.
- Incentivises market participants to make appropriate financial provisions in readiness for reconciliations back as far as 1 April 2012

Disadvantages

- The retrospective nature (i.e. either 1 April 2012 or another specified later date) will introduce some cost uncertainty to market participants but as already established this is the same situation the SSP market currently face
- May result in additional administration costs for the Transporter Agency

8 Legal Text

DRAFT LEGAL TEXT

Allocation of unidentified gas following the appointment of the Allocation of Unidentified Gas Expert (AUGE)

TPD Section E; DAILY QUANTITIES, IMBALANCES AND RECONCILIATION

Amend paragraph 10.4.4 as set out below:

10.4.4 For the purposes of the Code:

- (a) the AUG Methodology and AUG Table...and (subject to paragraph 10.5.5 below), shall not be subject to modification...
- (b) ...the Code.

Add new paragraphs 10.5.5 and 10.5.6 as set out below:

10.5.5 In circumstances where a new Unidentified Gas Source (with the exception of issues relating to the theft of gas methodology or shipperless or unregistered sites issues) is identified by the AUGE in any particular AUG Year (the "Current AUG Year") and leads to a quantity of Unidentified Gas to apply to prior AUG Years in addition to the Current AUG Year, paragraph 10.5.6 shall apply for each applicable prior AUG Year back to and including 1 April 2012 (where relevant and subject to Section S 1.4.4) as set out in paragraph 10.5.6 below.

10.5.6 As soon as reasonably practicable following the adoption of the AUG Table for the Current AUG Year, where applicable in accordance with paragraph 10.5.5 above, a reconciliation and adjustment shall be made, for each User and each Reconciliation Billing Period in each prior AUG Year between:

- (a) the User Unidentified Gas Amount as determined on the basis of the AUG Table for the Current AUG Year; and
- (b) the User Unidentified Gas Amount as determined on the basis of the revised AUG Table (taking into account the new Unidentified Gas Source) as applicable for each prior AUG Year in which such new Unidentified Gas Source is deemed to apply;

and the net adjustment amount shall be calculated and paid by or to such User (and shall be invoiced and payable in accordance with TPD Section S), without interest in respect of the period prior to the due date of the relevant invoice for such adjustment amount.

9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0326VV be submitted for consultation.

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