

0572:

Amendment to the definition of AUG Year within UNC TPD Section E

01	Modification
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This modification proposal amends the definition of 'AUG Year' as introduced by UNC Modification 0473, by changing the 'AUG Year' period start date from 01 April to 01 October.

	The Panel recommends implementation
	High Impact: None
	Medium Impact: Shipper Users
	Low Impact: Transporters

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This Final Modification Report was considered by the Panel on 21 April 2016.		
The Panel recommended that this modification should be implemented.		
The Authority will consider the Panel's recommendation and decide whether or not this change should be made.		
The Workgroup recommended the following timetable:		
Initial consideration by Workgroup	28 January 2016	
Workgroup Report presented to Panel	17 March 2016	
Draft Modification Report issued for consultation	17 March 2016	
Consultation Close-out for representations	11 April 2016	
Final Modification Report presented to Panel	12 April 2016	
UNC Modification Panel decision	21 April 2016	

1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification because it is likely to have material effect on gas consumers and competition.

The Workgroup agreed with the Modification Panels determination on self-governance as this modification is likely to impact the period of time allowed to notify consumers of changes to their bills and therefore materially impact consumers.

Is this a Fast Track Self-Governance Modification?

Fast Track Self-Governance criteria does not apply because it is not a housekeeping modification.

Why Change?

Modification Proposal 0473 - Project Nexus – Allocation of Unidentified Gas introduces new Allocation of Unidentified Gas (AUG) arrangements with effect from the Project Nexus Implementation Date. Section 7 of the AUG framework document covers the activities and timescales for the creation, submission to The Committee and publication of the AUG Statement by the AUG Expert and the subsequent population and publication of the resulting AUG Table by Gas Transporters.

The Modification 0473 arrangements introduce a period of 9 months between 01 July (publication of the populated AUG Table) and 01 April (commencement of the next AUG Year and effective date of the new AUG Table published on 01 July).

It is considered that the introduction of a 7 month delay, to introduce a new AUG Table that has been based on the work of the independent AUG Expert, is not in the interests of consumers or improves the incumbent process. Instead, arrangements should be such that any changes to the allocation of unidentified gas that are affected by the introduction of a new or revised AUG Table can be implemented at the earliest possible opportunity and are closer aligned to timescales within the existing arrangements.

Solution

The solution simply seeks to amend the definition of 'AUG Year' such that the period commences on 01 October and concludes on 30 September. These dates will replace the dates introduced by Modification 0473 of 01 April and 31 March respectively.

There are no costs associated with the implementation of this Modification.

Relevant Objectives

The Workgroup considers this modification would impact Relevant Objective d) securing effective competition between Shippers and Suppliers.

Implementation

No implementation timescales are proposed. However, it is anticipated this modification could be implemented in line with the implementation of Modification 0473, which is currently set as 01 October 2016 and defined under code as the Project Nexus Implementation Date.

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

This modification does not impact a Significant Code Review or any other significant industry change projects.

2 Why Change?

Modification Proposal 0473 - Project Nexus – Allocation of Unidentified Gas introduces new arrangements with effect from the Project Nexus Implementation Date (currently 01 October 2016). In addition to the inclusion of new legal text within TPD Section E, Modification 0473 will also introduce a UNC related document entitled 'Framework for the Appointment of an Allocation of Unidentified Gas Expert'.

Section 7 of this UNC related document covers the activities and timescales for the creation, submission to The Committee and publication of the AUG Statement by the AUG Expert and the subsequent population and publication of the resulting AUG Table by The Gas Transporters.

The process outlined in Section 7 concludes The Committee 'approval process' of the AUG Experts Draft AUG Statement by 01 June, with publication of the populated AUG Table being completed by 01 July.

The AUG Table will subsequently become effective at the commencement of the next AUG Year. The AUG Year is defined within TPD Section E as detailed below:

'AUG Year' means the period from 01 April in any year until and including 31 March in the following year and in relation to any AUG Year the "Preceding AUG Year" is the AUG Year ending at the start of such AUG Year;

The Modification 0473 arrangements introduce a period of 9 months between 01 July (publication of the populated AUG Table) and 01 April (commencement of the next AUG Year and effective date of the new AUG Table published on 01 July).

Under the existing AUG arrangements, introduced by Modification Proposal 0229, the period of time between publication of the final populated AUG Table (1st February) and its effective date (1st April) is only 2 months. These arrangements have been successfully utilised since the implementation of Modification 0229 in 2010.

When compared to the existing AUG arrangements, the new Modification 0473 arrangements introduce a delay of an additional 7 months (from final AUG Table publication to implementation).

It is considered the introduction of a 7 month delay, to introduce a new AUG Table that has been based on the work of the independent AUG Expert, is not in the interests of consumers or improves the incumbent process. Instead, arrangements should be such that any changes to the allocation of unidentified gas that are affected by the introduction of a new or revised AUG Table can be implemented at the earliest possible opportunity.

3 Solution

The solution simply seeks to amend the definition of 'AUG Year' such that the period commences on 01 October and concludes on 30 September. These dates will replace the existing dates introduced by Modification 0473 of 01 April and 31 March respectively.

The proposer does not expect there to be any costs associated with the implementation of this proposal.

This modification would provide a more consistent approach with the existing arrangements.

Proposed amendment to the legal text introduced by the implementation of Modification 0473

TPD Section E

9.1.1(f) "**AUG Year**" means the period from 1 ~~April~~ **October** in any year until and including ~~31 March~~ **30 September** in the following year and in relation to any AUG Year the "**Preceding AUG Year**" is the AUG Year ending at the start of such AUG Year;

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.	n/a
Proposed charge(s) for application of User Pays charges to Shippers.	n/a
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	n/a

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Impacted
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Some Workgroup participants consider this modification has a positive impact upon d) Securing of effective competition enhances competition between relevant Shippers and Suppliers because it will ensure that any changes to the AUG Table, as defined by the AUG E, will be implemented at the earliest opportunity leading to a more accurate allocation of Unidentified Gas costs between Shipper Users and will align more closely to existing arrangements, therefore further competition.

Other participants consider the impact of the proposed date changes would have a negative impact on Shippers and Suppliers, as they would have a reduced timeframe to reflect the impacts of the AUG Table in their prices, which would be detrimental to competition.

5 Implementation

No implementation timescales are proposed. However, the Workgroup anticipates this modification would be implemented in line with the implementation of Modification 0473, which is currently set as 01 October 2016 and defined under Code as the Project Nexus Implementation Date.

6 Impacts

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

This proposal does not impact a Significant Code Review or any other significant industry change projects.

7 Legal Text

Text Commentary

The legal text has the effect of amending the definition of the AUG Year within the UNC TPD Section E such that the period commences on 1 October and concludes on 30 September. This replaces the existing dates of 1 April and 31 March respectively. For the avoidance of doubt, the insertion of the below legal text into the UNC TPD Section E 9.1.1(f) is predicated on the prior incorporation into Code of the legal text for UNC Modifications 432 and 473.

Legal Text

Scotia Gas Networks advised that they were willing to adopt the Proposer Legal Text. However, the reference numbering would need to be reviewed to ensure it is implementable with the Legal Text being implemented for Project Nexus.

The Workgroup raised no concerns with the Suggested Text or its adoption by Transporters.

Scotia Gas Networks provided the following Legal Text and Commentary after conclusion of the final Workgroup meeting.

TPD Section E

Amend paragraph 9.1.1(f) as follows:

9.1.1(f) **“AUG Year”** means the period from 1 ~~April~~ October in any year until and including ~~31 March~~ 30 September in the following year and in relation to any AUG Year the **“Preceding AUG Year”** is the AUG Year ending at the start of such AUG Year;

8 Consultation Responses

The summaries in the following table/s are provided for reference on a reasonable endeavours basis only. We recommend that all representations are read in full when considering this Report. Representations are published alongside this Report.

Of the 9 representations received, 6 supported implementation, 1 offered qualified support, and 2 were not in support.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
British Gas	Support	d) Positive	<ul style="list-style-type: none">Delaying implementation of the output from the independent AUG Expert, is not in the interests of consumers and does not improve the incumbent process.

			<ul style="list-style-type: none"> • Arrangements should be such that any changes to the allocation of unidentified gas, which are effected by the introduction of a new or revised AUG Statement/Table, should be implemented at the earliest possible opportunity. • Within Workgroup discussions, some participants considered that the proposed date changes would have a negative impact on Shippers and Suppliers, as they would have a reduced timeframe to reflect the impacts of changes to the AUG Table in their prices, which would be detrimental to competition. Shippers currently only have a period of 2 months between AUG Table publication and effective date. • This proposal will extend that period to 3 months, providing more time for shippers to reflect values within their prices rather than less. • It should be noted that the most recent AUGE output went live on 1st April 2015, the delay to the implementation of Project Nexus preventing an updated AUG Statement from being introduced in either April 2016 or April 2017. • Implementation of this modification should be carried out in line with the implementation of Modification Proposal 0473, which is currently set as 01 October 2016 (aligned with the Project Nexus Implementation Date). • It should be noted that implementation of this proposal would not have any impact to the work currently being undertaken to appoint the new Allocation of Unidentified Gas Expert.
EDF Energy	Qualified Support	d) None	<ul style="list-style-type: none"> • In principle, agrees with the intent of this modification, however do not believe that the Draft Modification Report sets out very clearly the relative merits of an AUG Table published in either October or April or the arguments and for/against either option. • This should include the impact of the introduction of a disconnect between the effective date of the transportation rates and the AUG year, which are aligned in the current and the 0473 AUG processes. • The Draft Modification Report does not set out how or when the transition will happen, and it may not be implemented before October 2018. It states it should be implemented at the Project Nexus Implementation Date which is 1 October 2016 in the middle of an AUG year. • The consequences of the implementation date do not

			appear to have been explored.
Gazprom Energy	Oppose	d) Negative	<ul style="list-style-type: none"> Existing arrangements should continue as they align to this key industry process allowing customers to experience less uncertainty and volatility around their costs for the following 12 months. On balance, the consumer detriment caused by bringing forward the date from April to October offsets any unproven potential “benefit” that may arise from this modification. The proposal is not positive in relation to Relevant Objective d) as the proposed change would have a negative impact on Shippers and Suppliers. The reduced timeframe to reflect the impacts of the AUG Table in prices would be detrimental to competition.
RWE npower	Support	d) Positive	<ul style="list-style-type: none"> Ensures changes to the AUG table are reflected as quickly as possible, leading to a more accurate allocation of Unidentified Gas costs amongst Gas Shippers at the earliest possible opportunity. Implementation should be carried out with the Project Nexus go-live in order to provide clarity and certainty for UNC parties.
ScottishPower Energy Management Ltd	Support	d) Positive	<ul style="list-style-type: none"> Implementation will ensure that the most up to date information in relation to unidentified gas is utilised at the earliest opportunity. Inconceivable that the industry would pay for an expert to determine the levels of unidentified gas applicable to each market segment and then have 7 months down time before applying it to the market arrangement. Believes in the principle that the industry should be taking every opportunity to be more dynamic in assigning risk in the market to parties/market segments that introduce the risk. This should in turn mean that parties act to address any issues within the market to reduce risk overall, if the risk that they are facing is directed at their market segment. The Proposer of MOD473 recognised this as an objective of the proposal: “As the aim should be to reduce unidentified gas, not simply target its allocation, and a universal scaling factor would seem to dilute any incentives to do so” Whilst there have been some arguments put forward to suggest that publishing the AUG Table in July and making it effective in October (as proposed by this modification) would present issues for

			<p>Shippers/Suppliers in pricing Industrial and Commercial contracts, no detail has been forthcoming on the materiality of the implied risk.</p> <ul style="list-style-type: none"> • In addition, there was an opportunity, which was discussed in the workgroup, for an alternative proposal to be raised to this modification, but this has not been forthcoming despite the proposer delaying progress on the proposal to allow for an alternative to come forward. It would appear that the issue was not deemed significant enough for Shippers who raised the concern to warrant them raising an alternative approach to MOD572. • Would like to see an Authority decision on this proposal as soon as possible to provide clarity on the arrangements and agrees with the proposer that this modification should be implemented. • Would see the introduction of the MOD473 arrangements in a timely manner and provide greater certainty of the implications of the new regime on parties. • The proposal suggests moving from an April start to the AUG Year to one which starts in October. Whilst this means that the AUG Year will no longer coincide with changes to transportation charges, it will align with the major I&C contract round in October, providing 3 months-notice of changes (with the Transporters publishing the populated AUG Table by 1st July), allowing these to be factored into customer's contracts at an earlier date. • It is also worth noting that this proposal provides more notice, than is currently provided in the existing AUG arrangements. • It should also not be assumed that any changes in the table will be detrimental to I&C customers and therefore would highlight that to have the changes earlier could be in the interest of the customer.
SGN	Support	d) Positive	<ul style="list-style-type: none"> • Implementation of this modification is supported, as it will reduce the 9 month lag following the AUG review down to 6 months. • Using up-to-date data, will increase the accuracy when calculating unidentified gas costs between Shipper Users, which will mean that costs are more reflective across the industry. • Envisage no impact on the current AUG service itself.

SSE	Support	d) Positive	<ul style="list-style-type: none"> • The implementation of Modification 0473 will introduce a delay of 7 months from publication of the final AUGE statement until the new figures become effective, when compared to the current AUGE arrangements. • Implementation of this modification would enable the output from the future annual AUGE process to be used to update the allocation of unidentified gas table six months earlier, and making these figures effective from October each year will allow the revised AUGE figures to become effective as soon as practicable. • Ensuring that the allocation of unidentified gas between parties will be as accurate as possible for each gas year, based on the findings of the AUGE, and that there will be no unnecessary time lag between any new allocation table being published and it coming into effect. • Implementation on the Project Nexus Implementation Date.
Total Gas & Power Ltd	Oppose	d) Negative	<ul style="list-style-type: none"> • Disagree with the implementation of this modification because it does not provide sufficient justification of the benefits of publishing an AUG Table 6 months earlier. • It is to the benefit of customers to have more certainty of the fixed costs for longer and for suppliers to have more time to be able to forward plan base costs. • Bringing the publication of the table forward would hinder this.
Wales & West Utilities	Support	d) Positive	<ul style="list-style-type: none"> • Information should be used as soon as reasonably practicable after it is available, to enable markets to work more efficiently. • Implementation will facilitate competition between Shippers. • The modification seeks to continue the current two month notice period between publication of the new AUGE table and its effective date after Project Nexus Implementation Date. • The two month notice is consistent with the notice period for transportation charges published by Distribution Networks. • Implementation should be carried out on the Project Nexus Implementation Date with an expectation that the first table from the AUGE would come into effect on 1st October 2017. • Regarding the comment in another representation that

			<p>“It was highlighted at the January 2016 [572] workgroup it may not be possible to implement UNC 0572 before October 2018”. Believes this is an incorrect view of the discussion which was in the context of both having an October implementation and a 6 month notice period. The extract below is from the published minutes of this meeting. “SM asked if having 6 months’ notice ahead of the October date would be a problem, as an alternative might be to mirror this Modification 0572 but just propose more notice. FC thought it too tight to get the first output (for first year); an interim table would have to persist until October 2018.”</p> <ul style="list-style-type: none"> • There will be no costs and it will not affect the AUGE process just the notice period. A procurement event is already in progress to appoint a new AUGE. • It is noted that the period of two months is consistent with other charging requirements set out in Uniform Network Code – Transportation Principal Document Section B 1.8.2.
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Representations are published alongside the Final Modification Report.

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.

9 Panel Discussions

Discussion

The Panel Chair summarised that Modification 0572 would amend the definition of ‘AUG Year’ such that the period commences on 01 October and concludes on 30 September, replacing the dates introduced by Modification 0473 of 01 April and 31 March respectively, and aligning to the existing arrangements.

Members considered the representations made noting that, of the 9 representations received, 6 supported implementation, 1 offered qualified support, and 2 were not in support.

Members noted the common theme in representations about it being good practice to use the latest available data as soon as is practicable, as proposed in 0572.

Consideration of Relevant Objectives

Some Members considered that implementation of 0572 would have a positive impact on competition because the earlier application of amendments to the AUG Table would facilitate more accurate allocation of Unidentified Gas costs between Shipper Users. These Members believed that relevant objective d) would be furthered as a result.

Other Members considered that the proposed date changes could have a negative impact on Shippers, as they would have a reduced timeframe to reflect the impacts of the AUG Table in their prices. These Members believed that relevant objective d) would not be furthered.

Panel Determinations

Members voted with 8 votes in favour (out of a possible 11), to recommend implementation of Modification 0572.

10 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel recommends that:

- proposed Modification 0572 should be made.