

CODE MODIFICATION PROPOSAL No 0339
Clarification of the AUG Year in respect of UNC Modification 0229
Version 1.0

Date: 12/10/2010

Proposed Implementation Date: Immediately upon direction by Ofgem

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Uniform Network Code (UNC) Modification Proposal 0229 ‘Mechanism for correct apportionment of unidentified gas’ was implemented with effect from 10th June 2010.

Included within Proposal 0229 was the business rule: "Changes to the volumes in the Large Supply Point Unidentified Gas allocation table would be announced and could only be implemented for the following year....."). Although no specific date for the first AUG Year was contained within the Proposal, in order to create certainty in terms of the mechanics of the AUG process, the legal text contained a definition of an AUG year as “the twelve month period commencing 1 April 2011.....”

As a consequence of industry development and review of the Allocation of Unidentified Gas Document (currently entitled 'Guidelines for the appointment of an Allocation of Unidentified Gas Expert'), it is clear that the AUG's determination in the form of an approved AUG Methodology (statement) will not be completed by 1st April 2011. This means that the legal text directed upon by Ofgem and implemented in respect of UNC Modification 0229 is not consistent with the intentions of the Proposal.

As a result, there is a mismatch between the intention of the Proposal and the legal text currently contained within the UNC and, as the parties responsible for the implementation of Proposal 0229, the Transporters would like to ensure absolute clarity exists in terms of the AUG Year to which the first energy reconciliation would apply.

This ambiguity has been noted by numerous UNC parties and prompted British Gas (BGT) to raise UNC Modification Proposal 0313 ‘Application Date for MOD0229’ This proposal reinforced the application of 1st April 2011 as being the first AUG Year. Under the circumstances stated above, NGD welcomed this proposal as a measure to create absolute clarity as to the date of the first AUG Year and in a note issued to the Uniform Network Code Committee (UNCC) dated 11th August 2011 provided suggested legal text with respect to the UNC Transition Document. This clearly set out the fact that irrespective of when the AUG Methodology became available, energy charge adjustments would be applied from 1st April 2011. BGT withdrew Proposal 0313 on 14th September and provided a note to the

industry explaining its reasons for this action.

While we respect BGT's right to withdraw the Proposal, we believe that the additional text which would have been included in the UNC by the implementation of Proposal 0313 would have provided the additional clarity that we now believe to be imperative for implementation. Since this Proposal has been withdrawn it is now necessary for the Transporters to gain further regulatory and contractual assurance to provide all parties with certainty over the date of the first AUG Year.

As the timeline for the appointment of the AUG has developed, it has become clear that there will be no AUG Methodology available on 1st April 2011. Therefore to have an AUG Year commencing on 1st April 2011 would be inconsistent with the intent of Modification 0229. The June 2010 meeting of the UNCC approved implementation of Version 2 of the Allocation of Unidentified Gas Document. This sets out a timetable of events leading to the appointment of an AUG and the requirements and responsibilities of the various organisations involved in identifying and agreeing an AUG Methodology. Using a timetable consistent with delivering the relevant 'milestones' set out in the Allocation of Unidentified Gas Document, the Transporters believe that the first AUG Year consistent with the rules specified within Proposal 0229 would be 1st April 2012.

Consequently NGD proposes that the definition of the first AUG Year be defined as this date.

Note: Transporters are financially neutral to the allocation of costs associated with Unidentified Gas between Users operating in the two market sectors. Indeed, it is a condition of our licence that we treat all Users in a non-discriminatory way and this proposal is not intended to confer any advantage on any individual User through its effects on the timing of the reallocation of energy costs. The proposal has been raised to provide Transporters and all Shippers with absolute clarity as to what Transporters are expected to do and by when we are expected to do it.

In addition to the views of the Proposer as set out above, the contents of this Modification Proposal are endorsed by:

Scottish and Southern Gas Networks, Wales & West Utilities and Northern Gas Networks.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Non-urgent procedures are requested.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

The proposer believes that this Modification Proposal is sufficiently clear to proceed directly to consultation.

2 User Pays

a) **Classification of the Proposal as User Pays or not and justification for classification**

No changes to User Pays Services are proposed. Consequently this Modification Proposal is not classified as User Pays.

b) **Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

Not applicable.

c) **Proposed charge(s) for application of Users Pays charges to Shippers**

Not applicable.

d) **Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

Not applicable.

3 **Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives**

Standard Special Condition A11.1 (a): The efficient and economic operation of the pipe-line system to which this licence relates:

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1(b): so far as is consistent with subparagraph

(a), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1(d): so far as is consistent with subparagraphs(a) to (c) the securing of effective competition:

(i) Between relevant shippers;

(ii) between relevant suppliers; and/or

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

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs

(a) to (d), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs

(a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation of this Modification Proposal is necessary to ensure the requirements and terms of UNC Modification 0229 are accurately implemented within the UNC.

4 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No such implications have been identified.

5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

No such implications have been identified.

b) The development and capital cost and operating cost implications:

No such implications have been identified.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

Not applicable.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

No such consequences have been identified.

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Implementation is not required to facilitate such compliance.

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

There are no development implications for the Transporters' UK-Link system or any other Transporter system. The Proposer is not aware of the implications for Users computer systems.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

The Proposer is not aware of any such implications.

b) The development and capital cost and operating cost implications

The Proposer is not aware of any such implications.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

The Proposer is aware that the timing of the application of the first AUG Year could have an impact on a Users contractual risk under the UNC as modified by this Proposal in terms of the extent of their liability for Unidentified Gas costs so incurred.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

The Proposer is not aware of any such implications.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No such consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

- Ensures that that the specific requirements of UNC Modification 0229 are precisely implemented within the UNC.

Disadvantages

No disadvantages have been identified.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

Not applicable at this stage.

13 Detail of all other representations received and considered by the Proposer

Not applicable at this stage.

14 Any other matter the Proposer considers needs to be addressed

No other matters have been identified.

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

NGD recommends that this Modification Proposal be implemented immediately upon direction.

16 Comments on Suggested Text

Not applicable at this stage.

17 Suggested Text

TPD Section E10

10 Allocation of Unidentified Gas ("AUG")

10.1 Interpretation

10.1.1 For the purposes of the Code:

(a) ...

(i) "**AUG Year**" means the twelve month period commencing 1 April 2012 and the twelve month period commencing on each subsequent 1 April; and in relation to an AUG Year a reference to the preceding year is to the twelve month period ending 31 March before the start of the AUG Year.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) Transportation Principal Document Section E10

Proposer's Representative

Name (Organisation) Chris Warner, National Grid Distribution

Proposer

Name (Organisation) Chris Warner, National Grid Distribution