

CODE MODIFICATION PROPOSAL No 0340
Clarification of the AUG Year in respect of UNC Modification 0229 (alternative)
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 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'), the legal text provides for the first AUG Year to commence on 1 April 2011. However, it is clear that the AUG's determination in the form of an approved AUG Methodology (statement) will not be completed by this date.

As a result, there is some ambiguity in 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 in respect of this Proposal which detailed changes 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.

In the light of the above position we have provided Transitional legal text which clearly sets out the circumstances under which reallocation of costs would occur and that this would take place from 1st April 2011 (irrespective of the date when the AUG Methodology is approved).

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 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 that date of the first application of the AUG methodology is clearly set out 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)

No such implications have been identified.

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 date for the first application of the reallocation of Unidentified Gas is clearly set out 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

Transition Document

TPD Section E10

1. It is acknowledged that the steps (including appointment of AUG Expert, establishing AUG Methodology and establishing AUG Table) first required under TPD Sections E10.2 and E10.4 will not be completed by the start of the first AUG Year (1 April 2011).
2. Accordingly, for the purposes of TPD Section 10:
 - (a) the first AUG Table to be established and adopted by the Committee as provided in TPD Section E10.4.3(g) shall apply (notwithstanding TPD Section E10.5.4) for the purposes of TPD Section E10.5 in relation to:
 - (i) the AUG Year commencing 1 April next following the adoption of such AUG Table, and
 - (ii) each prior AUG Year commencing with the first AUG Year;
 - (b) as soon as reasonably practicable following the adoption of such AUG Table, the net aggregate amount of the User Unidentified Gas Amounts for each User and for all Reconciliation Billing Periods in each prior AUG Year (as referred to in paragraph (a)(ii) above) shall be paid (by or to the User, as provided in TPD Section E10.5.3), and

shall be invoiced and payable in accordance with TPD Section S, as a single net aggregate payment, in satisfaction of TPD Section E10.5.3, without interest in respect of the period prior to the due date of the relevant invoice.

Code Concerned, sections and paragraphs

Uniform Network Code

Transition Document

Section(s) E10.

Proposer's Representative

Name (Organisation) Chris Warner, National Grid Distribution

Proposer

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