

Modification proposal:	Uniform Network Code (UNC) 343: The ability and requirement for Users and Transporters to raise issues to be considered by the Allocation of Unidentified Gas Expert as “known” issues (UNC 343)		
Decision:	The Authority ¹ has decided to reject this proposal		
Target audience:	The Joint Office, parties to the UNC and other interested parties		
Date of publication:	16 August 2011	Implementation Date:	N/A

Background to the modification proposal

Reconciliation by Difference (RbD) was introduced in the Small Supply Point (SSP) sector in 1998 to facilitate the introduction of competition in the domestic gas market. RbD is the method of reconciling the difference between actual (metered) and deemed (estimated) measurements of gas. At the time RbD was introduced, it was not considered practical to reconcile all supply points individually in this sector based on actual meter readings. The introduction of RbD was designed to offer an efficient mechanism for reconciling consumption in the SSP sector, as a cost-efficient alternative to individual meter point reconciliation (as used for the Large Supply Point (LSP) sector). The introduction of RbD avoided the development of a more complex system that would have delayed the rollout of domestic competition. We recognise there may be reform of these arrangements in the future.

Gas that is not directly attributed to a shipper is known as unidentified gas. RbD manages the allocation of unidentified gas to shippers in the SSP market and it is treated as a smeared cost for all SSP shippers. No volumes of unidentified gas prior to UNC 229 (see below) were attributed to the LSP sector. Unidentified gas may be caused by a number of factors including theft, late registered or unregistered sites, or measurement errors.

UNC Modification Proposal 229

UNC 229² (Mechanism for correct apportionment of unidentified gas) introduced a mechanism for apportioning unidentified gas between the SSP and LSP sectors. This proposed the introduction of a table to the UNC that would apportion a fixed volume of unidentified gas to the non-daily metered (NDM) LSP and daily metered (DM) LSP sectors. It also proposed a requirement for an independent expert (the Allocation of Unidentified Gas Expert, or AUGÉ) to determine values within this table on an enduring basis.

UNC 229 was accepted by Ofgem on 26 May 2010³ with an implementation date of 1 April 2011. In our decision letter we commented that UNC 229 offered a route to allocate unidentified gas based on a widely researched and transparent analysis of the underlying causes of unidentified gas, and for that methodology to be replicated on an enduring basis.

¹ The terms ‘the Authority’, ‘Ofgem’ and ‘we’ are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² The decision letter for UNC229 can be found on the Joint Office website at: <http://www.gasgovernance.co.uk/0229>.

³ This followed an Impact Assessment (IA) that we published in November 2009³ on UNC194, UNC194A, UNC228, UNC228A and UNC229.

UNC Modification Proposal 317

Modification proposals UNC 317, UNC 317A and UNC 327 were raised to address any delay in the appointment of the AUGE, production of an Allocation of Unidentified Gas Statement (AUGS) and population of the AUG table in time for the 1 April 2011 start date.

In November 2010 we approved UNC 317⁴ (Interim Allocation of Unidentified Gas Costs). This introduced set values in the AUGE table if the AUGE was not appointed and an AUGE table was not agreed by 1 April 2011. For each AUGE year commencing 1 April 2011 until the AUGE has defined the unidentified gas charging methodology and an AUGS is produced, the LSP NDM sector will contribute £2.75m towards the total cost of Unidentified Gas and the LSP DM sector will make no contribution.

UNC Modification Proposal 339

In April 2011 we approved UNC 339⁵ (Clarification of the AUG Year in respect of UNC Modification 229). This sought to introduce an application date for the first AUGE year of 1 April 2012. This is the date from which the AUGE table adopted by the UNC Committee (UNCC) would have effect.

The effect of this proposal is that if the AUGE table is not implemented by 1 April 2012, interim payments under UNC 317 will continue to be paid. Once implemented, payments under the AUGE requirements will still be required from the 1 April 2012 date of the first AUGE Year. Note that there is no express requirement for any interim payments made by LSP shippers under UNC 317 to be taken into account in this reconciliation.

The modification proposal

UNC 343 was raised by ScottishPower on 30 December 2010. This modification proposal seeks to facilitate and require the provision of information between shippers and gas transporters and the AUGE on any potential sources of, and issues related to, unidentified gas. It proposes to allow UNC Users and Transporters to raise issues directly with the AUGE for assessment and inclusion within the AUG methodology and AUG table. It also introduces a requirement on all UNC Users and Transporters to report to the AUGE any issues that they believe are contributing to unidentified gas. These issues must then be assessed by the AUGE to determine whether it should be included in the AUG methodology and AUG table.

The aim of the modification proposal is to ensure that the AUGE takes account of all relevant factors, and prevents parties from deciding not to disclose potentially pertinent information. The proposal seeks to improve upon the current arrangements in that the AUGE may not necessarily have been informed about or be aware of all potential sources of unidentified gas.

⁴ The decision letter for UNC317 can be found on the Joint Office website at: <http://www.gasgovernance.co.uk/0317>. At the time we considered modification proposals UNC317, UNC317A, and UNC327.

⁵ The decision letter for UNC339 can be found on the Joint Office website at: <http://www.gasgovernance.co.uk/0339>. At the time we considered modification proposals UNC339, UNC339A, UNC340 and UNC366.

The proposer considers that relevant objectives⁶ (d) and (f) will be better facilitated by implementation of this modification proposal. With regard to relevant objective (d), which relates to securing effective competition between relevant shippers, the proposer considers that costs could be more accurately allocated as the AUGE would be able to identify more quickly issues that affect how costs should be allocated in the AUG Methodology and AUG Table. With regard to relevant objective (f), which considers the promotion of efficiency in the implementation and administration of the UNC, the proposer considers that the modification proposal will help ensure that the costs of unidentified gas are appropriately associated and distributed to the correct market sector.

UNC Panel⁷ recommendation

At the Modification Panel meeting held on 21 July 2011, of the nine Voting Members present, capable of casting ten votes, two votes were cast in favour of implementing UNC 343. Therefore the Panel did not recommend implementation of this proposal.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 21 July 2011. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁸.

The Authority has concluded that implementation of the modification proposal would not better facilitate the achievement of the relevant objectives of the UNC.

Reasons for the Authority's decision

We recognise the emphasis that this modification places on effective communication between shippers, gas transporters and the AUGE. We have considered the proposal against relevant objectives (d) and (f). Relevant objectives (a), (b), (c) and (e) are not deemed to be impacted by the proposal and have therefore not been considered further. Our view is that this proposal has not demonstrated that it better facilitates the relevant objectives.

In relation to the first part of the modification proposal, where UNC Users and Transporters are allowed to raise issues directly with the AUGE, a change has subsequently been made to the Guidelines to do this.⁹ We therefore consider that this is no longer a material issue. We have instead focused on the second part of the modification proposal: the compulsion of parties to provide information.

⁶ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see:

<http://epr.ofgem.gov.uk/index.php?pk=folder590301>

⁷ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁸ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁹ The 3 March 2011 approved AUGE Guidelines can be found here:

<http://www.gasgovernance.co.uk/sites/default/files/AUGE%20Guidelines%20v3.1%20approved.pdf>

Relevant objective (d): Securing of effective competition between relevant shippers and between relevant suppliers

The AUGE is currently able to request information from industry participants through processes set out in the Guidelines as part of the annual review of causes of unidentified gas. In relation to gas transporters, we note that they are required by the Guidelines to provide information to the AUGE when requested. We therefore consider that the AUGE has sufficient scope to require that gas transporters provide it with pertinent information.

In relation to shippers, the AUGE is also able to ask for relevant information. Evidence suggests that shippers have been forthcoming in responding to such requests. However, there is no direct obligation on shippers to comply with any such request.

We recognise the concerns that parties may not be proactive in providing potentially relevant information to the AUGE that may impact adversely on their commercial interests. We also recognise that while the AUGE is able to request information, there may be issues that the AUGE does not know to ask about. However, we have not seen evidence to date of this occurring. Furthermore, the risk is mitigated as across industry participants as a whole there are a range of commercial incentives on parties in varying directions. It is then likely that any pertinent issue would be disclosed by at least one party.

We have some concerns about the potential unintended consequences of the proposal on the AUGE's ability to establish the AUGS. The obligations could create uncertainty for parties as they would be required to ascertain what information is relevant. By contrast, it is not clear whether the modification proposal could negatively impact on the effective functioning of the AUGE as it could be inundated with immaterial issues.

We consider that it would be prudent for the industry to review this issue in conjunction with the AUGE after the AUGS has been implemented for 1 April 2012. This would be a more appropriate point in time at which to understand and correct any improvement to the AUGE process. We consider that such a review should examine the need for materiality thresholds, the potential impact on the AUGE's ability to perform its role and the potential extension of existing arrangements on gas transporters (ie the requirement to respond to data requests from the AUGE) to shippers.

Relevant objective (f): The promotion of efficiency in the implementation and administration of the UNC

We do not consider there to be sufficient evidence to suggest that this modification proposal would improve the efficiency of the implementation and administration of the UNC. Our views are informed by discussions with the AUGE and the fact that the AUGE process has yet to complete a full cycle. As noted above we consider that it would be prudent for the industry to conduct a review once the AUGS has been implemented for 1 April 2012 to understand whether there is a requirement for efficiency improvements to be made.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC 343: 'The ability and requirement for Users and Transporters to raise issues to be considered by the Allocation of Unidentified Gas Expert as "known" issues' be rejected.

Colin Sausman
Partner, Smarter Markets

Signed on behalf of the Authority and authorised for that purpose.