

Modification proposal:	<b>Uniform Network Code (UNC) 572: Amendment to the definition of Allocation of Unidentified Gas (AUG) Year within UNC TPD Section E</b>		
Decision:	The Authority <sup>1</sup> directs this modification <sup>2</sup> UNC572 be made		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	27 May 2016	Implementation date:	Alongside UNC473 (Project Nexus Implementation Date)

## Background

Gas that is not directly attributed to a shipper (or shrinkage) is known as Unidentified Gas (UG). UNC229<sup>3</sup>, which was implemented June 2010, introduced a mechanism for apportioning UG between the Smaller Supply Point (SSP), Daily Metered (DM) Larger Supply Point (LSP) and Non-Daily Metered (NDM) LSP sectors. The amount of UG to be apportioned to each sector are determined by an independent Allocation of Unidentified Gas (AUG) Expert (AUGE). Each year the AUGE issues a statement setting out its methodology for determining the amount of UG to be allocated, with the apportionment to each of the relevant market sectors being set out in the AUG table. Project Nexus, which incorporates the replacement of the UK Link IT systems, will fundamentally change the basis on which gas allocation, settlement and reconciliation is conducted.

The principal modification that will give effect to the relevant Project Nexus changes is UNC432<sup>4</sup>, which we accepted in February 2014. We accepted UNC432 on the basis that the revised reconciliation and settlement arrangements would lead to more accurate allocation of costs on the whole. However, in our decision we expressed concern that it would offer a less accurate means of allocating UG than offered by the AUGE.

UNC modification 473<sup>5</sup> was subsequently raised, which sought to reinstate the AUGE arrangements that would have fallen away upon implementation of UNC432. UNC473 is scheduled to be implemented on the Project Nexus Implementation Date, which was deferred to 1 October 2016 by UNC548.<sup>6</sup>

In accordance with Section 7 of the AUGE Guidelines<sup>7</sup> produced as part of UNC473, the AUGE will produce a draft AUG statement on 1 February of each year, which will then follow a defined process leading up to approval by the UNCC by the end of June. The GTs are then required to publish the approved statement, and in particular the UG allocation table, by 1 July. In keeping with the original intent of UNC229, the AUG table would have effect from 1 April the following year, to coincide with any changes to transportation charges.

## The modification proposal

UNC572 proposes to move the start of the AUG Year from 1 April to 1 October in order to reduce the time lag between the AUG statement being approved and it coming into effect.

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> 'Change' and 'modification' are used interchangeably in this document.

<sup>3</sup> UNC229: '[Mechanism for correct apportionment of unidentified gas](#)'

<sup>4</sup> UNC432: '[Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform](#)'

<sup>5</sup> UNC473: '[Project Nexus – Allocation of Unidentified Gas](#)'

<sup>6</sup> UNC548: '[Project Nexus – deferral of implementation date](#)'

<sup>7</sup> AUGE Guidelines: '[Framework for the Appointment of an Allocation of Unidentified Gas Expert](#)'

## **UNC Panel recommendation**

At its meeting of 21 April 2016 the UNC Panel determined by a majority to recommend that UNC572 be implemented.

## **Our decision**

We have considered the issues raised by the proposal and the Final Modification Report (FMR) together with the consultation responses published alongside that FMR.<sup>8</sup> We have considered and taken into account the vote of the UNC Panel Parties on the proposals and have concluded that:

- the implementation of UNC572 will better facilitate the achievement of the relevant objectives of the UNC;<sup>9</sup> and
- directing that UNC572 be made is consistent with our principal objective and statutory duties.<sup>10</sup>

## **Reasons for our decision**

We agree with the UNC Panel that UNC572 should be assessed against relevant objective d), but also should be considered against relevant objectives (f). It would have a neutral impact upon the other relevant objectives.

### ***(d) Securing of effective competition between relevant shippers***

We note that there was a good level of support for UNC572, with six of the nine respondents in favour of its implementation, another offering qualified support and only two opposed.

As we have set out in decisions on previous UNC modifications relating to the AUG and/or the allocation of UG such as UNC473, we consider that improvements in the accuracy of UG cost allocation will better incentivise parties to tackle the issues that lead to UG, and more generally promote competition by rewarding, or at least limiting the costs allocated to, the most efficient operators. To this extent we agree with the majority of respondents, who stated that the industry should benefit from the latest data and analysis as soon as practicable.

We do have some sympathy with those respondents who suggested that there was little evidence of the benefits that would arise from UNC572 to offset the reduction in notice and therefore extent of certainty around forward costs for shippers. However, we consider that the extent, and recipients, of any quantitative benefit cannot be known unless and until the AUG has produced revisions to the prevailing table. These revisions could also be made in either direction and cannot be assumed to benefit one sector over another.

We also note that even with the reduced timescales of UNC572, there will be a full eight months between the draft AUG statement being produced and it coming into effect. Based on the production of previous AUG statements, we consider that the absolute scale of any movement in UG allocation between the draft and final versions of the AUG

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<sup>8</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>9</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>10</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

statement is unlikely to have any impact on shippers' forward pricing calculations. More specifically, we also agree with those respondents who pointed out that under UNC572 there will be three months between the publication of the final AUG statement and it coming into effect, whereas under the current arrangements that period has been only two months<sup>11</sup>.

***(f) the promotion of efficiency in the implementation and administration of the Code***

Although not explicitly considered by either the UNC Panel or respondents, we also consider that UNC573 will better facilitate efficient administration of the UNC. Whilst it is important that the development and approval of the AUG statement and table follow a robust and transparent process, and for parties to be given sufficient notice of the outcome of that process, the overall timetable and each component within it must be proportionate. It does not seem proportionate to us for the AUG to have substantively completed its work and a draft statement produced in February, to then take a further 14 months before that statement comes into effect April the following year. This is unlikely to be administratively efficient and means that UG allocation would be likely to be based on out-of-date data and analysis.

**Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC572: '*Amendment to the definition of AUG Year within UNC TPD Section E*', be made.

**Angelita Bradney**

**Head of Smarter Markets**

Signed on behalf of the Authority and authorised for that purpose

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<sup>11</sup> Under prevailing AUG guideline the final AUG statement is produced 1 February each year, to take effect 1 April.