

## Stage 02: Workgroup Report

# 0326VV:

## Allocation of unidentified gas following the appointment of the Allocation of Unidentified Gas Expert (AUGE)

This modification will ensure any issue(s) identified by the AUGE is reconciled back to the period to which it relates, irrespective of when the issue was identified by the AUGE. Such issues would only be reconciled back to the Application Date of 1st April 2012, where it can be demonstrated that the issue was prevailing at that time.



The Workgroup recommends that this modification should now proceed to Consultation



High Impact:



Medium Impact:



Low Impact:  
Shippers and Gas Transporters

What stage is this document in the process?

01 Proposal

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

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## About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 20 October 2011, on whether Modification 0326VV is sufficiently developed to proceed to consultation and to submit any further recommendations in respect of the definition and assessment of this modification.



### 3 Any questions?

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# 1 Summary

## Is this a Self-Governance Modification

The Modification Panel determined that this modification should not follow Self-Governance procedures.

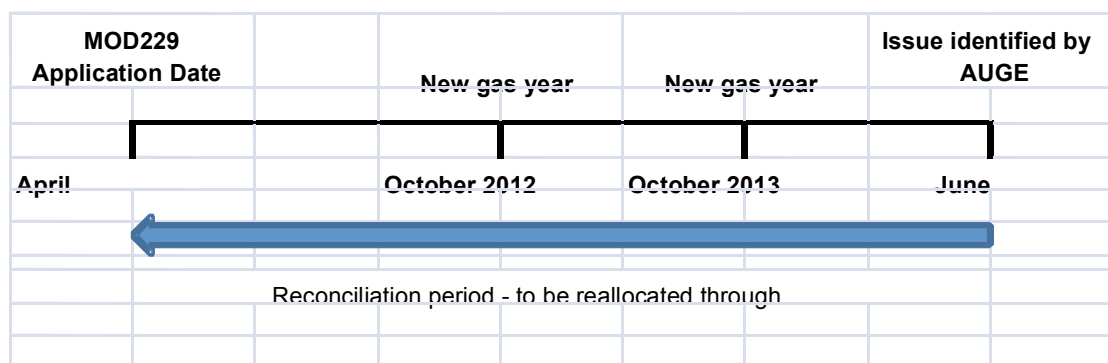
## Why Change?

The UNC does not ensure that the impact of new issues identified and established by the AUGÉ are reflected in relevant invoices for the historic period to which the issues relate.

## Solution

It is proposed that the Application Date is set at 1 April 2012, but that coupled with this, any future issue, with the exception of any previously agreed methodologies, identified by the AUGÉ is reconciled back to the period to which it relates, irrespective of when the issue was identified by the AUGÉ. Such issues would only be reconciled back to the Application Date of 1st April 2012, where it can be demonstrated that the new issue was prevailing at that time. We believe that the additional incentives require to be put in place to ensure that newly discovered issues that contribute to the level of unidentified gas are recognised and brought to the attention of the AUGÉ at the earliest possible opportunity. For the avoidance of doubt, the application date will roll forward in line with the invoicing rules set in accordance with UNC i.e. Section S 1.4.4.

This principle is demonstrated below:



This proposal will allow newly discovered issues, such as Transporter notified metering errors, to be allocated to both the LSP and SSP sector, where the unidentified gas has involved both market segments. It also represents a rebasing of the risk to ensure that the LSP and SSP markets face the same risks of unidentified gas.

This proposal would apply to both credit and debits. If the proposal were not accepted, then it would remain that the SSP market is cross-subsidising the LSP market, if issues go beyond a one year period. Therefore, potentially significant amounts of energy will continue to be allocated to the incorrect sector. This is not an effect that was contemplated within modifications 229 and 317/A, which look to ensure energy costs are appropriately and correctly assigned to the relevant market sector.

## Impacts & Costs

Xoserve estimates that implementation costs would be at least £30k, but probably not more than £80k. In addition, the costs of the AUGÉ may be increased.

Xoserve anticipate that there will be additional operational costs associated with managing reconciliation charges each year. These costs can be considered to be in the range of £0 (no reconciliation charges to be processed) to £20,000 (a complete reconciliation of charges for all periods).

## Implementation

An implementation date of 1 April 2012 is proposed if an Authority decision is received before 20 March 2012.

An implementation date of 1 April 2012 is proposed if an Authority decision is received before 1 April 2012.

An implementation lead time of one business day is proposed if a later Authority decision is received.

The reasons for these dates are to deliver implementation with effect from 1 April 2012, and are presented in this format to comply with the Modification Rules.

## The Case for Change

Implementation would ensure that newly discovered issues identified and established by the AUGÉ are backed through the period to which they relate. This could be expected to more appropriately allocate costs between Shippers over the period concerned and so facilitate the securing of effective competition, but this would be at the expense of introducing retrospectivity. There was no Workgroup agreement on which of these impacts would be greatest and hence whether the Relevant Objectives would be positively or adversely impacted if the modification were implemented.

## Recommendations

The Workgroup considers that the modification should proceed to consultation.

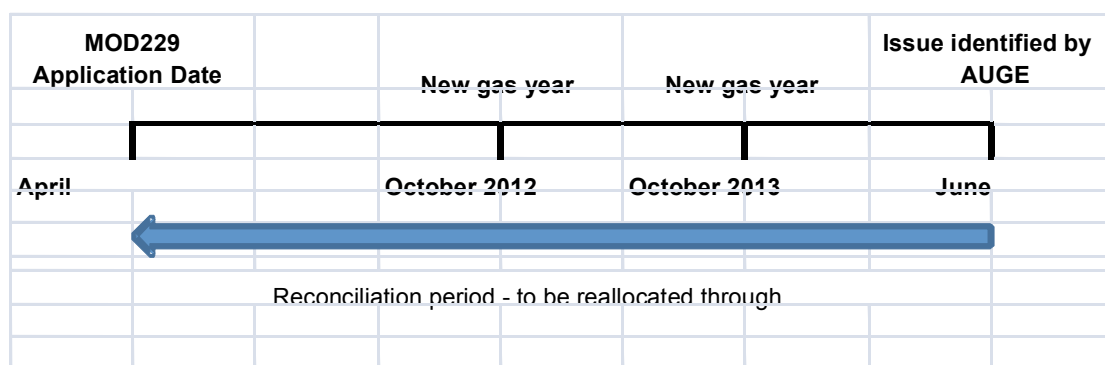
## 2 Why Change?

At present, the AUGE process delivers a fixed allocation of costs which applies prospectively. Some Shippers are concerned that there is potential for new issues to be identified that would have applied in the past. The UNC does not provide for such issues that are identified and established by the AUGE to be applied retrospectively over the period to which they relate.

### 3 Solution

This Proposal seeks to ensure that any future issue identified by the AUGÉ can be retrospectively adjusted to the AUG Application Date of 1st April 2012 or the maximum invoice date as set out in UNC Section S 1.4.4. It is proposed that any future newly discovered issue identified by the AUGÉ is reconciled back to the period to which it relates, irrespective of when the issue was identified by the AUGÉ. Such new issues would only be reconciled back to the Application Date of 1st April 2012, where it can be demonstrated that the issue was prevailing at that time. We believe that the additional incentives require to be put in place to ensure that any new issues that contribute to the level of unidentified gas are recognised and brought to the attention of the AUGÉ at the earliest possible opportunity. For the avoidance of doubt, the application date will roll forward in line with the invoicing rules set in accordance with UNC i.e. Section S 1.4.4 and any previously agreed methodologies will be outside of the scope of this proposal, whereas new metering errors are not.

This principle is demonstrated below:



This proposal will allow new issues, such as Transporter notified metering errors, to be allocated to both the LSP and SSP sector, where the unidentified gas has involved both market segments. It also represents a rebasing of the risk to ensure that the LSP and SSP markets face the same risks of unidentified gas.

This proposal would apply to both credit and debits. If the proposal were not accepted, then it would remain that the SSP market is cross-subsidising the LSP market, if issues go beyond a one year period. Therefore, potentially significant amounts of energy will continue to be allocated to the incorrect sector. This is not an effect that was contemplated within modifications 229 and 317/A, which look to ensure energy costs are appropriately and correctly assigned to the relevant market sector.

## 4 Relevant Objectives

Implementation could better facilitate the achievement of **Relevant Objective d.**

| Workgroup's view of the benefits against the Code Relevant Objectives  |                   |
|--|-------------------|
| Description of Relevant Objective  | Identified impact |
| a) Efficient and economic operation of the pipe-line system.   | No                |
| b) Coordinated, efficient and economic operation of<br>(i) the combined pipe-line system, and/ or<br>(ii) the pipe-line system of one or more other relevant gas transporters.   | No                |
| c) Efficient discharge of the licensee's obligations.  | No                |
| d) Securing of effective competition:<br>(i) between relevant shippers;<br>(ii) between relevant suppliers; and/or<br>(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | Yes               |
| 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.   | No                |
| f) Promotion of efficiency in the implementation and administration of the Code  | No                |

### Standard Special Condition A11.1 (d):

Some parties believe that the apportionment of unidentified gas costs associated with issues over the period in which these costs have been incurred, rather than just prospectively, could result in additional unallocated gas costs being attributed to the appropriate Shippers. Accurate allocations of costs support the development of competitive markets, and hence implementation would be consistent with facilitating the securing of effective competition between Shippers.

Other parties believe that allowing retrospective cost allocations creates risk and uncertainty, potentially reducing the benefits introduced through the establishment of fixed annual values, applied prospectively, via the AUGE process. The increased risk and uncertainty would be counter to facilitating the securing of effective competition between Shippers, and may be particularly difficult for smaller shippers to manage since they do not have portfolios that provide an effective hedge.

Some parties are concerned that introducing the ability to implement retrospective financial adjustments may incentivise a delay in new issues being brought to the attention of the AUGE, thereby creating less accurate cost allocations initially - notwithstanding more accurate final allocations. This would be because parties may build the evidence in support of their case before submitting an issue, thereby

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increasing the chance of acceptance by the AUGS as a new issue and implementation within the AUGS. The short-term reduction in accuracy of cost allocations could be counter to securing effective competition between Shippers. However, having the best possible case built and evidence presented could also be regarded as positive which would benefit cost allocations and hence competition.



## 5 Impacts and Costs

### Consideration of Wider Industry Impacts

Implementation of this modification should have no impact upon wider industry developments.

### Costs

#### Indicative industry costs – User Pays

##### Classification of the Proposal as User Pays or not and justification for classification

The development and implementation of the reconciliation systems and processes for the management of unidentified gas reconciliations will cost Xoserve at least £30k, but probably not more than £80k, to deliver.

The broadness of the range reflects the unknowns associated with the business rules and the data required to be held and when in the Modification 0229 development life cycle Modification 0326 is approved.

Xoserve has appointed the AUGÉ based upon the scope of Modification 229 - Mechanism for the Correct Apportionment of Unidentified Gas. Modification 229 does not have a retrospective invoicing concept.

The contract between Xoserve and the AUGÉ contains a mechanism to request additional services in the event of a change in scope of the Modification 229 service e.g. as a result of a further UNC Modification. Xoserve will await approval of Modification 326V prior to approaching the AUGÉ for a quotation for the services envisaged by the modification.

It is anticipated that there will be additional ongoing operational costs associated with managing reconciliation charges each year. These costs can be considered to be in the range of £0 (no reconciliation charges to be processed) to £20,000 (a complete reconciliation of charges for all periods). Any costs would be incurred in the relevant year and added to the costs to be recovered by the GTs for the provision of ongoing services for unidentified gas.

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

On a User Pays basis as provided for in Modification 0229

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

On the same charging basis for Modification 0229, as defined in the ACS:

[http://www.gasgovernance.co.uk/sites/default/files/AgencyChargingStatement\\_live%201%20July%202010.pdf](http://www.gasgovernance.co.uk/sites/default/files/AgencyChargingStatement_live%201%20July%202010.pdf)

Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve

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Awaited.

## Impacts

### Impact on Transporters' Systems and Process

| Transporters' System/Process | Potential impact  |
|------------------------------|---|
| UK Link                      | <ul style="list-style-type: none"><li>Changes will be required to the systems being developed to support implementation of Modification 0229.</li></ul> |
| Operational Processes        | <ul style="list-style-type: none"><li>None identified</li></ul>   |
| User Pays implications       | <ul style="list-style-type: none"><li>This is a User Pays Modification.</li></ul>   |

### Impact on Users

| Area of Users' business   | Potential impact  |
|---|---|
| Administrative and operational  | <ul style="list-style-type: none"><li>Some Users are likely to face small administrative and operational costs to manage additional invoices from GTs and the contractual requirement to pass these costs through to consumers. This modification will expand the timescales that these additional bills can be applied from.</li><li>Implementation of this modification may also result in the subsequent recovery of these costs through contractual terms with their customers. Additional administration may be introduced in order to manage these processes.</li></ul> |
| Development, capital and operating costs                              | <ul style="list-style-type: none"><li>Some Shippers may need to make changes to their systems.</li></ul>  |
| Contractual risks   | <ul style="list-style-type: none"><li>None identified</li></ul>   |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"><li>None identified</li></ul>   |

## Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

**0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location:

<http://www.gasgovernance.co.uk/sites/default/files/0565.zip>

| Impact on Transporters  |   |
|---|---|
| Area of Transporters' business  | Potential impact  |
| System operation  | <ul style="list-style-type: none"> <li>None identified</li> </ul> |
| Development, capital and operating costs                              | <ul style="list-style-type: none"> <li>As above</li> </ul>        |
| Recovery of costs   | <ul style="list-style-type: none"> <li>As above</li> </ul>        |
| Price regulation  | <ul style="list-style-type: none"> <li>None identified</li> </ul> |
| Contractual risks   | <ul style="list-style-type: none"> <li>None identified</li> </ul> |
| Legislative, regulatory and contractual obligations and relationships | <ul style="list-style-type: none"> <li>None identified</li> </ul> |
| Standards of service  | <ul style="list-style-type: none"> <li>None identified</li> </ul> |

| Impact on Code Administration |  |
|-------------------------------|--|
| Area of Code Administration   | Potential impact                                       |
| Modification Rules            | <ul style="list-style-type: none"> <li>None</li> </ul> |
| UNC Committees                | <ul style="list-style-type: none"> <li>None</li> </ul> |
| General administration        | <ul style="list-style-type: none"> <li>None</li> </ul> |

| Impact on Code |                  |
|----------------|------------------|
| Code section   | Potential impact |
| TPD Section E  |                  |

| Impact on UNC Related Documents and Other Referenced Documents               |                  |
|--|------------------|
| Related Document   | Potential impact |
| Network Entry Agreement (TPD I1.3)   | None             |
| Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4) | None             |
| Storage Connection Agreement (TPD R1.3.1)                                    | None             |
| UK Link Manual (TPD U1.4)  | None             |
| Network Code Operations Reporting Manual (TPD V12)                           | None             |
| Network Code Validation Rules (TPD V12)                                      | None             |
| ECQ Methodology (TPD V12)  | None             |

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| Impact on UNC Related Documents and Other Referenced Documents |      |
|--|------|
| Measurement Error Notification Guidelines (TPD V12)            | None |
| Energy Balancing Credit Rules (TPD X2.1)                       | None |
| Uniform Network Code Standards of Service (Various)            | None |

| Impact on Core Industry Documents and other documents                   |                  |
|---|------------------|
| Document  | Potential impact |
| Safety Case or other document under Gas Safety (Management) Regulations | None             |
| Gas Transporter Licence   | None             |

| Other Impacts  |                  |
|--|------------------|
| Item impacted  | Potential impact |
| Security of Supply   | None             |
| Operation of the Total System  | None             |
| Industry fragmentation   | None             |
| Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties | None             |

## 6 Implementation

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## 7 The Case for Change

None in addition to that identified the above.

## 8 Legal Text

### DRAFT LEGAL TEXT

*National Grid Distribution indicated to the Workgroup that revised draft legal text, reflecting the final version of the modification, will be provided. It is therefore expected that revised draft text will be available for inclusion in the Draft Modification Report.*

### TPD Section E; DAILY QUANTITIES, IMBALANCES AND RECONCILIATION

*Amend paragraph 10.4.4 as set out below:*

10.4.4 For the purposes of the Code:

- (a) the AUG Methodology and AUG Table...and (subject to paragraph 10.5.5 below), shall not be subject to modification...
- (b) ...the Code.

*Add new paragraphs 10.5.5 and 10.5.6 as set out below:*

- 10.5.5 In circumstances where a new Unidentified Gas Source (with the exception of issues relating to the theft of gas methodology or shipperless or unregistered sites issues) is identified by the AUGS in any particular AUG Year (the “**Current AUG Year**”) and leads to a quantity of Unidentified Gas to apply to prior AUG Years in addition to the Current AUG Year, paragraph 10.5.6 shall apply for each applicable prior AUG Year back to and including 1 April 2012 (where relevant and subject to Section S 1.4.4) as set out in paragraph 10.5.6 below.
- 10.5.6 As soon as reasonably practicable following the adoption of the AUG Table for the Current AUG Year, where applicable in accordance with paragraph 10.5.5 above, a reconciliation and adjustment shall be made, for each User and each Reconciliation Billing Period in each prior AUG Year between:
- (a) the User Unidentified Gas Amount as determined on the basis of the AUG Table for the Current AUG Year; and
  - (b) the User Unidentified Gas Amount as determined on the basis of the revised AUG Table (taking into account the new Unidentified Gas Source) as applicable for each prior AUG Year in which such new Unidentified Gas Source is deemed to apply;
- and the net adjustment amount shall be calculated and paid by or to such User (and shall be invoiced and payable in accordance with TPD Section S), without interest in respect of the period prior to the due date of the relevant invoice for such adjustment amount.

## 9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0326VV be issued for consultation.