

Stage 02: Workgroup Report

0442 and 0442A:

Amendment to the implementation date of the Allocation of Unidentified Gas Statement (AUGS) for the 2013/14 AUG Year

It is proposed that, for 2013/14 only, the AUGE shall be required to produce a revised final AUG Table and for the values therein to be effective from about two months later.



The Workgroup recommends that these modifications should proceed to consultation.



High Impact:
Certain Consumers and Shipper Users

At what stage is this document in the process?



0442 and 0442A
Workgroup Report

22 January 2013

Version 0.1

Page 1 of 11

© 2013 all rights reserved

Contents

1	Summary	3
2	Why Change?	5
3	Solution	6
4	Relevant Objectives	7
5	Implementation	9
6	Legal Text	10
7	Recommendation	11

About this document:

This report will be presented to the panel on 28 January 2013.

The panel will consider whether the modification should proceed to Consultation.


Any questions?
Contact: Joint Office
 enquiries@gasgovernance.co.uk
 0121 623 2115
Proposer: 0442 Graham Wood
 graham.wood@britishgas.co.uk
 07979 567686
Proposer: 0442A Marie Clark
 marie.clark@scottishpower.com
 0141 568 3284
Systems Provider: Xoserve
 commercial.enquiries@xoserve.com

0442 and 0442A
Workgroup Report
22 January 2013

Version 0.1

Page 2 of 11

© 2013 all rights reserved

1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that these are not self-governance modifications.

Why Change?

The Allocation of Unidentified Gas Expert (AUGE) is consulting on a revised methodology. If the AUGE concludes that this is the approach that should be adopted, the existing timetable provides for the revised methodology to be effective from April 2014. The revised methodology may have a material impact on the volume of gas allocated between the LSP and SSP sectors. A UNC change is necessary in order to reduce the delay before the AUGE's recommended approach is implemented.

Solution

0442

It is proposed that, for 2013/14 only, the AUGE shall be required to produce by 1 April 2013 a final AUG Table for adoption by the UNCC (in accordance with TPD E10.4.3(h)) based on the approved 2012 AUG Methodology which the AUGE has developed and recommends should be used to produce the AUG Table. It is further proposed that the values in this final AUG Table will be implemented with effect from 1 June 2013, and will remain in place until the end of the AUG Year – 31 March 2014.

0442A

It is proposed that, for 2013/14 only, the AUGE shall be required to produce by 1st May 2013 a final AUG Table for adoption by the UNCC (in accordance with TPD E10.4.3(h)) based on the AUG Methodology and AUGS which the AUGE has developed and recommends should be used to produce the AUG Table. It is further proposed that the values in this final AUG Table will be implemented with effect from 1 July 2013, and will remain in place until the end of the AUG Year – 31 March 2014. However should the final AUG Table not be finalised by 1st May 2013, implementation will be on the 1st of the month, two months following finalisation e.g. finalised on 15th May, implementation will be 1st August. The AUG Table will remain in place until the end of the AUG Year – 31 March 2014.

Until implementation of the final AUGS for 2013/14 and AUG Table, the current AUG Table 2011/12 will apply

Relevant Objectives

Workgroup 0442 considers that the securing of effective competition is impacted by this modification. Accurate cost allocations support the securing of effective competition, and some believe implementation would improve cost allocations earlier than otherwise and hence would facilitate this objective.

Reducing risk and uncertainty also supports the securing of effective competition. Some believe overwriting the process and timetable that has been established for the allocation of unidentified gas process would create uncertainty in the market, and hence be detrimental to the securing of effective competition.

Some believe that overwriting the established processes and requiring the AUGE to work to an amended timetable at short notice would be counter to the promotion of efficiency in the implementation and administration of the Code. However, others believe there would be no impact on the AUGE and that it would be inefficient not to use the analysis that has already been undertaken by the AUGE, such that implementation would positively impact this relevant objective.

0442 and 0442A
Workgroup Report

22 January 2013

Version 0.1

Page 3 of 11

© 2013 all rights reserved

Implementation

Xoserve has confirmed that either modification could be implemented without changing central systems, with no implementation costs. If either modification is to be implemented, the Workgroup accepts that implementation should be as soon as practical following direction by the Authority.

2 Why Change?

Under Transportation Principal Document (TPD) Section E10 of the Uniform Network Code, the Allocation of Unidentified Gas Expert (AUGE) is responsible, for each AUG Year, for preparing an AUG Methodology and an AUG Table. The AUG Year is defined within the UNC as the twelve month period commencing 01 April each year.

Within the Allocation of Unidentified Gas Document ('Guidelines for the Appointment of an Allocation of Unidentified Gas Expert and the provision of the Allocation of Unidentified Gas Statement', the Guidelines) paragraph 7.1.6, the AUGE is required to publish the proposed Allocation of Unidentified Gas Statement (AUGS), for the next AUG Year, by 01 August. Once approved the AUGE is required to produce indicative Unidentified Gas volumes for inclusion in the AUG Table by 01 October and to provide final Unidentified Gas volumes by 01 January.

In this, the second AUGE Year, the AUGE has been investigating a different methodology to that used for AUG Year 2012/13 – the "consumption based" methodology. The work undertaken by the AUGE to investigate this methodology is ongoing and was not completed within the timescales detailed in the Guidelines and the UNC. The AUGE has not proposed that the consumption based methodology be adopted for AUG Year 2013/14. The earliest opportunity for implementation under the existing UNC provisions is therefore April 2014.

The AUGE has continued work to consider the consumption based methodology and expects to be in a position to decide whether or not to recommend moving to the consumption based methodology shortly, well ahead of the timetable for introducing a changed methodology in AUGE Year 2014/15. Modifications 0442 and 0442A have been proposed in order to reduce the delay prior to the introduction of any proposed change, thereby ensuring that cost allocations are moved to the recommended basis at two months notice rather than in April 2014.

3 Solution

0442

It is proposed that, for 2013/14 only, the AUGE shall be required to produce by 1 April 2013 a final AUG Table for adoption by the UNCC (in accordance with TPD E10.4.3(h)) based on the approved 2012 AUG Methodology which the AUGE has developed and recommends should be used to produce the AUG Table. It is further proposed that the values in this final AUG Table will be implemented with effect from 1 June 2013, and will remain in place until the end of the AUG Year – 31 March 2014.

0442A

It is proposed that, for 2013/14 only, the AUGE shall be required to produce by 1st May 2013 a final 2012 AUG Table for adoption by the UNCC (in accordance with TPD E10.4.3(h)) based on the 2012 AUG Methodology which the AUGE has developed and recommends should be used to produce the AUG Table. It is further proposed that the values in this final 2012 AUG Table will be implemented with effect from 1 July 2013, and will remain in place until the end of the AUG Year – 31 March 2014. However should the final 2012 AUG Table not be finalised by 1st May 2013, implementation will be on the 1st of the month, two months following finalisation e.g. finalised on 15th May, implementation will be 1st August. The 2012 AUG Table will remain in place until the end of the AUG Year – 31 March 2014.

Until implementation of the 2012 final AUGS for 2013/14 and AUG Table the current AUG Table 2011/12 will apply.

User Pays
Classification of the modification as User Pays, or not, and the justification for such classification.
Not User Pays. No changes to central systems would be necessary to implement either modification, and no user pays service would be created or amended.
Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.
Not applicable.
Proposed charge(s) for application of User Pays charges to Shippers.
Not applicable.
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
Not applicable.

4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	Impacted
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.	None
f) Promotion of efficiency in the implementation and administration of the Code.	Impacted
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

The Workgroup recognised that the intent of both the original (0442) and alternative (0442A) modification is to bring forward the date at which any revision to the AUG Methodology comes becomes effective. This is achieved by the AUGE being required to produce a final AUG Table by 1 April 2013 in the case of Modification 0442, with the values in that table becoming effective from 1 June. Modification 0442A adds a month to this timetable, requiring the AUGE to produce a final AUG Table by 1 May 2013 which would be effective from 1 July. In addition, Modification 0442A provides that if a final AUG Table is provided later than 1 May 2013, the values would become effective a minimum of two months subsequent to this such that, unlike Modification, the Alternative cannot be "timed-out".

[The Workgroup noted that the modifications also specify the methodology and/or AUG Table values that are to be used rather than the AUGE being asked to set these. It was also noted that, contrary to the intention of the proposers, the values specified in this way would be based on the 2012 AUG Methodology.]

Views at the Workgroup were diametrically opposed regarding whether or not implementation would be expected to facilitate achievement of the relevant objectives. Those in favour of implementation argued that the AUGE has identified a superior methodology, and is consulting on the basis that this methodology should be used. Since this is the AUGE's best view of the appropriate allocation of costs, and since the envisaged change is likely to lead to a material change in cost allocations (potentially of the order of £50m), it was argued that delaying implementation would unnecessarily ossify inappropriate cost allocations. This would therefore continue a cross subsidy between the LSP and SSP sectors, which, having been identified, should be corrected. Accurate cost allocations underpin effective competition and hence implementation would facilitate the achieving of effective competition by ensuring that costs are allocated to the responsible party earlier than would otherwise be the case.

Provided a direction to implement is received prior to April 2013, and the AUGE provides a final AUG Table by 1 April, this benefit would be greater under Modification 0442 than 0442A since 0442 provides for an earlier change in cost allocations. If a direction to implement were received after 1 April 2013, or if the AUGE were to provide the same final AUGE Table after 1 April 2013, Modification 0442A would provide a greater benefit since a change to cost allocations would still be introduced earlier than otherwise - Modification 0442 would be timed out and have no effect if no decision were received by 1 April.

Those in favour of implementation also argued that implementation of either modification would facilitate efficient administration and implementation of the UNC since it would be inefficient to delay the introduction of an approved methodology.

Those opposed to implementation argued that there is an established process that supports the AUGE in reaching independent conclusions on appropriate allocations each year, including consultation, industry input and clear notice periods. This provides parties with expectations about the process that will be followed; confidence that the AUGE will have an opportunity to hear and consider feedback before reaching conclusions; and notice of allocations that can then be reflected in the terms offered to customers. They suggest that the importance of the confidence this provides is explicitly recognised in the UNC, which provides that "the AUG Methodology and AUG Table established for an AUG Year for the purposes of paragraph 10.4.1 shall be those adopted by the UNCC under paragraph 10.4.3, and shall not be subject to modification in relation to such AUG Year".

By overwriting the established process, those opposed to implementation argue that the modifications would undermine the AUGE process and the independence of the AUGE, and thereby generate risk and uncertainty in the market. Increasing risk and uncertainty is detrimental to the development of effective competition, and hence implementation would negatively impact the relevant objective the securing of effective competition. In addition, overwriting established processes and notice periods would be inconsistent with the efficient administration and implementation of the UNC. Those opposed also argued that Modification 0442 was particularly detrimental to the relevant objective of promoting efficiency in the implementation and administration of the UNC since it has the potential to be timed out, and hence creates pressure for the modification process to be compressed, imposing costs on UNC parties and creating the risk of an inefficient and incomplete assessment process.

5 Implementation

Xoserve has confirmed that either modification could be implemented without changing central systems, with no implementation costs. If either modification is to be implemented, the Workgroup accepts that implementation should be as soon as practical following direction by the Authority.

6 Legal Text

0442

The following Text has been prepared by Scotia Gas Networks at the request of the Modification Panel.

?????

0442A

The following Text has been prepared by Scotia Gas Networks at the request of the Modification Panel.

?????

7 Recommendation

The Workgroup invites the Panel to:

- Determine that modifications 0442 and 0442A should be issued for consultation.