

UNC Panel Chair, the Joint Office,
relevant Gas Transporters, Gas
Shippers, and other interested
Parties

Email: Jamie.Flaherty@ofgem.gov.uk

Date: 07 March 2023

Dear Wanda and colleagues,

UNC modification proposal UNC0840 'Equalisation of prepayment and non-prepayment AUG factors' – decision on urgency

We¹ have received a request from Centrica ("the Proposer") that Uniform Network Code ("UNC") modification proposal UNC0840 'Equalisation of prepayment and non-prepayment AUG factors' should be given urgent status and follow expedited modification procedures. We note that modification 0838, which was seeking to address the same issue as 0840, was withdrawn due to incompatibilities between the solution text and legal text.²

This letter sets out our decision that modification proposal UNC0840 should be progressed on an urgent basis, and the timetable under which the modification will proceed.

Background

Unidentified Gas (UIG) refers to gas lost from the system for a number of reasons including theft and unregistered supply points. In order to fairly apportion UIG between classes and End User Categories (EUC), an independent Allocation of Unidentified Gas Expert (AUGE) develops a methodology and table of weighting factors that is used to assign UIG to different classes of meter points on an annual basis.

The existing process for deriving the Allocation of Unidentified Gas (AUG) weighting factors permits different factors to be assigned to prepayment (PPM) and non-PPM EUCs during the apportioning of UIG by the AUGE through the annual publication of the AUG Table.

The modification proposal

UNC0840 was raised on 06 March 2023 by Centrica. The proposal intends to remove the differentiation in AUG weighting factors for PPM and non-PPM EUCs in the same sector and product class.

Since the AUG Table was updated to permit different weightings between PPM and non-PPM, the weighting factors for PPM consumers have been considerably higher than non-PPM consumers. In gas year 2021/22, the weighting factor was three times higher, in the current year factors it is four times higher, in the latest proposed draft weighting factors

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority', 'we', 'our' and 'us' are used interchangeably in this letter.

² 0838 (Urgent) – Equalisation of prepayment and non-prepayment AUG factors:
<https://www.gasgovernance.co.uk/index.php/0838>

for 2023/24 it is approximately six times higher. The Proposer considers that this weighting factor differential between consumers creates an increasing penalty on consumers with a PPM meter. The modification will mandate that there should be no differentiation in AUG weighting factors for PPM and non-PPM EUCs in the same sector and product class.

The Proposer asserts that it is not fair or equitable to allocate six times more UIG to PPM consumers as the application of the "Polluter Pays" approach at meter type level, in the case of gas theft, is contradictory as by definition, the polluter is not paying. The current approach, according to the proposal, places the cost of theft increasingly on those who are not involved in the theft of gas due to the fact that theft detection rates have been higher for consumers with similar meter types.

In order to address the differentiation between PPM and non-PPM consumers, the proposal would implement:

- A single weighting factor for EUC1 Domestic (EUC1ND & EUC1PD) for each product class
- A single weighting factor for EUC2 Domestic (EUC2ND & EUC2PD) for each product class
- A single weighting factor for EUC1 Non-Domestic (EUC1NI & EUC1PI) for each product class
- A single weighting factor for EUC2 Non-Domestic (EUC2NI & EUC2PI) for each product class

The Proposer believes that by removing the differentiation in AUG weighting factors for PPM and non-PPM EUCs, it will reduce existing consumer detriment for PPM consumers. According to the Proposer, having different weighting factors for PPM and non-PPM EUCs in the same sector and product class, creates an unnecessary level of risk and unpredictability. They also assert that the current weighting factors have a significant impact on effective competition within the market and is ultimately leading to higher costs for PPM consumers.

The solution outlined in the modification proposal states that UNC TPD Section E Paragraph 9.4 will be updated to mandate that the AUG allocation factors for PPM and non-PPM EUCs in the same sector and product class are equal. An additional process, determined by the AUG, will be implemented to equalise allocation factors for the listed pairs of Categories of System Exit Points after the existing process has been completed:

- EUC1ND & EUC1PD
- EUC2ND & EUC2PD
- EUC1NI & EUC1PI
- EUC2NI & EUC2PI

The Proposer notes that the change will not result in any redistribution of UIG across sectors within the AUG statement but may lead to a minimal increase/decrease in actual UIG allocation to Shippers which would be dependent on relative EUC sizes at an LDZ level and observed levels of UIG.

UNC Modification Panel View

We have not on this occasion sought a formal UNC Panel view on the proposals, as allowed for under paragraph 10.1.1 (b) of the Modification Rules.³ We consider that the need to take swift action is justified.

³ UNC Modification Rules: www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

Authority Decision

We have assessed the request against the urgency criteria set out in Ofgem’s published guidance.⁴ The guidance sets out the factors that we will consider in reaching a decision on urgency in the context of industry code modification proposals – it is intended to be illustrative and not exhaustive. Each request for urgency will be considered on its merits on a case-by-case basis by reference to our guidance, and in circumstances where we depart from it, we will explain the reasons why.

In general, we consider that an urgent modification should be linked to an imminent issue⁵ or a current issue that, if not urgently addressed, may cause a:

- i. significant commercial impact on parties, consumers or other stakeholder(s); or
- ii. significant impact on the safety and security of the electricity and/or gas systems; or
- iii. party to be in breach of any relevant legal requirements.

The Proposer considers that this proposal satisfies the urgency criteria as it is linked to a current issue that may cause a "*significant commercial impact on parties, consumers or other stakeholder(s)*".

We are satisfied that the progression of this modification proposal and the need to take prudent steps to address the weighting factor differentials between PPM and non-PPM consumers is a "*current issue that if not urgently addressed may cause a significant impact on parties, consumers and other stakeholders(s)*" and have therefore agreed that the modification proposal should follow the urgent timetable as set out below.

Process	Date
Ofgem Decision on Urgency	07 March 2023
Draft Modification Report issued for consultation	08 March 2023
Consultation close-out for representations	13 March 2023
Final Modification Report available for Panel	15 March 2023
Modification Panel decision	16 March 2023

The short timeframe is necessary to ensure that implementation (if approved) would allow for the new weighting factors to be captured in the publication of the final AUG Statement which is scheduled for 31 March 2023. This would permit the AUG Table to be approved at the April UNCC meeting.

In reaching our decision on urgency, we have made no assessment of the proposed modification and nothing in this letter in any way fetters the discretion of the Authority.

Yours sincerely,

Michael Walls
Head of Retail Market Operations

Signed on behalf of the Authority and authorised for that purpose

⁴ Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-andupdates/ofgem-guidance-code-modification-urgency-criteria-0>

⁵ The imminent issue may be date related.