

Draft Modification Report
Allocation of unidentified gas following the appointment of the Allocation of Unidentified
Gas Expert (AUGE)
Modification Reference Number 0326
Version 2.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Background

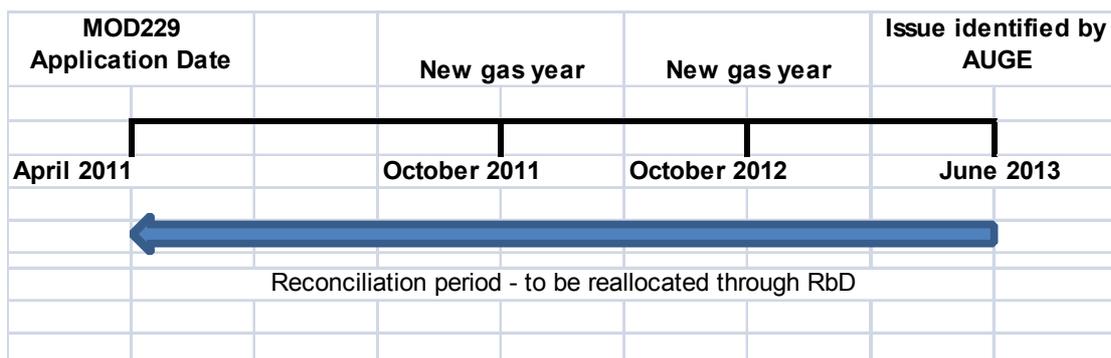
Ofgem recently approved Modification 0229, which will see the introduction of the Allocation of Unidentified Gas Expert (AUGE). Such an expert will create a methodology for the allocation of unidentified gas to rectify the current cross-subsidy where the SSP market is picking up costs associated with the LSP market, through the Reconciliation by Difference (RbD) process.

Modifications 0317 and 0317A, raised by Shell Gas Direct and Centrica respectively, propose an interim allocation solution which details a level of contribution to be made by the LSP sector until such time as the AUGE calculates and implements its own statement. These MODs also seek to ensure that the application date for the AUGE methodology is applicable from 1st April 2011. However, ScottishPower is concerned that there is the potential for issues to remain unallocated over the applicable period, even when the AUGE is appointed. Equally the current proposal under Modification 0229 does not ensure that the issues found and established by the AUGE are backed through the RbD process over the period to which they relate.

Proposal

It is proposed that the Application Date is set at 1 April 2011, but that coupled with this, any future issue identified by the AUGE is reconciled back, irrespective of when the issue was identified by the AUGE. Such issues would only be reconciled back to the 1st April 2011 date, 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 issues that contribute to the level of unidentified gas are recognised and brought to the attention of the AUGE 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 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 allow 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.

2 User Pays

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

This is a User Pays Proposal and would be embedded within the introduction of MOD0229 functionality; hence the provision of the xoserve elements of this service would be on a User Pays basis as provided for in MOD0229.

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

100% to Users.

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

All Shippers with Local Distribution Zone (LDZ) capacity to fund the development and set-up activities, in addition to the ongoing AUGE costs. Both sets of charges would be levied on applicable Shippers in proportion with their Supply Point Offtake Quantities (SOQs).

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

The Workgroup considered the charging basis should be on the same basis as UNC0229, hence as defined in the draft ACS published alongside this report.

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the 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;

Some Shippers consider the early identification of issues that contribute to the level of unidentified gas and the subsequent re-apportionment of costs associated with these issues over the period in which these costs have been incurred, will result in an improvement in the distribution of unidentified gas costs between these market sectors. Some Shippers believe that there needs to be appropriate incentives on all Users to readily bring forth, to the attention of the AUGE, matters that have the potential to affect the level of unidentified gas.

Other Shippers disagree with the retrospective principles advocated by this Proposal.

Some Shippers consider that should the AUGE's analysis conclude that an issue(s) has consistently contributed to the level of unidentified gas, the ability to re-apportion energy charges back to the application date of 1st April 2011 or a period up to the maximum invoice period will give increased confidence to RbD Shippers on cost allocations.

Some Shippers consider the retrospective cost allocation to Shippers means that some

Shippers will pick up a greater or less allocation of the costs based on their market share now rather than at the time the issue was identified as being applicable and this is unfair.

Some Shippers consider that competition in the SSP market will be improved. This Proposal will ensure that costs that do not relate to SSP consumers are not being met by the Shippers in that market. It will improve the attractiveness of the SSP market to new entrants.

Other Shippers disagreed on whether this Proposal will ensure the fair allocation of costs between SSP and LSP Shippers.

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Some Shippers consider that this Proposal seeks to ensure the framework being introduced under MOD0229 is complete in relation to ensuring costs of unidentified gas are appropriately associated and distributed to the correct market sector. Without this proposal unidentified gas costs that are clearly attributable to a period earlier than the one AUGE year will not be re-apportioned across the relevant market participants.

Some Shippers believe that the process being introduced by Proposal 0229 is complete and does not require reiteration.

4 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

5 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

No implications have been identified.

b) Development and capital cost and operating cost implications:

See User Pays Section above

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

See User Pays Section above

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No such consequences identified.

6 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No risk identified.

7 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

System changes are expected though the Proposal may be able to utilise the mechanism introduced by MOD0229 with a reconciliation to take place back to a relevant date. This concept already exists as introduced by MOD0152 relating to the limitation on retrospective invoicing and invoice correction.

8 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

Some Shippers believe administrative and operational costs to be significant to manage additional invoices from Transporters and the contractual requirement to pass these costs through to consumers. Other Shippers consider the administrative and operational costs of this process to be small. This Proposal will expand the timescales that these additional bills can be applied from.

Development and capital cost and operating cost implications

Some Shippers may need to make changes to their systems.

Consequence for the level of contractual risk of Users

Some Shippers consider that there is a risk in attempting to recover costs from Consumers who were supplied at the time the error occurred and were not subsequently supplied by the same Shipper when the error was subsequently identified.

Conversely some Shippers believe that failure to allocate these charges in a manner described by the Proposal will allow overcharging to remain unresolved.

9 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Some Shippers consider that there will be a fairer allocation of charges to consumers in the LSP and SSP markets. This will prevent any significant misallocation of costs. Conversely some Shippers do not agree costs are significantly misallocated.

10 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

None identified

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Some Shippers believe this Proposal seeks to ensure that any future issue identified by the AUGE can be retrospectively adjusted to the AUG Application Date of 1st April 2011 or the maximum invoice date as set out in UNC Section S 1.4.4. They believe the benefits of this Proposal are that it will:

- Reduce the current cross-subsidy between the LSP and SSP sectors in a clear and simple way.
- Introduces an incentive on Shippers to identify to the AUGE at an early stage, those issues that may be contributing to the level of unidentified gas
- Introduces improved transparency and accuracy on the allocation of RbD
- Where the AUGE analysis determines that an issue has over a period of time contributed to the level of unidentified gas, that the retrospective adjustments can be made back to AUG Application Date of 1st April 2011 or to the maximum invoice period as set out in Section S. The party receiving the credit will not be unfairly disadvantaged as they would be under the current Mod0229 restrictions for within year cost reallocation.
- Incentivises market participants to make appropriate financial provisions in readiness for reconciliations back as far as 1 April 2011

Disadvantages

- The Proposal may result in additional administration costs for the Transporter Agency

Some Shippers believe this Proposal has the following disadvantages:

- The retrospective nature (i.e. either 1 April 2011 or another specified later date) will introduce some cost uncertainty to market participants.
- Will add significant cost and complexity to the Mod0229 process.
- Require a risk premium to be paid by I&C consumers. This would include the potential cost of the energy over the period, as well as significant administration costs for LSP Shippers to re-bill consumers where pass through contracts are in place.

- There is a risk that consumers will be prevented from closing their accounts with Suppliers.
- This Proposal creates additional complexity that will need to be addressed by Government to ensure that LSP consumers that are impacted by CRC and/or the proposed green deal can comply with legislation.
- There is a concern the benefits of reallocation will not be passed on to consumers.

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

*Written Representations are now sought in respect of this Draft Report. Consultation End Date: **INSERT DATE**.*

13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

15 Programme for works required as a consequence of implementing the Modification Proposal

System changes required allowing adjustments to previous billing periods.

16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

Implementation should coincide with the date of the first AUG year.

17 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

19 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

20 Text

TPD Section E; DAILY QUANTITIES, IMBALANCES AND RECONCILIATION

Add new paragraphs 10.5.5 and 10.5.6 as set out below:

10.5.5 In circumstances where a particular class of events or circumstances, or acts or omissions (on the part of Users, Suppliers, Transporters, consumers or other persons) is identified by the AUGE in any particular AUG Year (the “Current AUG Year”) leading to an Unidentified Gas Source which relates to prior AUG Years in addition to the Current AUG Year, paragraph 10 shall apply on the basis of a deemed AUG Table for each applicable prior AUG Year up to and including the first AUG Year (where relevant and subject to Section S 1.4.4) as set out in paragraph 10.5.6 below.

10.5.6 In accordance with paragraph 10.5.5. above, as soon as reasonably practicable following the adoption of the AUG Table for the Current AUG Year, 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 AUG Table as applicable in the relevant prior AUG Year;

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.

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters