

CODE MODIFICATION PROPOSAL No 0326
Allocation of unidentified gas following the appointment of the Allocation of
Unidentified Gas Expert (AUGE)
Version 1.0

Date: 27/07/2010

Proposed Implementation Date: 1 April 2011

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Background

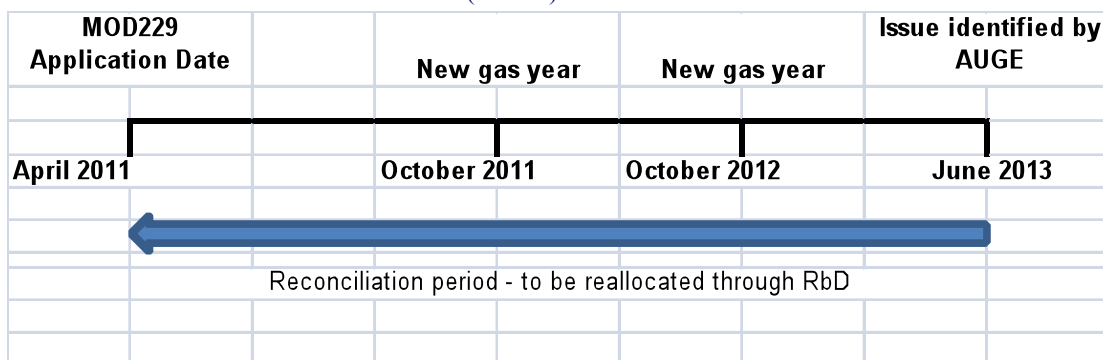
Ofgem recently approved modification 229, which will see the introduction of the Allocation of Unidentified Gas Expert (AUGE). Such an expert will create a methodology for the allocation of unidentified gas to rectify the current cross-subsidy where the SSP market is picking up costs associated with the LSP market, through the Reconciliation by Difference (RbD) process.

Modifications 317 and 317A, 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 229 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.

- b) **Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**
- c) **Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

2 User Pays

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

This proposal would be embedded within the introduction of MOD229 functionality; hence the provision of the xoserve elements of this service would be on a User Pays basis as provided for in MOD229.

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

N/A

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

This proposal would be embedded within the introduction of MOD229. So the costs would be split amongst Users using the method developed under

MOD229. As far as we are aware this has still to be decided and agreed since the GTs are still in the process of preparing a Rough Order of Magnitude.

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

To be determined, per 2(c) above

3 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

This modification proposal would better facilitate the following 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 subparagraph (a), the coordinated, efficient and economic operation of:

- (i) The combined pipeline system, and/or**
- (ii) The pipeline 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 subparagraphs (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 subparagraphs (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.**

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 equitable distribution of unallocated gas costs between these market sectors. We believe that there requires to be the 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 unallocated gas.

Should the AUGE's analysis conclude that an issue(s) has consistently contributed to the level of unallocated 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.

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

Standard Special Condition A11.1 (e): So far as is consistent with subparagraphs (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 subparagraphs (a) to (e) the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.

This proposal seeks to ensure the framework being introduced under MOD229 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.

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

No implications have been identified.

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

a) The implications for operation of the System:

No implications have been identified

b) The development and capital cost and operating cost implications:

No costs have been identified

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

N/A

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

No risk identified

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

None identified

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

We expect changes to UK Link to be extremely limited, if at all required since the proposal utilises the mechanism introduced by MOD229 and will simply require a reconciliation to take place back to a relevant date (no earlier than 1 April 2011). This concept already exists as introduced by MOD152 relating to the limitation on retrospective invoicing and invoice correction.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

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 Proposal will expand the timescales that these additional bills can be applied from.

b) The development and capital cost and operating cost implications

Some Shippers may need to make changes to their systems.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

None identified

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

There will be a fairer allocation of charges to consumers in the LSP and SSP markets. This will prevent any significant misallocation of costs.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

None identified

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

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. We 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 Users to identify to the AUGE at an early stage, those issues that may be contributing to the level of unallocated 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 unallocated 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.
- Incentivises market participants to make appropriate financial provisions in readiness for reconciliations back as far as 1 April 2011

Disadvantages

- The retrospective nature (i.e. either 1 April 2011 or another specified later date) will introduce some cost uncertainty to market participants but as already established this is the same situation the SSP market currently face.
- May result in additional administration costs for the Transporter Agency

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

N/A

13 Detail of all other representations received and considered by the Proposer

N/A

14 Any other matter the Proposer considers needs to be addressed

N/A

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

1st April 2011

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) E

Proposer's Representative

Karen Kennedy (ScottishPower Energy Management)

Proposer

Karen Kennedy (ScottishPower Energy Management)