

Modification proposal:	Uniform Network Code (UNC) 0758: Temporary extension of AUG Statement Creation Process		
Decision:	The Authority ¹ has decided to reject this modification ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	6 September 2021	Implementation date:	n/a

Background

The majority of gas consumed in Great Britain is metered and registered. However, some gas is lost from the system, or not registered, due to: theft, leakage from gas pipes, consumption by unregistered supply points and other reasons. The gas that is off taken from the Local Distribution Zone (LDZ) System, but not attributed to an individual Supply Meter Point or accounted for as shrinkage, is referred to as Unidentified Gas (UIG). Unidentified Gas is gas supplied to the network that cannot be directly attributed to a gas shipper. It is the shortfall between the volume of gas that enters the National Grid and that which is measured as consumed by customer meters.

Due to the changes in gas settlement which Project Nexus³ brought about, the industry agreed there was a requirement to apportion the total UIG between classes and End User Category (EUC). Accordingly, an independent expert (Allocation of Unidentified Gas Expert (AUGE)) helped the industry develop a methodology and provide a table of weighting factors that assigns the specified amount of UIG to the different classes of meter points. The table of weighting factors is used in the daily gas nomination and allocation processes. Daily measured or estimated gas throughput in each LDZ is weighted using the AUG table factors to assign daily UIG to Shippers based on their throughput by meter point class and EUC.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986

³ <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/project-nexus>

The AUGE undertakes expert comprehensive analysis on the sources of UIG and, in consultation with the industry, establishes a methodology for deriving UIG Weighting Factors for use in the following Gas Year. The factors produced are used in Nomination, Allocation and Reconciliation to distribute UIG across different groups of sites based on their Settlement Class and EUC.

The Proposer's (Utilita Energy Ltd) assertion is that the AUG Statement approved for 2021/22 is, owing to the limited time available for its development, not as robust as previous AUG Tables and Statements, and that industry has not been given enough time for a sufficient level of assurance work on a new methodology. The Proposer believes the lack of development time is most relevant in the introduction of the principle of polluter pays. It is explained that in previous AUG Tables and Statements, the AUGE has not adopted the polluter pays concept for anything more than broad generalisations (EUC and Product Class). With the new AUGE introducing this methodology, the Proposer feels that it is now an appropriate time to improve the polluter pays concept and to differentiate between customers settling gas on estimates versus actual meter reads. The Proposer believes this would be a significant improvement in line with the polluter pays principle. Alongside these highlighted issues, the Proposer also is of the view that there are issues with the data which the AUGE used to develop the methodology.

The modification proposal

UNC0758 was raised by Utilita Energy Ltd (the Proposer). The modification proposes to extend the use of the 2020/21 AUG Table, (in the form specified in Modification 0711), for a further 12 months. The textual changes required to enable this would be placed in the Transition Document. The legal text for this modification is included within the Final Modification Report (FMR). The Proposer's view is this modification would better facilitate relevant objectives (d) and (f).

The Proposer explains that there are two reasons for deferring the implementation of the proposed AUG Statement. The first is that the proposed AUG Table for 2021/22 does not go far enough in advancing the AUG methodology, and second, there is assurance needed to demonstrate that this methodology is an improvement on the previous methodology.

The Proposer considers that the process has not allowed sufficient time for the AUGE to develop a new statement to the standard required for the industry to rely upon with a high degree of confidence. As a fully developed and tested AUG Statement is available, the Proposer believes that additional time should be given for a robust statement to be developed by the new AUGE and the AUG Table from 2020/21 should be extended to 2021/22.

UNC Panel⁴ recommendation

At the UNC Panel meeting on 17 June 2021 a majority of the UNC Panel considered that UNC0758 would not better facilitate either of the relevant UNC objectives identified – (d) and (f) - and the Panel therefore did not recommend its approval.

Our decision

We have considered the issues raised by the modification proposal and the FMR dated 21 June 2021. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR⁵. We have concluded that:

- implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the UNC.⁶

Reasons for our decision

We have determined that this modification proposal will not better facilitate UNC objectives (d) and (f) and has a neutral impact on the other relevant objectives.

(d) Securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

⁴ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁵ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

⁶ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

We do not agree with the Proposer's assertions that UNC0758 will better facilitate the achievement of this Objective. The primary rationale given was that due to limited time available for its development, the AUG Table and accompanying statement that was presented to the industry on 30 December 2020 does not represent as robust an assessment as the previous AUG Table in place for 2020/21. Thereby, extending/reinstating the AUG Table from 2020/21 to cover the AUG Year 2021/22 would result in more accurate cost targeting and therefore furthering competition between shippers.

We disagree with this assessment. The argument given by the Proposer is that as the AUGE has recently changed⁷, and that as the methodology they developed differs from previous years, there was not enough time to develop as robust of an output as previous AUG Statements and Tables. However, there has been no direct evidence provided within the FMR to support these assertions. We note that the current AUGE, along with the contract managers for this service (Xoserve) refutes this position and maintain that all standards and milestones were met, that all planned interaction with industry at meetings/workshops has been undertaken, and that no additional time is needed to further develop the methodology as it is fit for purpose.

The existing process is designed for the AUGE to undertake and complete this work independently from industry interests to provide the best outcome for consumers, with the opportunity for the contract manager and applicable UNC groups/workshops to provide input at designated points. The contract manager ensures that all the milestones and requirements of the contract are fulfilled. There is not a validation role for the Authority within the UNC or the commercial contract in respect of the outputs of this process. We therefore have focussed on our decision on the procedural elements of the issues raised by UNC0758⁸.

We have not been provided with evidence to suggest that the existing process was not followed, which includes an opportunity for industry to engage and provide feedback. We

⁷ A new AUGE was awarded to provide the contracted services commencing the financial period 2021/22

⁸ https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2018-08/Framework%20for%20the%20Appointment%20of%20an%20Allocation%20of%20Unidentified%20Gas%20Expert%20v8.1_0.pdf

would have expected any concerns that the process was being incorrectly applied to have been raised by industry parties at that time and addressed as part of the existing process. We also note that this modification was raised after the UNCC had approved the AUGE's outputs.

There have been comments raised by respondents to the consultation about potential improvements that could be made to the process of creating the AUGE Statement, including the ability to dissent and have appeals heard before the UNCC approve the final version. UNC0758 does not deal with these issues directly. As with any industry process, we are supportive of Parties bringing forward changes to be able to more meaningfully engage with this, or any process, that they are able to evidence, and feel are necessary to secure the best outcomes for consumers.

Further to this, our view is that the approval of this modification would negatively affect this Objective as it would undermine the independence of the AUGE, create uncertainty within the gas market, and risk creating an inferred role for the Authority each year to validate the work of the AUGE.

Our view is that all of these items would have a negative effect on competition and therefore the implementation of UNC0758 would not better facilitate this Objective and would in fact have a detrimental effect.

(F) Promotion of efficiency in the implementation and administration of the Code.

The Proposer has asserted that this Objective would be positively impacted by the approval of this modification; however, there has been no corresponding evidence provided to substantiate this claim. Our view is that UNC0758 will not promote efficiency within the Code as it would see the work carried out to produce the AUG Table and Statement superseded by a previous version. This circumvents the existing processes without outlining how these would be addressed in the future, or how a precedent would not be set for all Parties to dispute this output annually and request the Authority to intervene and substitute in a previous year's AUG Table and Statement.

This would not promote efficiency in the implementation or administration of the Code, and in fact our view is that it would introduce uncertainty for the Code and gas market, and therefore the effect of UNC0758 on this Objective would be negative.

Other Observations

We have engaged throughout the process of the development of UNC0758 and note that the primary issue relating to the production of the AUG Table and Statement identified has not been addressed. The assertion that UNC Parties are unable to effectively interact with, or raise issues about, the production of the Table and Statement is concerning but has not been fully evidenced. We would have expected to have been provided detailed evidence of why this process did not work in its current form, the consequences of that on the development of the methodology and solutions for how to improve it going forward and ultimately how this affects consumers.

We also consider it would be problematic for the industry if the independence of the AUGE process risked being impacted through the modification process. The risk of modification(s) being raised to change the production of the table could lead to increased uncertainty, as stakeholders could not rely on and implement this data. We consider that the production of the Table and Statement of the AUGE should remain independent. However, we are supportive of parties bringing forward proposals to improve the AUGE process, where they can evidence such change is required.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority has decided that modification proposal UNC0758 'Temporary extension of AUG Statement Creation Process' should not be made.

Jacqui Russell

Head of Metering & Market Operations

Consumers & Markets

Signed on behalf of the Authority and authorised for that purpose