

Modification proposal:	<b>Uniform Network Code (UNC) 711: Update of AUG Table to Reflect New EUC Bands</b>		
Decision:	The Authority <sup>1</sup> directs this modification shall be made <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	4 June 2020	Implementation date:	To be confirmed by the Joint Office

## Background

On 1 October 2019 new End User Category (EUC) bands became effective within gas systems and processes. Previously, EUC bands were split by Annual Quantity only. These new bands split existing EUC Bands 1 & 2 further by market sector, and meter type. The intent was to make certain aspects of gas demand estimation and settlement more accurate.

The Allocation of Unidentified Gas Expert (AUGE) independently determines Unidentified Gas (UG) weightings for EUC bands and is required to populate a table – the ‘AUG Table’ – as set out in UNC Transportation Principle Document (TPD) Section E Annex E-1<sup>3</sup>. That table is essentially the EUC band structure prior to 1 October 2019.

The change which brought in these new EUC bands did not update the AUG Table within the UNC. The Proposer considers that any mismatch between the weightings developed by the AUGE, and the EUCs that are utilised by the CDSP in gas demand estimation processes, will reduce the accuracy of the AUGE process. Therefore, UNC711 was raised to bring these into alignment.

## The modification proposal

UNC711 was raised by Gazprom (The Proposer) on 11 November 2019 and proposes to update the AUG Table set out in UNC TPD Section E Annex E-1 to include the new EUC bands brought in by Data Services Contract (DSC) Change Proposal XRN4665 Creation of New End User Categories (XRN4665).<sup>4</sup>

The Proposer explains that the AUG Table, which was last revised as part of Project Nexus, includes 9 End User Categories and 4 Product Classes, which the table reflected. This allowed the AUGE to align the ‘adjustment factors’ it calculates with each EUC band.

Each EUC Bands 1 & 2 have been further split into four new categories by Change Proposal XRN4665 as:

- Non-Prepayment/Domestic
- Prepayment/Domestic
- Non-Prepayment/Non-domestic
- Prepayment/ Non-domestic

<sup>1</sup> 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.

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

<sup>3</sup> UNC Document available here: <https://www.gasgovernance.co.uk/UNC>

<sup>4</sup> See <https://www.xoserve.com/change/change-proposals/xrn-4665-creation-of-new-end-user-categories/>

Consequently, the AUG Table no longer aligns with the EUC bands in effect for demand estimation processes. UNC711 proposes to align the AUG Table to the new EUC Bands.

This modification was originally proposed and intended to progress as a self-governance modification. The Proposer argued that it was suitable for self-governance as the change would only update the AUG Table and not the application of adjustment factors. The modification simply allows the AUG to reflect these new EUC bands in the AUG statement, so aligning the demand estimation and AUG processes.

It was also explained that this change does not have a material impact in itself, as it does not constrain the AUG in the application of adjustment factors against each of the existing new sub-classes of EUC Band. It simply allows the AUG more granularity to apply adjustment factors, if that is appropriate.

However, this status was subsequently changed due to representations made on the modification that highlighted separate, broader policy issues, which the UNC Panel felt gave justification to change the classification and agree that an Authority decision was necessary.

### **UNC Panel<sup>5</sup> recommendation**

At the UNC Panel meeting on 19 March 2020 a majority of the Panel members recommended UNC711 for implementation, and considered that it would better facilitate the UNC relevant objective d).

The UNC Panel also considered the self-governance status for UNC711. The Panel Members considered that the criteria for self-governance did not seem to be met for this modification as there could potentially have been a material impact on existing or future consumers, and therefore, an Authority decision should be required. A majority of Panel Members voted against self-governance status for this modification.

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 27 March 2020. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the Final Modification report (FMR)<sup>6</sup>. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;<sup>7</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>8</sup>

### **Reasons for our decision**

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<sup>5</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>6</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>7</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>8</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

We consider this modification proposal will better facilitate UNC objective d) and has a neutral impact on the other relevant objectives.

***(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***

We agree that this Modification will better facilitate Relevant Objective d). We feel that that this modification will allow the AUGÉ to align the adjustment factors it calculates with each End User Category. This will result in the allocation of UIG being more accurate and consistent with the new EUC bands, which will allow costs to be placed in appropriate categories where they have been incurred. The increased level of granularity will also provide better cost reflectivity for all market participants, and therefore will promote competition between relevant shippers and suppliers.

There were six responses received regarding this modification, three in support and three opposed. It should be noted that all organisations, including the three that opposed UNC711, understood and broadly supported the intent of the modification proposal.

The organisations that offered support for UNC711 felt that this modification simply corrected the misalignment between the AUGÉ process and industry settlement processes. We agree that by updating the AUG table with the EUC bands currently used by the CDSP it will allow the AUGÉ to allocate UIG costs more accurately, rather than smearing these costs at an aggregate level for EUC Bands 1 & 2.

Those parties that opposed the modification raised several different arguments. One party argued that there were wider policy issues regarding the data available to the AUGÉ and that they were not convinced the data available to the AUGÉ is sufficiently reliable to accurately and robustly allocate UIG to the new EUC bands.

There were also comments in relation to the outcomes of the shifts in UIG costs. One party noted that in their view the change would shift UIG costs further towards residential and particularly pre-payment customers. The consideration of this impact has been explicitly removed from the remit of the AUGÉ; however, they felt it was relevant to the consideration of the UNC Panel and the Authority.

A third party noted that in their opinion it has not been sufficiently established that the benefits will outweigh the costs to implement the change.

We acknowledge all the concerns which were raised by these three parties; however, we are of the view that the issues are not referring to the proposal to implement the amended EUC band table. Therefore, they are outside the scope of the intent of this modification. We consider pertinent issues to the modification itself, in this case an update to the AUG table in order to align the EUC bands. We urge the industry to raise any potential issue concerning the methodology through the appropriate governance or expert group. If necessary, raise additional modifications as required to address and investigate the points made within the opposing responses. Therefore the concerns raised have not been taken into account for our decision on whether to direct implementation of modification proposal UNC711.

We also note that the decision to change this from a self-governance modification to an Authority decision was taken at the final stage in the process. We remind industry that each modification stands on its own merits, and that is how we evaluate modifications and reach our decisions. In our view, this modification proposal does not fit the criteria for an Authority decision, and should have remained self-governance in line with the self-governance criteria, with the other potential issues raised being directed to an appropriate group for discussion.

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC711 'Update of AUG Table to Reflect New EUC Bands' be made.

**Jacqui Russell**

**Head of Metering and Market Operations**

Signed on behalf of the Authority and authorised for that purpose