

## Memo

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**SUBJECT: [Options for the AUGE Process](#)**

The AUGE (Allocation of Unidentified Gas Expert) undertakes analysis on the sources of Unidentified Gas (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 End User Category (EUC).

The AUGE process was initiated in 2012 to forestall the extension of the RbD process to the Large Supply Points by creating a mechanism for developing a cross-subsidy for payments of costs between the two sectors. Following the reform of energy allocation processes as part of Project Nexus, scaling factors are now developed by the AUGE to allocate UIG between customer classes.

Owing to the concerns over the current process this is an appropriate moment to assess whether the UIG allocation regime is delivering the needs of the market and to explore other potential options. To facilitate this, we have identified a number of options. We have not attempted to assess the relative merits of these proposals against the status quo. Some of these options could also be combined.

Our proposed options are summarised as follows:

### **1. Pan-Industry view of losses (merge shrinkage and UIG)**

This option aggregates all sources of gas losses from distribution networks into a single centralised source. This means that all LDZ losses are allocated or recovered in a centralised manner, either from networks, shippers or another party.

- *Pros:* This creates for the first time a new, holistic view of gas loss which may provide greater insights to the causes and therefore solutions to UIG.
- *Cons:* This would likely require a substantial change to both the allowed revenue process and a licence change if it substantially changed the shrinkage process.

## **2. Balancer of last resort**

This option aggregates UIG losses for each LDZ and allocates them to a “Balancer of Last Resort”, either appointed by the GDNs and NTS or shippers, with the costs of the 3<sup>rd</sup> party recovered from the industry.

- *Pros:* This proposal would allow aggregation of UIG management costs as the process would create a single UIG gas requirement for the market.
- *Cons:* This would remove the ability for shippers to compete when managing UIG costs as part of their portfolio. Would also require the development of a process where UIG is negative as the balancer party would have to be able to sell gas to the market to match its negative position.

## **3. UIG allocation from a static model (with potential auditing process)**

AUGE process would be discontinued and a static model that Xoserve would manage would be implemented, which would operate unchanged except via an industry process (UNC Code change). This may also include a periodic audit of the process, taken on by the AUGE in a revised role.

- *Pros:* This proposal would add certainty, and stability to UIG charges which would allow easier forecasting of costs. Would reduce industry effort in managing annual AUGE process.
- *Cons:* Any model will create “winners and losers” and development of a robust model would require significant work and cost. A static model may also drift over time where initial assumptions become invalid.

## **4. Utilise existing industry datasets (e.g. theft)**

Existing industry datasets would be utilised for determining levels and proportions of theft where appropriate. An example of this would be industry theft reporting which has significantly improved since the inception of the AUGE concept in 2009. The AUGE role would then be limited to identifying areas of UIG which cannot be derived from industry datasets.

- *Pros:* This proposal would reduce the potential subjectivity of any assessment by the AUGE and reducing the potential for radical changes.
- *Cons:* It may create incentives on shippers to skew any theft data to suit its UIG allocation and would require robust industry data.

## **5. Smoother transition of scaling factor changes**

The annual AUGE process would continue, but any changes to scaling factors would be smoothed over a period of years (say 3 years)

- *Pros:* This proposal will have a stabilising effect on UIG charges to shippers (and therefore to consumers) leading to more predictable costs and reduced risk associated to pricing.
- *Cons:* This would again create winners and losers and potential improvements to UIG allocation would take longer to be realised.

## **6. UIG framework becomes responsibility of the industry**

Under this option, UIG oversight would be moved to the industry. This could be achieved by mirroring the current DESC process so that any changes to the scaling factors would be the responsibility of a UNCC sub-committee supported by the CDSP.

- *Pros:* This proposal will ensure accountability for the process rests with shipper representatives, not a third party and would allow for continuity of understanding in the UIG allocation process.
- *Cons:* This would open up the process to potential bias from the industry representatives on the committee.