



# **AUGE YEAR REVIEW REPORT FOR 2016/17**

Version 1.1

## Purpose of the Document

This document is a report to the UNCC, in accordance with section 6.1 of the Framework for the Appointment of an Allocation of Unidentified Gas Expert (the “Framework”), which summarises the outcome of the Review of the AUG Expert Year 2016/17, i.e. the preparation of the AUG Statement and Table of Weighting Factors to apply for the Gas Year 2017/18.

## 1. Terminology

AUGE	Allocation of Unidentified Gas Expert
AUGS	Allocation of Unidentified Gas Statement
DNV GL	The current incumbent AUGE
The Framework	The Framework for the Appointment of an Allocation of Unidentified Gas Expert
ICoSS	The I&C Only Shippers and Suppliers Group
LDZ	Local Distribution Zone
UNC	Uniform Network Code
UNCC	Uniform Network Code Committee

## 2. Introduction

At the end of each AUGE year (30<sup>th</sup> September) the Gas Transporters are required<sup>1</sup> to conduct a review of the activities and performance of the AUGE and relevant industry parties, for the creation of the AUGS. Xoserve has carried out this exercise. This report details the approach to the review, the review feedback and recommendations implemented or with the potential to be implemented for the current and forthcoming AUGE years.

## 3. Approach to the review

Xoserve requested the Joint Office of the Gas Transporters to circulate an open letter to all UNC parties to request feedback for the AUGE year 2016/17 and any suggestions for improvements. The distribution list for the letter included the AUGE,

<sup>1</sup> The obligation currently rests with the Gas Transporters, under version 7.0 of the Framework, despite the recent changes to UNC TPD Section E9.

Gas Shippers, Large Gas Transporters, Ofgem and the Joint Office of Gas Transporters. The industry was given a four week period to submit comments. The letter is reproduced in Appendix 1.

Areas to consider for feedback on included:

- The AUG Framework document, e.g. timeline, clarity of scope and of responsibilities
- The AUGE for such areas as: communication, industry engagement, query responses etc.
- The industry, e.g. for support for the process and timeliness/relevance of responses to consultations
- Xoserve e.g. for the provision of information

Feedback was received from the following organisations:

- One Gas Transporter
- Five Gas Shippers (three responses of which were confidential)
- ICoSS on behalf of a number of shippers in the industrial and commercial sector of the market

Key points raised in the feedback are reproduced in the following section, along with Xoserve's responses.

#### **4. Feedback summary and Xoserve responses**

Feedback is grouped below by topic as identified in the invitation letter and Xoserve's comments are set out alongside. Relevant paragraphs have been extracted directly from the responses, and where permission was given, those responses will also be published.

<i>Comment</i>	<i>Xoserve Response</i>
<p>4.1 The AUG Framework</p>	
<p>Many respondents commented on a lack of clarity around the AUGE’s scope:</p> <p>ICoSS noted that there is a “serious lack of clarity with the current contractual terms of reference and scope of the AUGE” and went on to recommend “that a revision of its current contractual terms of reference (with the terms clearly set out in the UNC) be undertaken”.</p> <p>A Shipper commented that “it is imperative that Ofgem are involved in follow up discussion on the AUGE process to provide clarity on their views on the issue of leakage and whether or not the AUGE process should take account of this area”.</p> <p>[Xoserve note: the debate concerning inclusion of Shrinkage covered Shrinkage as a whole, not just the Leakage element].</p>	<p>We agree that first year of operation of the new arrangements has revealed weaknesses with the current AUG Framework, especially around the scope of the role. We would welcome increased clarity in the form of an update to the Framework document, involving all interested parties, including Ofgem. We would then amend our contract with the AUGE to reflect that clearer scope.</p> <p>The process for updating the Framework Document is a submission to the Uniform Network Code Committee and acceptance by majority vote. Any UNC signatory may submit a document to UNCC for consideration at its next meeting, giving five clear Business Days’ notice. An amended framework could be effectively immediately, and Xoserve would then make the appropriate changes to its contract with the AUGE.</p>
<p>ICoSS also stated that the role of the AUGE “is to assess the source of the losses that occur downstream of the Emergency Control Valve”.</p>	<p>We would like to see this statement of scope discussed within the appropriate industry governance forum and, if agreed, included in an updated version of the Framework document.</p> <p>The process and timetable for amending the Framework document are described above.</p>

<i>Comment</i>	<i>Xoserve Response</i>
<p>British Gas and another Shipper raised concerns about the AUGE’s use of experts in the field of Shrinkage and Leakage from within their own organisation and to what extent this was permitted, as well as whether those experts’ other assignments in the field of Shrinkage could create a conflict of interest.</p>	<p>We would welcome additional clarity on this area in an updated version of the Framework. Dependent on whether Shrinkage remains within the AUGE’s scope, we will review with the AUGE (DNV GL) whether the other current assignments of the project team could give rise to a conflict of interest issue, and if so what actions need to be taken.</p> <p>However, as an industry we will always need to balance the need for independence against the need for relevant expertise, and we are likely to find that many established parties with gas industry experience have gained that experience via previous assignments for Gas Shippers or Transporters.</p>
<p>British Gas commented that clarity was needed on whether new issues could be raised after the publication of the Final AUGS but before the publication of the Final Table.</p>	<p>The Framework Document currently refers to topics being raised during and outside the consultation period, However the date range of that consultation period is not defined. This is a further area which could benefit from an update to the Framework Document, with the majority approval of UNCC.</p>

<i>Comment</i>	<i>Xoserve Response</i>
<p>British Gas commented:</p> <p>The Legal Text and Guidance document (i.e. the AUG Framework) still do not align. One example is that Guidance Document 7.1.9 and Modification 0473 does not require a second vote to approve the AUGE Table. Somehow the Legal Text requires a 2nd vote to approve. Should the intention of the modification and the guidance document be reflected in the Legal Text? How should this be corrected? How should it be made more clear what document takes precedent under Code?</p>	<p>Xoserve’s understanding is that the Modification 0473 Legal Text was heavily influenced by the Modification 0229 Legal Text, which included the requirement for UNCC to vote on the AUG Table. The Modification 0473 Business Rules also seem to point towards the need for a vote at UNCC as they refer to the AUGE “preparing and recommending to the Committee an AUG Table”. This would suggest some form of consideration at UNCC.</p> <p>We recommend that UNCC reviews the interaction of UNC and the Framework and assesses whether one or both documents should be amended.</p>
<p>Two Shippers raised concerns about the current levels of Unidentified Gas and the new allocation processes, which have resulted in considerable volatility of UIG.</p> <p>One Shipper stated that:</p> <p>There is a fundamental flaw in the new process, in that the AUGE calculates scaling factors on the basis of permanent UIG (the final position of which is not known until several years after the settlement day), but it is used to apportion all errors.</p> <p>And went on to recommend:</p> <p>The industry therefore needs to commence a piece of work on addressing this problem imminently, seeking to split the handling of settlement error from that of UIG.</p>	<p>Xoserve is aware of the current volatility of UIG and is closely monitoring the levels of daily and national UIG. We also have a dedicated team assisting Shippers with current known issues such as DM read rejections.</p> <p>Corona Energy has now raised UNC Request 0631 “Review of NDM algorithm post-Nexus”. This Review Group would be a route for investigating alternative allocation arrangements.</p>

<i>Comment</i>	<i>Xoserve Response</i>
4.2 The AUGE for such areas as: communication, industry engagement, query responses etc.	
<p>ICoSS raised a number of concerns about the work of the AUGE this year including:</p> <ul style="list-style-type: none"> <li>• The lack of assessment of the balancing factor; the vast majority of Unidentified Gas.</li> <li>• The lack of evidence for the apportionment of an amount of UIG to daily metered (voluntary) sites.</li> </ul>	<p>The AUGE has previously reported that a large part of their calculated permanent UIG cannot be explained by their assessment of the known causes. The industry has an opportunity each year to raise new issues to the AUGE.</p> <p>We will share this feedback with the AUGE and ensure that their 2018 methodology addresses these specific areas and also in general that they review the level of evidence provided for all components of the methodology.</p>

<i>Comment</i>	<i>Xoserve Response</i>
<p>British Gas, ICoSS, npower, Wales &amp; West Utilities and another Shipper all raised concerns about the AUGE’s treatment of the potential error in the Shrinkage assessment, whereby it was not included in the First Draft AUGS, added to the Final AUGS but removed from the Final Table of Factors.</p> <p>Npower described this as an “unsatisfactory conclusion”.</p>	<p>Two industry parties gave feedback on the Draft AUGS, to the effect that Shrinkage error should also be considered. This prompted the AUGE to include a figure for Shrinkage error in the Final AUGS. However this change polarised opinion in the industry and is one of the key reasons for the concerns about the scope of the role, as noted in 4.1 above.</p> <p>Distribution Network Operators in particular were concerned that the annual Shrinkage assessment was a Transporter Licence obligation and therefore outside of the AUGE’s scope.</p> <p>As noted previously, we would welcome further clarity on the AUGE’s scope. In addition, and in view of the very political nature of this year’s AUGS and AUG Table, the review of the Framework may wish to reconsider whether Paragraph 5.1.2 is retained or amended. It currently states “The decision as to the most appropriate methodologies and data will rest solely with the AUG Expert taking account of any issues raised during the development and compilation of the AUG Statement.” The AUGE was appointed on this basis, and observation of this clause by all parties should help to de-politicise the process.</p>

<i>Comment</i>	<i>Xoserve Response</i>
<p>British Gas questioned:</p> <p>The unsolicited experts state the shrinkage error is not zero. The Imperial College Study states it is not zero. Customers are now knowingly being charged for shrinkage-error. How is it correct the AUGE calculates the GDN shrinkage error to be zero?</p>	<p>Xoserve’s understanding is that DNV GL’s Shrinkage experts estimated that there could be an under-assessment of Shrinkage, but that it was lower than the 20% level previously used. The AUGE stated in their Final Factors letter that “It is the AUG Expert’s understanding that introducing a calculation of shrinkage error would constitute a change to the methodology”. Under those circumstances their only options were a figure of 0% or a figure of 20% for Shrinkage Error.</p> <p>Whilst the decision on the final methodology should still rest with the AUGE, we note that the majority of UNCC members were firmly of the view that Large GT Shrinkage should not be included in the Methodology. Both ICoSS and the Large Gas Transporters wrote to the AUGE to make that point.</p>
<p>ICoSS raised a concern regarding communication of issues in obtaining data from other industry parties, specifically the Theft Risk Assessment Service.</p> <p>ICoSS and a Shipper also commented that they were disappointed that the AUGE had not used the government statistics on the Smart meter roll-out in the first draft AUGS, until they were pointed out to them.</p>	<p>We propose that the AUGE produces a summary of the data sources which it intends to use for each of its key areas of analysis, as an interim deliverable, prior to the production of the first draft AUGS. This would be made available to the industry for review, which would enable the industry to give earlier input on availability of other data sources.</p>

<i>Comment</i>	<i>Xoserve Response</i>
<p>British Gas stated that:</p> <p>The AUGE output is non-compliant with Code, section 9.4.3 (f) – the AUGE Statement and AUGE Table still do not align. And questioned how we ensure in future years the obligation is correctly delivered and the Statement and Table align?</p>	<p>This is another area where clarity would be very beneficial: there is no explicit requirement for the Final AUGS to include a Final Table of Weighting Factors, and the understanding of the term “align” was a key area of debate. Xoserve and the AUGE’s view was that the requirement was for consistency of methodology between the two documents, but not specifically for identical Tables to be included in both documents.</p> <p>Guidance from either the proposer of the UNC Modification or the party that drafted the Legal text could clarify whether this means that the Final AUGS should include a Table, which must be the same as the Final published Table, or whether it means that the Final published Table must be “in alignment” i.e. consistent with the methodology set out in the Final AUGS.</p> <p>If the requirement is for the same Table to be in both documents, it would provide certainty of the values up to two months earlier, but would mean that no further data could be taken into account (for instance, newer data on Theft or Shipperless/Unregistered sites).</p>

<i>Comment</i>	<i>Xoserve Response</i>
4.3 The industry, e.g. for support for the process and timeliness/relevance of responses to consultations	
<p>British Gas in their response asked the question:</p> <p>How do we de-politicise the AUGE to work towards the correct answer rather than the answer they are pressurised to deliver?</p>	<p>We would welcome industry discussion on this question.</p> <p>Although the AUGE is no longer responsible for developing an estimate of UIG resulting directly in financial transactions, their output still has a high financial materiality. Later years of the previous AUG arrangements (Modification 0229 rules) became less politicised, helped perhaps by the AUGE withholding all information about the assessed level of UIG until after the Statement had been approved. The current process appears to require a version of the Table alongside each draft of the Statement, which may have caused the discussion of methodology items to be tainted by consideration of their financial implications. The industry needs to review whether an early view of the Table is still required, or whether the Statement (methodology) should be agreed prior to any weighting factors being published.</p> <p>Xoserve’s view is that a return to the principle of agreeing the Methodology without any financial view could help to make the process less politicised.</p>

<i>Comment</i>	<i>Xoserve Response</i>
<p>We note that none of the responses referred to the role of the Joint Office in the process this year. However during the year, Shipper and Transporter representatives raised concerns about the lack of involvement of the Joint Office in the presentation and review meetings. At the request of the Joint Office, Xoserve organised and chaired these three meetings, and provided a summary record of the meeting in the form of a Q&amp;A document. Some Shippers commented at that the time that these meetings should have been managed and chaired by the Joint Office.</p>	<p>We recommend that the Joint Office is asked to take over this role in future years, to ensure consistent facilitation and documentation throughout the process.</p>
<p>4.4 Xoserve e.g. for the provision of information</p>	
<p>ICoSS and a Shipper commented that the use of the secure Xoserve Sharepoint site for publication of the AUGE’s supporting calculation documents created a lack of transparency and was a barrier to smaller Shippers who only had one or two key individuals who could access that site.</p>	<p>We do not have any cap on access to our secure Sharepoint site, so Shippers may have as many accounts as they need, without charge. However access is restricted to UNC signatories, e.g. Gas Transporters and Shippers.</p> <p>We are happy to either assist with the creation of additional user accounts or move the documents to the Joint Office pages, depending on industry consensus on this topic.</p> <p>(The AUG Statement and Table, and all supporting presentations are already on Joint Office public website).</p>

<i>Comment</i>	<i>Xoserve Response</i>
<p>British Gas raised a number of concerns about Xoserve’s support for the process, for instance that our response to a request from British Gas for a “Compliance Statement” was unsatisfactory and contradictory.</p>	<p>The request from British Gas for a “Compliance Statement” put Xoserve in a very difficult position, in that we were being asked to provide a legal opinion which would then add further heat to a very political debate regarding the late change to remove the estimated Shrinkage Error from the Weighting Factors.</p> <p>We are sorry that British Gas felt that our response was unsatisfactory: Xoserve does not maintain a Network Code compliance team and it would therefore be inappropriate for Xoserve to provide a legal opinion. UNC parties should obtain their own legal advice in these circumstances.</p> <p>Overall we believe that the AUGE complied with all the requirements placed on it by the AUG Framework and met all the deliverable dates. The difficulties that the industry experienced this year could be mitigated by increased clarity in the Framework, as detailed in earlier paragraphs. Xoserve would then seek to make the appropriate amendments to the contractual arrangements between Xoserve and the AUGE.</p>

<i>Comment</i>	<i>Xoserve Response</i>
<p>Regarding the contract between Xoserve and DNV GL, British Gas commented</p> <p>We have an ongoing concern relating to the lack of transparency of the contractual arrangements in place with the AUGE. As Xoserve are the contracting party of the AUGE, how can Xoserve be in a better position to own and manage the relationship with all parties and ensure Xoserve customers are correctly informed and kept abreast of information?</p> <p>ICoSS also commented:</p> <p>There is also very little transparency on the contractual basis on which the AUGE is appointed and managed. For example the contractual length for which DNV GL is contracted for is not known. Now that Xoserve is managed under a co-operative model, shippers should be made aware of the contractual terms under which the AUGE operates including termination clauses.</p>	<p>Whilst the details of the contract with DNV GL are confidential, we can confirm that the AUGE scope is taken directly from the current Framework and from the Requirements developed by UNCC.</p> <p>We can confirm that the contract includes the usual termination clauses that would be expected in a service contract. In addition we can confirm that there is an annual breakpoint in the contract, whereby notice can be given by 1<sup>st</sup> May in any given year, prior to the AUGE commencing work on the following year's service.</p> <p>However, as the lead time for procuring a new AUGE would typically be six to nine months, a procurement exercise would have to be initiated well before 1<sup>st</sup> May in that given year, or alternative arrangements made to roll over the prevailing set of Factors for a further year.</p>

<i>Comment</i>	<i>Xoserve Response</i>
<p>British Gas concluded:</p> <p>How do we ensure the AUGE activity is clearly documented in the future, whereby rules are robust, strictly followed and transparent? Xoserve responding everything is okay, the process has been followed, when they clearly haven't is not helpful to its customers who have to manage the mess that has been created. Without admission that things could be done better, how will the process improve? We believe this is part of the reason why the new arrangements have been no better managed than the previous arrangements. How do we change Xoserve's culture to be more customer focused in this area?</p>	<p>As mentioned above, we would welcome a review of the AUG Framework, to provide additional clarity that we could then add into the AUG contract.</p> <p>We recognise that this was a difficult year, and that the methodology and values became highly political. We have noted above a number of areas for improvement and look forward to working with the industry to implement these.</p> <p>As an organisation we are committed to delivering a good customer service, and we are currently undertaking a review of our structure and customer engagement approach with the aim of making a step-change in our customer service and orientation.</p>

We note that none of the respondents made any comments regarding the provision of data to the AUGE by Xoserve. Xoserve was able to provide the AUGE with a significant volume of data for use in its analysis within a short timescale and with a high level of quality.

## **5. Conclusions**

This was the first year of operation of the new AUG Framework as introduced by UNC Modification 0473 and a number of difficulties arose, which demonstrated the significance of this process and its importance to many industry parties.

It is clear from many responses that a review of the Framework document is required, to clarify a number of areas of scope. We would welcome this review and would support the discussions, although Xoserve is not a UNC signatory, and therefore cannot table an updated document itself.

There are also a number of learning points for Xoserve and for DNV GL and we are committed to taking these on board and improving our delivery and service over the coming year, to ensure a much smoother and more co-operative process for the 2018/19 Statement and Table.

## APPENDIX 1

*Open Letter to UNC Parties and other Gas Industry participants, requesting feedback on the 2017 process (i.e. the development of the 2017/18 Statement).*

To:

UNC Parties, including Shippers and Large Gas Transporters  
The Joint Office of the Gas Transporters  
Ofgem  
The AUGE

10 August 2017

Dear Colleague

### **Allocation of Unidentified Gas (AUG) Process – Request for Feedback**

2016/17 saw the first application of the new Allocation of Unidentified Gas processes, as introduced by UNC Modification 0473. Xoserve has already received feedback on the operation of the process and is well aware that there is scope for improvement in both the design and operation of the process.

The new AUG process is set out in a UNC Related Document: “Framework for the Appointment of an Allocation of Unidentified Gas Expert”. The Framework includes a requirement for the Gas Transporters to conduct a review of “the activities and performance of the AUGE and the industry for the creation of the AUGS” and to report to the Committee (section 6.1 of the Framework).

I would like to request your feedback on the events of the AUG Expert year 2016/17, i.e. the development of the AUG Statement and Table of UIG Weighting Factors for 2017/18, and any suggestions for improvements. Areas on which you may consider providing feedback include:

- The AUG Framework document, e.g. timeline, clarity of scope and of responsibilities
- The AUGE for such areas as: communication, industry engagement, query responses etc.
- The industry, e.g. for support for the process and timeliness/relevance of responses to consultations
- Xoserve e.g. for the provision of information

The intention is to produce a short review report on the 2016/7 process, including any recommendations, for the October 2017 meeting of the UNCC. To enable this to be

produced, I would be grateful if you could provide any feedback by **Friday 15<sup>th</sup> September 2017**.

The documents relating to the AUG year in question can be found on the Joint Office of Gas Transporters website under <https://www.gasgovernance.co.uk/augenex> , including the Statement, the Table of Weighting Factors and other correspondence.

Please submit your responses to **analytical.services@xoserve.com**. Could you also please **advise whether you are happy for your feedback to be made public** (probably as an appendix to the report).

If you have any questions regarding this topic please do not hesitate to contact me via the email address above.

Yours sincerely

Fiona Cottam  
Business Process Manager

## Revision History

<i>Version</i>	<i>Date</i>	<i>Overview of Changes</i>
1.0	11 October 2017	First version
1.1	13 October 2017	Remove error in number of confidential Shipper responses