

| UNC Modification | At what stage is this document in the process? |
|---|--|
| <h1>UNC 0758:</h1> <h2>Temporary extension of AUG Statement creation process</h2> | <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid green; background-color: #28a745; color: white; padding: 5px; display: flex; align-items: center; justify-content: center;"> 01 Modification </div> <div style="border: 1px solid #17a2b8; padding: 5px; display: flex; align-items: center; justify-content: center;"> 02 Workgroup Report </div> <div style="border: 1px solid #9932cc; padding: 5px; display: flex; align-items: center; justify-content: center;"> 03 Draft Modification Report </div> <div style="border: 1px solid #fd7e14; padding: 5px; display: flex; align-items: center; justify-content: center;"> 04 Final Modification Report </div> </div> |
| <p>Purpose of Modification:</p> <p>To allow the new AUGE sufficient time to develop a robust AUG Statement in accordance with the Framework for the Appointment of an Allocation of Unidentified Gas Expert, (AUGE), and to rollover the existing AUG Table, repeating the process undertaken previously for the 2013/14 & 2016/17 AUG Years</p> | |
|  | <p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> considered a material change and not subject to Self-Governance. assessed by a Workgroup. <p>This Modification will be presented by the Proposer to the Panel on 18 March 2021. The Panel will consider the Proposer’s recommendation and determine the appropriate route.</p> |
|  | <p>High Impact: Shippers</p> |
|  | <p>Medium Impact: None</p> |
|  | <p>Low Impact: None</p> |

| Contents | | |
|---|--------------------------------|---|
| 1 | Summary | 3 |
| 2 | Governance | 3 |
| 3 | Why Change? | 4 |
| 4 | Code Specific Matters | 5 |
| 5 | Solution | 6 |
| 6 | Impacts & Other Considerations | 7 |
| 7 | Relevant Objectives | 7 |
| 8 | Implementation | 8 |
| 9 | Legal Text | 8 |
| 10 | Recommendations | 9 |
| Timetable | | |
| The Proposer recommends the following timetable: | | |
| Pre-modification consideration by Workgroup | 25 February 2021 | |
| Presented to Panel | 18 March 2021 | |
| Modification considered by Workgroup | 25 March 2021 | |
| Workgroup Report presented to Panel | 15 April 2021 | |
| Draft Modification Report issued for consultation | 15 April 2021 | |
| Consultation Close-out for representations | 06 May 2021 | |
| Final Modification Report available for Panel | 11 May 2021 | |
| Modification Panel decision | 20 May 2021 | |
| | |  Any questions? |
| | | Contact: Joint Office of Gas Transporters |
| | |  enquiries@gasgovernance.co.uk |
| | |  0121 288 2107 |
| | | Proposer: Andy Knowles Utilita Energy Ltd |
| | |  andyknowles@utilita.co.uk (Utilita Energy Ltd) |
| | |  07392 197 760 |
| | | Transporter: Guv Dosanjh Cadent |
| | |  Gurvinder.Dosanjh@cadentgas.com |
| | |  07773151572 |
| | | Systems Provider: Xoserve |
| | |  UKLink@xoserve.com |
| | | Other: Gareth Evans |
| | |  gareth@watersweye.co.uk |
| | |  07500 964447 |

1 Summary

What

To ensure that UIG is allocated between Shippers in accordance with the requirements of the UNC and its subsidiary documents, the industry must use the most accurate and verifiable UIG Allocation Adjustment Factors available to it. The AUG Statement proposed for the AUG Year 2021/22 has, owing to the limited time available, not had the same level of development as previous AUG Statements. The proposer believes that the area where the lack of development time is most pertinent is in the development of the principle of polluter pays. In previous AUG Statement the AUGE has not adopted the polluter pays concept for anything other than broad generalisations, (EUC and Product Class). With the new AUGE introducing a complete overhaul of the methodology, now is an appropriate time to improve the polluter pays concept and differentiate between customers settling gas on estimates versus actual meter reads which the proposer believes would be a significant improvement in line with the polluter pays principle. The proposer also believes that the data used to calculate the total gas volume and number of supply points by payment method does not align with the calculation of gas theft by payment method, resulting in a material error in UIG apportionment by payment method.

Why

There are two reasons for deferring implementation of the proposed AUG Statement, firstly the proposed AUG Table for 2020/21 does not go far enough in advancing the AUG methodology; and secondly, there is assurance needed to demonstrate that this methodology is an improvement on the previous methodology and not just a change. The proposed AUG Table for 2020/21 does not have the level of development as previous AUG Table and so does not represent the most robust view of Unidentified Gas available.

How

Concerns in the short term could be allayed by rollover the UIG Allocation Adjustment Factors that are currently in force the 2020/2021 AUG Year to the 2021/2022 AUG Year.

2 Governance

Justification for Authority Direction

According to the latest Xoserve estimate of 24 February 2021,¹ UIG runs at approximately 2.42% of LDZ throughput, representing approximately 13TWh of gas annually, with an approximate annual materiality of £200-250m². Any significant change to the AUG Table is therefore likely to result in the redistribution of these costs between shipper in the order of millions of pounds and so would be a material change, requiring Authority Direction.

Requested Next Steps

This Modification should:

¹ Xoserve UIG Graphs – Interim Reporting 24 February 2021

² Using a 30-day rolling average SAP price of 1.8444p/kWh on 13 February 2021

- be considered a material change and not subject to self-governance
- be assessed by a Workgroup

3 Why Change?

The development of a robust AUG Statement is a complex and difficult undertaking, which requires the assessment of multiple data sources and engagement with the industry as the methodology is developed. The timescales, as mandated by the Framework for the Appointment of an Allocation of Unidentified Gas Expert,³ (the Framework Document), are extremely tight, with the entire process required to be completed in less than a year.

Owing to a change in the AUGGE, the AUG Statement that was presented to the industry on 30 December 2020 represents a significant departure from previous methodology, as it:

- Uses a bottom-up approach to assess the current UIG, rather than a top-down approach.
- Determines UIG only at line in the sand, rather than the previous process of assessing temporary and permanent UIG during the lifetime of settlement.
- Has utilised an entirely different methodology for deriving both the size of theft and the apportionment of theft between market sectors. Theft comprises approximately 75% of the total of UIG.

The AUG Statement that was presented to the industry is demonstrably different to previous years and could not be said to be a simple evolution of previous statements and has been effectively developed from first principles in large part.

There are 2 prime examples where further development is required: achieving the principle of polluter pays and accurately allocating prepayment customer numbers.

The first principle of the proposed methodology is:

“Polluter Pays – we interpreted “fair and equitable” to mean that UIG should be allocated in the same proportions as it is created” source: Draft Allocation of Unidentified Gas Statement (For Gas Year 2021-2022)

The AUG Statement produced fails to fully deliver this. Currently, the proposed AUG Table results in UIG being allocated to customers in the same EUC Band and Product Class, as opposed to the polluters themselves. It takes no account of metering systems that settle regularly on actual meter reads and are logically and statistically less likely to be involved in theft. Smart meters have specifically been identified by the department of Business, Energy and Industrial Strategy (BEIS) as directly beneficial to the reduction of theft:

The introduction of smart metering has improved energy suppliers’ ability to detect and manage energy theft. More granular data on consumption will help alert suppliers to patterns of behaviour that could be indicative of theft, enabling them to better target their enforcement activity, reducing the amount of energy theft incurred. BEIS Smart Meter Rollout Cost Benefit Analysis (2019)

The BEIS 2019 Smart Meter Rollout Cost Benefit Analysis attributes £913million in benefits to reduced theft and losses because of smart meters being installed.

The proliferation of smart meters and the enhanced data they provide (including daily meter reads and tamper alerts) should play a part in better identifying the polluters (or more accurately, the non-polluters).

³ [Framework for the Appointment of an Allocation of Unidentified Gas Expert](#)

The AUG Statement must reflect a true and accurate number of customers in each group; the current number of prepay customers included in the AUG Statement is approximately 2m, however, Ofgem data from 2020 states there are 3.4m prepayment meters⁴. The AUGE has used the best available data to calculate the amount of gas theft associated with prepayment and credit customers, (data not provided by the CDSP), but this does not align with the AUGE's assessment of both supply points and volumes by payment method, (data which was determined from CDSP's EUC band data). The AUG Statement must reflect a true and accurate number of customers in each group and, while CDSP data may be preferred where available, it is clearly inaccurate in this case and needs further development; failure to correct this error would result in materially inaccurate allocation of UIG by payment method within certain EUC bands.

Whilst the draft AUG Statement represents a reasonable foundation upon which to develop a robust methodology it is clear that more time is required. The AUGE appointment process commenced in 2011 with the first AUG Statement in 2012/13 being recognised as an interim development to replace the high-level assessment of UIG then in place. This Statement was then rolled over for the 2013/14 AUG Year to allow time for a more robust consumption method to be developed for 2014/15. The AUG Statement was rolled over again for the AUG Year 2016/17 to allow time for the AUGE tendering process to complete.

Considering these concerns and being mindful of the time it took for the previous AUGE to present a robust statement that was accepted by the industry, it is clear that the process has not given 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, (unlike at the start of the process), we believe 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.

The current proposals substantially alter the impact of the AUG Statement under the new methodology. Not only have the extremely tight timescales impacted the new AUGE's time to develop the methodology they have also deprived industry of sufficient time for proper assurance work on a new and significant methodology.

For the avoidance of doubt, we have not considered whether there should be any changes to the Framework Document, as we consider the annual review process will give a suitable opportunity to do so.

4 Code Specific Matters

Reference Documents

- UNC TPD Section E9
- Framework for the Appointment of an Allocation of Unidentified Gas Expert.
- Assessment of draft 2021-22 AUGE Statement against the Framework for the Appointment of an Allocation of Unidentified Gas Expert (provided by ICoSS to UNCC on 22 February 202)

Knowledge/Skills

- None

⁴ https://www.ofgem.gov.uk/system/files/docs/2020/10/self-disconnection_and_self-rationing_decision.pdf. Section 1.10.

5 Solution

Business Rules

1. The AUG Table that is approved by the Committee under TPDE9.4.4(a) to apply for the period 1 October 2021-30 September 2022 (as voted or around the 15 April 2021) shall be disapplied and not used for any Code purpose.
2. The AUG Table for the AUG Year 01 October 2021 – 30 September 2022 will instead be the following:

| Supply Points | | | | | Metered CSEPs | |
|---------------|--------------------------|---------|---------|---------|--|-------------------|
| | Class 1 | Class 2 | Class 3 | Class 4 | Category | Allocation Factor |
| EUC | Allocation Factor | | | | All Metered CSEPs as a single category | |
| 1ND | 0.22 | 5.28 | 45.30 | 120.98 | | |
| 1PD | 0.22 | 5.28 | 45.30 | 120.98 | | |
| 1NI | 0.22 | 5.28 | 45.30 | 120.98 | | |
| 1PI | 0.22 | 5.28 | 45.30 | 120.98 | | |
| 2ND | 0.22 | 5.28 | 13.68 | 117.79 | | |
| 2PD | 0.22 | 5.28 | 13.68 | 117.79 | | |
| 2NI | 0.22 | 5.28 | 13.68 | 117.79 | | |
| 2PI | 0.22 | 5.28 | 13.68 | 117.79 | | |
| 3 | 0.22 | 4.93 | 9.17 | 15.29 | | |
| 4 | 0.22 | 3.87 | 9.17 | 11.76 | | |
| 5 | 0.22 | 2.47 | 8.56 | 8.04 | | |
| 6 | 0.22 | 1.13 | 6.30 | 4.79 | | |
| 7 | 0.22 | 0.33 | 5.14 | 2.47 | | |
| 8 | 0.22 | 0.22 | 0.42 | 1.55 | | |
| 9 | 0.22 | 0.22 | 0.22 | 0.22 | | |

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No

Consumer Impacts

None as UIG is allocated at a wholesale level to shippers.

Cross Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

None as the process will simply rollover the AUG Table from 2020/21.

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

| Relevant Objective | Identified impact |
|--|-------------------|
| a) Efficient and economic operation of the pipe-line system. | None |
| b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. | None |
| c) Efficient discharge of the licensee's obligations. | None |
| d) 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. | Positive |
| e) 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. | None |
| f) Promotion of efficiency in the implementation and administration of the Code. | Positive |

| | |
|--|------|
| g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators. | None |
|--|------|

Owing to the limited time which was available for its development, the AUG Table and accompanying statement that was presented to the industry on 30 December 2020 does not represent as detailed an assessment as the AUG Table in place for 2020/21. Extending the AUG Table for 2020/21 to cover the AUG Year 2021/22 would result in more accurate cost targeting and so further competition between shippers and would give further time for the requirements of the Framework for the Appointment of an Allocation of Unidentified Gas Expert to be discharged.

8 Implementation

No specific implementation date is proposed, but the modification will need to be implemented as soon as possible to provide certainty to shippers on the AUG Table for the AUG Year 2021/22.

9 Legal Text

Text Commentary

As this modification would effectively extend the 2020/21 AUG Table, (in the form specified in Modification 0711⁵), for a further 12 months, the textual change should be placed in Transitional Rules.

Suggested Text

Transitional Text

Replacing UNC TPDE 9.4.4

For the AUG Year Commencing 1 October 2021, UNC PTD 9.4.4(a), will state the following (strikethrough text to show difference to UNC TPD Section E

(a) the AUG Statement ~~and the AUG Table~~ established for an AUG Year for the purposes of paragraph 9.4.1 shall be those approved the Committee under paragraph 9.4.3, and shall not be subject to later modification in relation to such AUG Year;

(b) the approved AUG Statement ~~and the AUG Table~~ shall be binding for the purposes of the Code.

New Section

For the purposes of the Code, The AUG Table below shall apply from 01 October 2021 until 30 September 2022 and shall not be subject to later modification in relation to such AUG Year:

| Supply Points | | | | | Metered CSEPs | |
|---------------|---------|---------|---------|---------|---------------|-------------------|
| | Class 1 | Class 2 | Class 3 | Class 4 | Category | Allocation Factor |
| | | | | | | |

⁵ [Modification 0711: Update of AUG Table to reflect new EUC bands](#)

| EUC | Allocation Factor | | | | All Metered CSEPs as a single category |
|-----|-------------------|------|-------|--------|--|
| 1ND | 0.22 | 5.28 | 45.30 | 120.98 | |
| 1PD | 0.22 | 5.28 | 45.30 | 120.98 | |
| 1NI | 0.22 | 5.28 | 45.30 | 120.98 | |
| 1PI | 0.22 | 5.28 | 45.30 | 120.98 | |
| 2ND | 0.22 | 5.28 | 13.68 | 117.79 | |
| 2PD | 0.22 | 5.28 | 13.68 | 117.79 | |
| 2NI | 0.22 | 5.28 | 13.68 | 117.79 | |
| 2PI | 0.22 | 5.28 | 13.68 | 117.79 | |
| 3 | 0.22 | 4.93 | 9.17 | 15.29 | |
| 4 | 0.22 | 3.87 | 9.17 | 11.76 | |
| 5 | 0.22 | 2.47 | 8.56 | 8.04 | |
| 6 | 0.22 | 1.13 | 6.30 | 4.79 | |
| 7 | 0.22 | 0.33 | 5.14 | 2.47 | |
| 8 | 0.22 | 0.22 | 0.42 | 1.55 | |
| 9 | 0.22 | 0.22 | 0.22 | 0.22 | |

10 Recommendations

Proposer’s Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply.
- Refer this proposal to a Workgroup for assessment.
- Acknowledge that time is of the essence as the UNCC are due to review the 2021/21 AUG Statement in development on 15 April 2021 for a scheduled implementation date of 01 October 2021.