

UNC Mod Panel Secretary
Joint Office of Gas Transporters
31 Homer Road
Solihull
West Midlands
B91 3LT

12 April 2009

Dear John,

Re: **UNC Modification Proposal 0229 – Mechanism for Correct Apportionment of Unidentified Gas**

Thank you for the opportunity to respond to this Modification Proposal. Northern Gas Networks (NGN) does not support this modification proposal in its current form.

The issue of unidentified gas which is currently attributed to the Small Supply Point (SSP) market by virtue of Reconciliation by Difference (RbD) has been the subject of modifications 0194/0194A, 0228/0228A and of this modification, 0229. Gas is categorised as unidentified for the modifications for a variety of reasons including, but not limited to, late confirmation, unregistered and orphaned sites and theft. By their very nature these are areas of gas usage where it is difficult to calculate the volumes in total, and therefore the subsequent breakdown which would be attributable to each market sector is also contentious.

Northern Gas Networks (NGN) has previously agreed in principle to modifications 0194/0194A and 0228/0228A, acknowledging the work that has been carried out within the industry to establish common ground on what the main issues are, while remaining opposed to the magnitude.

Modification 0229 would, on the face of it, appear to enable the issue of the magnitude of the current issues to be established by an independent third party, thereby removing the potential for market sector bias and the need for UNC modifications to review and update the volumes.

The issue of the contracting framework proposed within this modification is of concern to NGN. The practicalities of a multi-party contract that all Transporters procure jointly with the Allocation of Unidentified Gas Expert (AUGE) are not made clear in the modification proposal and these would need to be resolved should Transporters have an obligation to appoint an AUGE.

NGN further believes that the references to the RbD Auditor and Meter Error Notification Guidelines which have been cited by shippers as precedent for the contracting framework may be misleading. Some of the key differences between these and the engagement of the Allocation of Unidentified Gas Expert (AUGE) are noted below.

- The RbD Auditor process is fully controlled by Transporters in order to provide assurance on xoserve processes rather than to carry out a substantive piece of work. As it is xoserve processes that are being audited, it is appropriate for xoserve to be the contracting party to discharge the Transporters obligations in this case.
- The Meter Error Notification process is also substantially different from the appointment of an AUGÉ. A Meter Error Report (MER) is essentially a contract between only two parties – the transporter whose network the meter sits on, and the expert. The AUGÉ appointment in contrast is envisaged as a multi-party contract which, as noted above, would still require further development to establish an appropriate framework.

NGN also believes that the timeline and processes for the appointment of the AUGÉ, and for the AUGÉ to produce the Allocation of Unidentified Gas Statement (AUGS) would require further development to be practical. In particular, the level of involvement of UNCC as a decision making party has not been fully discussed and agreed.

The mechanism for Transporters to recover all costs of this process have also not been fully developed, and while we acknowledge that the modification proposals' intention is that Transporters remain cost neutral, NGN are concerned that the practicalities of how this can be achieved have not yet been explored.

In summary, NGN is sympathetic to the intention of this modification proposal, but does not support the modification in its current form. We believe that further development is still required to establish a practical, implementable solution.

Yours sincerely,



Joanna Ferguson
Network Code Manager