



Gas Distribution Networks

*Promoting choice and value for
all gas and electricity customers*

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Dear Colleagues

Agency Charging Statement (ACS) decision for UNC Modification 229: Mechanism for Correct Apportionment of Unidentified Gas

On 26 May 2010, Ofgem published its decision on UNC Modification 0229 'Mechanism for Correct Apportionment of Unidentified Gas' (UNC229).

At the Distribution Workstream on 27 May 2010, industry parties discussed options for how costs associated with the introduction of the Allocation of Unidentified Gas Expert (AUGE) and its ongoing scheme would be recovered from system users¹. We have subsequently received two ACS change options from xoserve for the development and ongoing cost recovery on the AUGE. These changes to the ACS are proposed to be effective from 1 July 2010. The two options are summarised below²:

1. All Shippers with Local Distribution Zone (LDZ) capacity to fund the development and set-up activities, in addition to the ongoing AUGE costs. Both sets of charges would be levied on applicable Shippers in proportion with their Supply Point Offtake Quantities (SOQs).
2. All Shippers with LDZ capacity to fund the development and set up activities excluding supply points in End User Category (EUC) Band 1³. The ongoing AUGE costs are funded by all Shippers with LDZ capacity. Both sets of charges would be levied on applicable shippers in proportion with their SOQs.

Standard Special Condition (SSC) A15 of National Grid Gas's (NGG) Gas Transporter Licence describes the relevant objectives which user pays charges specified in the ACS must satisfy. These objectives are that charges should, so far as reasonably practicable, reflect the costs of providing the service and not unduly discriminate between or unduly prefer any person or classes of person. We consider that the first charging methodology summarised above meets these objectives. We consider that SOQ is a reasonable measure on which to allocate charges⁴. We consider that a convincing argument for the second option has not been made. In particular, it is not clear to us what the potential benefits and drawbacks of excluding EUC Band 1 supply points for allocating the development and set up activities would be. We therefore veto option 2.

¹ Information on the allocation of charges was not included in the Final Modification Report (FMR) for UNC229 received by Ofgem on 26 May 2010.

² ACS proposals can be viewed here: <http://gasgovernance.co.uk/ACS>

³ Consumption of less than 73.2 MWh per annum.

⁴ If the industry considers that there are more appropriate user pays arrangements that could be applied going forward, we note that these views can be raised in the Gas Distribution Networks (GDNs) for consideration. We note that GDNs are required under SSC A15 to keep the ACS under review.

We note that the materiality of this ACS change is not specified, and that the likely value of the charges for Shippers is unknown. We would expect charges to be minimised in line with efficient processes, and be proportionate to the monies anticipated to be re-allocated by the AUGÉ.

To increase transparency on progress in implementing UNC229, we encourage Transporters to provide information in the monthly reports published to the Joint Office website. We expect to publish total actual costs, when known, as a future revision to the ACS. This will allow Ofgem and the industry to be updated with relevant information including expected costs, performance indicators and details of milestones where Shipper agreement is required.

Yours sincerely

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Signed on behalf of the Authority and authorised for that purpose.