

Mr Bob Fletcher
Secretary, Modification Panel
Joint Office of Gas Transporters
51 Homer Road
Solihull
B91 3LT

14th September 2010

Dear Bob

RE: UNC Modification Proposals 0313 “*Application Date for MOD0229*”

1. British Gas would like to withdraw Modification Proposal 0313, “*Application Date for MOD0229*”. Our reasoning for this is given below. This letter is not confidential, and I am happy for it to be published on the Joint Office website.
2. Modification Proposal 0229, “*Mechanism for correct apportionment of unidentified gas*”, introduced the concept of an Allocation of Unidentified Gas Expert (AUGE) who would be responsible for publishing an Allocation of Unidentified Gas Statement (AUGS) in May 2012¹, setting out precisely how unidentified gas costs should be apportioned between the Small Supply Point (SSP) and Large Supply Point (LSP) sectors.
3. British Gas then raised Modification Proposal 0313 in order to confirm our understanding that the initial AUGS would apply from 1st April 2011. Since that time however, we have obtained legal advice which clarifies the position to our satisfaction. This legal advice is attached to this letter as Appendix One.
4. The advice is unequivocal in saying that the reallocation of costs proposed by the first AUGS will be applied from 1st April 2011, regardless of when it is actually published. As a result, we no longer consider that Modification Proposal 0313 is needed in order to confirm the application date for the initial AUGS.
5. We are aware that there are some parties who are not happy with the legal text implemented as part of Modification Proposal 0229, and would like any reallocation of costs to be deferred until May 2012 at the earliest. I would

¹ Estimated date, taken from the current Modification Proposal 0229 timeline.

therefore like to take this opportunity to stress exactly why it is important that the legal text implemented by Modification Proposal 0229 is retained. In particular

- a. It ensures that the incorrect allocation of unidentified gas costs, which all the industry now acknowledges, is not allowed to continue for another two years. This will protect SSP customers and ensure fairer competition between LSP and SSP Shippers.
- b. It removes any incentive which may have existed on parties to delay the implementation of the AUGS for fear that it will adversely impact them commercially.
- c. It acknowledges the ability of all LSP Shippers to provision appropriately for the costs between now and April 2011, so that they can ensure recovery of these costs from customers in the period to May 2012.

If you have any queries relating to this representation, please do not hesitate to telephone me on (07789) 570501.

Yours sincerely

David Watson
Regulatory Manager, British Gas

Appendix One – Legal Advice Received on the Interpretation of the Legal Text Provided for Modification Proposal 0229

1. The legal text states that the *"AUG Year" means the twelve month period commencing 1 April 2011 and the twelve month period commencing on each subsequent 1 April; and in relation to an AUG Year a reference to the preceding year is to the twelve month period ending 31 March before the start of the AUG Year.*² This means that the first AUG Year starts on 1st April 2011.
2. The legal text says that for each and every AUG year, *"a methodology ... shall be established for ... estimating for each Unidentified Gas Source ... the aggregate quantity of Unidentified Gas over the AUG Year and ... the amount which is attributable to events, circumstances, acts and/or omissions (as referred to in paragraph 9.1.1(b)) which relate to Larger DM SPCs and to Larger NDM SPCs respectively"*³. This means that a methodology will be produced which covers the period starting 1st April 2011.
3. The legal text continues to say that for each and every AUG Year *"a table ... shall be established which sets out ... for each Unidentified Gas Source ... an aggregate quantity of Unidentified Gas; and ... for each SPC Class, a quantity of gas which shall be ... for Larger DM SPCs and Larger NDM SPCs respectively, the amount of the quantity under paragraph (i) which is attributable (as provided in paragraph 9.4.1(b)(ii)) to such SPC Class (and) for Smaller SPCs, an amount equal in magnitude and opposite to the sum of the quantities (above)"*⁴. This means that the methodology produced for the period from 1st April 2011 will detail the reallocation of costs between the SSP and LSP sectors.
4. On the use of each AUG Year's methodology, the legal text says that, following consultation, *"the Committee shall decide upon, adopt and publish the AUG Methodology"*⁵. This means that the Committee will be asked to agree the methodology which is produced for the period starting 1st April 2011.
5. On the actual reallocation, the legal text sets out a calculation to be used to calculate the actual fiscal reallocation from the table created by the AUG *"for each AUG Year (and) for each User"*⁶.
6. Finally the legal text concludes with a statement that the amount considered above *"shall be payable, by way of adjustment in respect of the aggregate User Aggregate Reconciliation Clearing Values ... and shall be invoiced (at the same time or as soon as practicable after the Invoice in respect of the*

² Modification Proposal 0229 Legal Text, Clause 10.1.1 (i)

³ Modification Proposal 0229 Legal Text, Clause 10.4.1 (b)

⁴ Modification Proposal 0229 Legal Text, Clause 10.4.2 (a) and (b)

⁵ Modification Proposal 0229 Legal Text, Clause 10.4.3 (e)

⁶ Modification Proposal 0229 Legal Text, Clause 10.5.1, 10.5.2

Aggregate NDM Reconciliation) and payable in accordance with Section S⁷.
This means that the reallocation for the period starting 1st April 2011 will be credited or debited to Shippers as soon as possible.

⁷ Modification Proposal 0229 Legal Text, Clause 10.5.3