

CODE MODIFICATION PROPOSAL No 0317A
Interim Allocation of Unidentified Gas Costs
Version 1.0

Date: 22/07/2010

Proposed Implementation Date:

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Background

Modification Proposal 0229, “*Mechanism for Correct Apportionment of Unidentified Gas*”, was raised by Shell Gas Direct in order to provide a mechanism through which unidentified gas could be more accurately allocated between the Small Supply Point (SSP) sector and Large Supply Point (LSP) sector.

The process through which the new split of allocation between the SSP and LSP sectors would be arrived at involved both a tendering process to procure an Allocation of Unidentified Gas Expert (AUGE) and subsequent work by that AUGE in order to create an Allocation of Unidentified Gas Statement (AUGS) - the determination on how unidentified gas should be allocated between the SSP and LSP sectors.

The legal text produced in support of Modification Proposal 0229, clearly states that first AUG year starts from 1 April 2011 and that the reallocation of costs between the SSP and LSP sectors will be attributable back to this date, regardless of when the AUGE delivers its AUG Statement.

Modification Proposal 0317 proposes an interim allocation solution which details a level of contribution to be made by the LSP sector until such time as the AUGE calculates and implements its own statement. The level of this contribution being derived from an ICOSS sponsored report.

We are of the view that the LSP Apportionment of £2.75m proposed by 0317 significantly underestimates the true volume of unidentified gas which should be attributable to the NDM LSP market.

With this in mind it is essential that NDM LSP market participants ensure that appropriate financial provisions are made in readiness for reconciliation back to 1 April 2011 and that it would be inappropriate for any financial provision to be formulated based upon the value proposed within Modification Proposal 0317.

Modification Proposal 0317 states that *'This level of contribution would be made, in line with the principles of 229 until such time that the AUGE calculates and implements charges of its own. (AUGE calculated volumes/charges expected to apply from 1st April 2012).*

Although we believe it is evident that LSP Shippers should pay for a volume of gas far in excess of £2.75m, this Modification Proposal proposes the same value of LSP Apportionment as defined within 0317 but provides clarity over how this interim value will be reconciled following delivery of the AUG Statement.

The Proposal

Similar to the intent of Modification Proposal 0317, it is proposed that the Transition Document be modified such that, if values have not been established in accordance with the UNC to populate Table E1 in Section E of the Transportation Principal Document, for the AUG Year commencing 1 April 2011, an interim value will be applicable.

It is proposed that the values detailed within the table below will apply from 1 April 2011 until such time as the AUGE publishes and implements its AUG Statement. It should be noted that under this proposal that all values paid under these interim arrangements will ultimately be reconciled back to 1 April 2011 following delivery of the AUG Statement regardless of the date which this occurs, resulting in a subsequent debit/credit reconciliation to the LSP sector as appropriate. For the avoidance of doubt the AUG Statement will be applied back to 1 April 2011.

AUG Table beginning AUG Year 2011

| | |
|---------------------------|---------------|
| LSP Apportionment: £2.75m | |
| <u>DM</u> | <u>£0</u> |
| <u>NDM</u> | <u>£2.75m</u> |

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

Not applicable.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

The proposal is an alternate to Modification Proposal 0317 and as such shall follow the same timetable as Proposal 0317.

2 User Pays

a) **Classification of the Proposal as User Pays or not and justification for classification**

Provision of the xoserve elements of this service will be on a User Pays basis as provided for in 0229. No change to this will be introduced by the Proposal which, therefore, is not a User Pays Proposal.

b) **Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

Not applicable.

c) **Proposed charge(s) for application of Users Pays charges to Shippers**

Not applicable.

d) **Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

Not applicable.

3 **Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives**

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the 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;

Implementation of this proposal would allocate costs more accurately between shippers/suppliers to the relevant LSP and SSP market sectors. As such, this could reasonably be assumed to facilitate effective competition and therefore be in the interests of consumers.

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

This proposal seeks an early introduction of a temporary framework that facilitates better-informed decision taking with regard to the allocation between market sectors of unidentified gas. We believe that this Proposal achieves this objective and ensures that the level of contribution by the LSP and SSP sectors respectively is set in a fair, transparent and non-discriminatory manner.

4 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

5 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

No implications have been identified.

b) The development and capital cost and operating cost implications:

No costs are anticipated as a result of this Proposal, which utilises the mechanism introduced by 0229.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

Not applicable.

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

No such consequence is anticipated.

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

None identified.

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

None for this proposal, which utilises the mechanism introduced by 0229.

8 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

As a result of implementing 0229, some Users are likely to face small administrative and operational costs to manage additional bills from Gas Transporters and the requirement to pass through these costs to consumers. Implementation of this Proposal has the potential to bring forward the time at which such costs are first incurred.

b) The development and capital cost and operating cost implications

No changes beyond the requirements for 0229 are anticipated.

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

None identified.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

There will be a fairer interim allocation of charges to consumers in the LSP and SSP markets. Though it is the view of the Proposer that until reconciliation with the AUG Statement takes place there will still be a significant misallocation of costs.

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

No such consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 10 above

Advantages

This proposal seeks to provide an interim framework for the determination of unidentified gas values that the market must account. The benefits of this proposal are that it will:

- reduce the current cross-subsidy between the LSP and SSP sectors in a clear and simple interim mechanism, albeit to a level which is inappropriately low, allowing costs to be recovered from the LSP sector until such time as the AUGE produces a statement in line with 0229.
- introduce interim arrangements which will ultimately result in interim values being reconciled back to 1 April 2011, providing clarity to all parties.
- allows NDM LSP market participants to ensure that appropriate financial provisions are made in readiness for reconciliation back to 1 April 2011.
- incentivise a timely resolution of the ongoing industry discussions regarding the AUGE appointment process under 0229.

Disadvantages

- Significantly underestimates the true volume of unidentified gas which should be attributable to the NDM LSP market.
- Introduces some additional costs to the industry, although it is not envisaged that these will be in addition to those already accounted for in approval and implementation of 0229.

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

13 Detail of all other representations received and considered by the Proposer

14 Any other matter the Proposer considers needs to be addressed

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

16 Comments on Suggested Text

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) E

Proposer's Representative

Graham Wood (British Gas Trading Ltd)

Proposer

Graham Wood (British Gas Trading Ltd)