

Draft Modification Report
Clarification of the AUG Year in respect of UNC Modification 0229 (alternative)
Modification Reference Number 0340

Version 1.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Nature and Purpose of this Proposal

Uniform Network Code (UNC) Modification 0229 ‘Mechanism for correct apportionment of unidentified gas’ was implemented with effect from 10th June 2010.

Included within Proposal 0229 was the business rule "Changes to the volumes in the Large Supply Point Unidentified Gas allocation table would be announced and could only be implemented for the following year....."). Although no specific date for the first AUG Year was contained within the Proposal, in order to create certainty in terms of the mechanics of the AUG process the legal text contained a definition of an AUG year as “the twelve month period commencing 1 April 2011.....”

As a consequence of industry development and review of the Allocation of Unidentified Gas Document (currently entitled 'Guidelines for the appointment of an Allocation of Unidentified Gas Expert'), the legal text provides for the first AUG Year to commence on 1 April 2011. However, it is clear that the AUG's determination in the form of an approved AUG Methodology (statement) will not be completed by this date.

As a result, there is some ambiguity in the legal text currently contained within the UNC and, as the parties responsible for the implementation of Proposal 0229, the Transporters would like to ensure absolute clarity exists in terms of the AUG Year to which the first energy reconciliation would apply.

This ambiguity has been noted by numerous UNC parties and prompted British Gas (BGT) to raise UNC Modification Proposal 0313 ‘Application Date for MOD0229’ This proposal reinforced the application of 1st April 2011 as being the first AUG Year. Under the circumstances stated above, NGD welcomed this proposal as a measure to create absolute clarity as to the date of the first AUG Year and in a note issued to the Uniform Network Code Committee (UNCC) dated 11th August 2011 provided suggested legal text in respect of this Proposal which detailed changes to the UNC Transition Document. This clearly set out the fact that irrespective of when the AUG Methodology became available, energy charge adjustments would be applied from 1st April 2011. BGT withdrew Proposal 0313 on 14th September and provided a note to the industry explaining its reasons for this action.

While we respect BGT’s right to withdraw the Proposal, we believe that the additional text which would have been included in the UNC by the implementation of Proposal 0313 would have provided the additional clarity that we now believe to be imperative for implementation. Since this Proposal has been withdrawn it is now necessary for the Transporters to gain further regulatory and contractual assurance to

provide all parties with certainty over the date of the first AUG Year.

In the light of the above position we have provided Transitional legal text which clearly sets out the circumstances under which reallocation of costs would occur and that this would take place from 1st April 2011 (irrespective of the date when the AUG Methodology is approved).

Note: Transporters are financially neutral to the allocation of costs associated with Unidentified Gas between Users operating in the two market sectors. Indeed, it is a condition of our licence that we treat all Users in a non-discriminatory way and this Proposal is not intended to confer any advantage on any individual User through its effects on the timing of the reallocation of energy costs. The Proposal has been raised to provide Transporters and all Shippers with absolute clarity as to what Transporters are expected to do and by when we are expected to do it.

In addition to the views of the Proposer as set out above, the contents of this Modification Proposal are endorsed by:

Scottish and Southern Gas Networks, Wales & West Utilities and Northern Gas Networks.

Suggested Text

Transition Document

TPD Section E10

1. It is acknowledged that the steps (including appointment of AUG Expert, establishing AUG Methodology and establishing AUG Table) first required under TPD Sections E10.2 and E10.4 will not be completed by the start of the first AUG Year (1 April 2011).
2. Accordingly, for the purposes of TPD Section 10:
 - (a) the first AUG Table to be established and adopted by the Committee as provided in TPD Section E10.4.3(g) shall apply (notwithstanding TPD Section E10.5.4) for the purposes of TPD Section E10.5 in relation to:
 - (i) the AUG Year commencing 1 April next following the adoption of such AUG Table, and
 - (ii) each prior AUG Year commencing with the first AUG Year;
 - (b) as soon as reasonably practicable following the adoption of such AUG Table, the net aggregate amount of the User Unidentified Gas Amounts for each User and for all Reconciliation Billing Periods in each prior AUG Year (as referred to in paragraph (a)(ii) above) shall be paid (by or to the User, as provided in TPD Section E10.5.3), and shall be invoiced and payable in accordance with TPD Section S, as a single net aggregate payment, in satisfaction of TPD Section E10.5.3, without interest in respect of the period prior to the due date of the relevant

invoice.

2 User Pays

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

No changes to User Pays Services are proposed. Consequently this Modification Proposal is not classified as User Pays.

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

No User Pays charges applicable.

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

No User Pays charges applicable to Shippers.

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

No charges applicable for inclusion in ACS.

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): *the coordinated, 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 (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;*

Some Shippers believed that the legal text currently in the UNC meant that cost allocation would occur from 01 April 2011 and the effect of this modification would be to confirm this date securing early release from misallocated costs.

Some Shippers believed that Retrospective Charging will result in Shippers and ultimately customers bearing a lesser or greater share of the unidentified gas costs owing to fluctuation in market share. In addition any resulting revenue from unidentified gas reallocation cannot be reimbursed for customers who originally paid for it.

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 (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers’ licences) 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 modification removes ambiguity from the UNC and clarifies the date the AUG statement applies – the first AUG year will be applied from 01 April 2011.

4 The implications of implementing the 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 the Modification Proposal, including:

a) implications for operation of the System:

There are no implications for operation of the System.

b) development and capital cost and operating cost implications:

Some additional administrative costs could be incurred undertaking an associated reconciliation between the annual charge identified 0317 and the AUG statement.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Not applicable.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No consequences have been identified.

6 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence is anticipated.

7 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

There are no development implications for the Transporters UK-Link system or any other Transporter system. The Proposer is not aware of the implications for Users computer systems.

8 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

No implications have been identified.

Development and capital cost and operating cost implications

No implications have been identified.

Consequence for the level of contractual risk of Users

The Proposer is aware that the timing of the application of the first AUG Year could have an impact on a Users contractual risk under the UNC as modified by this modification in terms of the extent of their liability for Unidentified Gas costs so incurred.

Some Workgroup members believed that the timing of the application of the first AUG Year could have an impact on a Users contractual risk in terms of the extent of their liability for Unidentified Gas costs so incurred. If the AUGE does not produce a statement in time for 01 April 2011 costs would still be reconciled back to the 01 April 2011.

There would be a consequential impact associated with UNC0317 i.e. £2.75m would not be netted off against the AUG Statement.

9 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No implications have been identified.

10 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No consequences have been identified.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Ensures that that the date for the first application of the reallocation of Unidentified Gas is clearly set out within the UNC.

Disadvantages

- Some Workgroup members consider this Modification does not deliver the intent of Mod0229 and its interaction with Mod0317 ie the potential duplication of charges resulting from the AUGS and Mod0317.

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Written Representations are now sought in respect of this Draft Report. Consultation End Date: **14 February 2011**

13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirement has been identified.

15 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works would be required as a consequence of implementing the

Modification Proposal.

16 Proposed implementation timetable (including timetable for any necessary information systems changes)

It is recommended that this Modification Proposal be implemented immediately upon direction.

17 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

19 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

20 Text

Suggested Text has been provided as part of the modification – see page 2 above.

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters