

## Stage 01: Modification

# 0442A:

## Amendment to the implementation date of the Allocation of Unidentified Gas Statement (AUGS) for the 2013/14 AUG Year

At what stage is this document in the process?

- 01 Modification
  - 02 Workgroup Report
  - 03 Draft Modification Report
  - 04 Final Modification Report
- 
- 01 Modification
  - 02 Workgroup Report
  - 03 Draft Modification Report
  - 04 Final Modification Report

~~For 2013/14 AUG Year only, it is proposed that~~ It is proposed TPD Section E10.4 is dis-applied and replaced with the rules as set out within the Solution which are to be undertaken to approve and adopt an AUG Methodology and AUG Table, following the ~~completion~~ conclusion of the consultation of the ~~2<sup>nd</sup> Draft~~ 2<sup>nd</sup> Draft 2012 AUGS, as identified/referred to in GL Noble Denton's letter of 8 January 2012, subject to adoption and publication of the output of this consultation by the Committee:

~~It is proposed~~ that, for 2013/14 only, TPD Section E10.4 shall be dis-applied. and the AUGE shall be required to produce by 1<sup>st</sup> May 2013 a final AUG Table for adoption by the UNCC based on the AUG Methodology and AUGS which the AUGE has developed and recommends should be used to produce the AUG Table. It is further proposed that the values in this final AUG Table will be implemented with effect from 1 July 2013, and will remain in place until the end of the AUG Year— 31 March 2014. However should the final AUG Table not be finalised by 1<sup>st</sup> May 2013, implementation will be on the 1<sup>st</sup> of the month, two months following finalisation e.g. finalised on 15<sup>th</sup> May, implementation will be 1<sup>st</sup> August.—The AUG Table will remain in place until the end of the AUG Year —~~31 March 2014~~. It should be noted that the UNCC will be able, through unanimous resolution, to correct the AUG Table, if it is not an accurate reflection of the AUG Methodology as set out in the letter from GL Nobel Denton dated 8<sup>th</sup> January 2013.

~~Until implementation of the final AUGS for 2013/14 and AUG Table, the current AUG Table 2011/12 will apply~~



The Proposer recommends that this modification should:

- be treated as an alternative to Modification 0442 and proceed to the same timetable



High Impact: Certain Consumers, Shipper Users



Medium Impact:




Low Impact:

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## About this document:

This modification will be presented by the proposer to the panel on ~~28<sup>th</sup> January~~<sup>4<sup>th</sup> February</sup> 2013.


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# 1 Summary

## Is this a Self-Governance Modification?

~~The Modification Panel determined that Self-Governance procedures should not be followed.~~  
No. We do not believe that this meets the criteria for Self-Governance Modifications since implementation would have a material impact on the allocation of costs between Shippers and so have a material impact on competition between shippers.

## Why Change?

As per Transportation Principal Document (TPD) Section E10 of the Uniform Network Code, the Allocation of Unidentified Gas Expert (AUGE) is responsible, for each AUG Year, for preparing an AUG Methodology and an AUG Table.

The AUG Year is defined within the UNC as the twelve month period commencing 1 April each year and ending on 31 March of the following year.

Within the 'Guidelines for the Appointment of an Allocation of Unidentified Gas Expert and the provision of the Allocation of Unidentified Gas Statement' paragraph 7.1.6, the AUGE is required to publish the proposed Allocation of Unidentified Gas Statement (AUGS), for the next AUG Year, by 1<sup>st</sup> August, with approval of the final document expected to take place on or around 1<sup>st</sup> September.

Once approved the AUGE is required to produce the indicative Unidentified Gas volumes for inclusion in the AUG Table by 1<sup>st</sup> October and to provide final Unidentified Gas volumes by 1<sup>st</sup> January for use in the April of that year (3 months later).

The Guidelines provide for a query process which runs until the last day of February, thus giving around 8 weeks consideration time.

The degree and nature of the development and analysis work that has been required to be undertaken by the AUGE this year has meant that the timescales detailed within the Guidelines have not been able to be achieved. The AUGE has provided updates to industry parties during the year and within their letter dated 23<sup>rd</sup> November 2012<sup>1</sup>, proposed a timeline in order to publish a set of final figures by 31<sup>st</sup> January 2013, as detailed below.

- Publish 2nd draft AUGS: 7th December 2012
- AUGS meeting to present/discuss methodology: w/c 10th or 17th December TBC
- Consultation Period: 7th December 2012 – 11th January 2013
- Responses to AUGS: 17th January 2013
- Approval by UNCC: 24th January 2013 or suitable date around that time
- Publish Final Figures: 31st January 2013
- Implementation: 1<sup>st</sup> April 2013

However, on 11<sup>th</sup> December 2012<sup>2</sup> the AUGE issued a further communication advising that due to unexpected operational issues they were unable to produce the AUGS during w/c 3<sup>rd</sup> December 2012. The AUGS was subsequently issued by the AUGE on 17<sup>th</sup> December 2012.

At a recent UNCC meeting held on 20<sup>th</sup> December 2012, some Users indicated that they believed that they would not have enough time to review the work of the AUGE and complete the process in order for the new methodology and values to be implemented on 1<sup>st</sup> April 2013. It should be noted however that other Users (who represent the vast majority of sites registered within both the Smaller Supply Points and Larger Supply Point sectors) are of the opinion that

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<sup>1</sup> [http://www.gasgovernance.co.uk/sites/default/files/2012%20AUGS%202013\\_14%20Progress%20Update%2021112012.pdf](http://www.gasgovernance.co.uk/sites/default/files/2012%20AUGS%202013_14%20Progress%20Update%2021112012.pdf)

<sup>2</sup> [http://www.gasgovernance.co.uk/sites/default/files/2012%20AUGS%202013\\_14%20UNCC%20Letter%2011122012.pdf](http://www.gasgovernance.co.uk/sites/default/files/2012%20AUGS%202013_14%20UNCC%20Letter%2011122012.pdf)

completion of the process is not only possible but also essential. These Users have expressed a view for urgent conclusion of the process.

The new consumption based AUG Methodology has been developed and communicated by the AUGÉ over the past few months, therefore this methodology has been commonly socialised and is in a position where it is already well understood by all code parties, and which has been confirmed by the AUGÉ as being more robust and statistically more accurate than the current RbD bias AUG Methodology.

Whilst, as per the guidelines it is the responsibility of the AUGÉ to make 'the decision as to the most appropriate methodologies', the AUGÉ presented to the UNCC three way forward options for consideration within their letter dated 11<sup>th</sup> December.

Following an extensive debate, the UNCC undertook an indicative, non-binding vote which indicated a preference towards an option which proposes to rollover figures from the 2012-13 AUG year, for use during the AUG Year 2013/14. The proposed new consumption based AUG Methodology would therefore subsequently only be implemented within the 2013 AUGS for the AUG Year 2014/15 (commencing on 1<sup>st</sup> April 2014).

The proposer is concerned that this approach could perversely result in the industry not introducing, at the earliest possible opportunity, a knowingly more robust and statistically accurate AUG Methodology which would provide a fairer and more representative split of Unidentified Gas Costs between the SSP and LSP sectors.

At the UNCC meeting on 20<sup>th</sup> December, the AUGÉ provided an indication of the materiality between the RbD bias AUG Methodology and the new consumption based AUG Methodology. The AUGÉ advised the group that the estimated volume, based on the new analysis, is around 11TWh to 12TWh, with the LSP share expected to be between 2.5TWh to 3.5TWh and using an average SAP of 2 pence per kWh, about £70m might be projected. The previous year's AUG Methodology had produced a figure of £26m within the AUG Table (£20m utilising the same 2 pence per kWh price).

Upon review of the new consumption based AUG Methodology issued on 17<sup>th</sup> December 2012<sup>3</sup>, it is evident to the proposer that this AUG Methodology represents a major step forward towards a more robust and accurate allocation of unidentified gas within the industry. The consumption based method of Unidentified Gas calculation has been proven to be statistically more accurate and negates previous concerns regarding the Reconciliation by Difference Bias method. In addition, the sector theft allocation contained within the 2011 AUG Methodology for the 2012/13 AUG Year has since been shown to be highly inaccurate, which has a significant overall effect, and this new consumption based AUG Methodology addresses this issue.

It is evident to the proposer that the 2011 AUGS which included the RbD bias AUG Methodology has been proven to be no longer fit for purpose and when rolled forward and utilised for the 2013/14 AUG Year, will yield an inaccurate output – an outcome which the proposer believes is wholly inappropriate and unacceptable. The effect of knowingly taking this course of action would perpetuate this very long standing cross-subsidy from the mostly domestic SSP sector to the mostly commercial LSP sector. This is specifically the issue that the AUG process was designed to tackle. Given that the industry has seen significant pressures on household incomes and, given the impact of recent energy prices, the proposer believes it prudent that any opportunity to more correctly and equitably allocate costs should be realised at the earliest opportunity. It would also seem particularly unfair to purely "roll over" a methodology which is considered significantly less robust, due to timing issues caused by the agent that was set up to address the cross subsidy in the first place and who had indicated that the current table is less robust.

The first RbD bias AUG Methodology produced by the AUGÉ in 2011, for the AUG Year 2012/13, allocated approximately 1TWh of Unidentified Gas, out of a total of approximately 6TWh, to the Larger Supply Point sector, which in financial terms equated to £26m out of a total of £160m.

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<sup>3</sup> <http://www.gasgovernance.co.uk/sites/default/files/AUGS%202012%20Version%202.0.pdf>

This compared to the year 2011/12, which immediately preceded the implementation of the AUGE, when the approved Modification Proposal 0317 allocated just £2.75m of Unidentified Gas to the Larger Supply Points.

Prior to this, from the inception of the Uniform Network Code, the Smaller Supply Point sector has by default been erroneously exposed to all costs associated with Unidentified Gas, which over the years has meant that Smaller Supply Point (predominantly domestic) consumers have been exposed to hundreds of millions of pounds of undue cost.

The Allocation of Unidentified Gas process has played a critical role in addressing this historic deficiency and it is the view of the proposer that it would be perverse for the industry not to implement a more robust, statistically more accurate and fairer methodology as soon as possible, and ensure that consumers connected to Smaller Supply Points do not continue to be unfairly disadvantaged, especially given the current challenging economic climate and focus on energy prices.

The proposer is of the view that this proposal will provide more time for AUGE to finalise the AUG Methodology and for Gas Transporters and Xoserve to implement the AUG Table for the 2013/14 AUG Year, as is intended in the AUGE process requirements. This proposal permits the necessary changes to be made in a low cost/low impact manner, enabling the avoidance of what would be a major and avoidable industry cross-subsidy, although even under the current timetable this would be low cost and relatively straightforward.

~~It is proposed This proposal would introduce a delay, to TPD Section E10.4 is dis-applied and replaced with the 1<sup>st</sup> April 2013 implementation date of rules as set out within the AUGS for 2013/14 and associated AUG Table. For the avoidance of doubt until implementation of the final AUGS for 2013/14 Solution which are to be undertaken to approve and adopt an AUG Methodology and AUG Table, the current AUG Table 2011/12 will apply.~~

## **Solution**

~~For 2013/14 AUG Year only, it is proposed that following the completion conclusion of the consultation of the 2<sup>nd</sup> Draft 2012 AUGS, as identified referred to in GL Noble Denton's letter of 8 January 2012, subject to adoption and publication of the output of this consultation by the Committee:~~

~~It is proposed that, for 2013/14 only, TPD Section E10.4 shall be dis-applied, and the AUGE shall be required to produce by 1<sup>st</sup> May 2013 a final AUG Table for adoption by the UNCC based on the AUG Methodology and AUGS which the AUGE has developed and recommends should be used to produce the AUG Table. It is further proposed that the values in this final AUG Table will be implemented with effect from 1 July 2013, and will remain in place until the end of the AUG Year—31 March 2014. However should the final AUG Table not be finalised by 1<sup>st</sup> May 2013, implementation will be on the 1<sup>st</sup> of the month, two months following finalisation e.g. finalised on 15<sup>th</sup> May, implementation will be 1<sup>st</sup> August. The AUG Table will remain in place until the end of the AUG Year—31 March 2014. It should be noted that the UNCC will be able, through unanimous resolution, to correct the AUGE Table, if it is not an accurate reflection of the AUG Methodology as set out in the letter from GL Nobel Denton dated 8<sup>th</sup> January 2013.~~

## **2 Solution**

~~Until implementation of the final AUGS for 2013/14 and AUG Table, the current AUG Table 2011/12 will apply~~

~~The following draft legal text has been prepared to support the above solution:~~

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- ~~1. TPD Section E10.4 is dis-applied in relation to Modification Proposal 442A.~~
- ~~2. It is acknowledged that should the Committee adopt and publish the revised AUG Methodology following the consultation of the 2<sup>nd</sup> Draft 2012 AUGS as identified in GL Noble Denton's letter of 8 January 2013 that:
  - ~~(a) the AUG Expert shall implement the AUG Methodology and prepare a proposed AUG Table based upon the output of the consultation in paragraph 2;~~
  - ~~(b) the AUG Expert shall submit a final AUG Table to the Committee and the Committee shall adopt this final AUG Table, unless by unanimous resolution the Committee determines that the table is not an accurate reflection of the AUG Methodology and revises the submitted AUG Table accordingly to reflect the AUG Methodology before adopting this revised AUG Table, then the Committee shall publish the AUG Table or the revised AUG Table based upon the 2<sup>nd</sup> Draft 2012 AUGS by 01 May 2013;~~
  - ~~(c) where the AUG Expert is unable to meet the timescales set out in paragraph 2(b) the Committee shall publish the revised AUG Methodology and AUG Table which shall deemed to have been published on the first of the following calendar month.~~~~

~~The AUG Table shall be implemented two calendar months after 01 May 2013 or such other date as provided for under paragraph 2(c) which shall replace the AUG Table implemented on the 01 April 2013 and continue in force until the commencement of the subsequent AUG Year. As detailed in Section 3 "Solution"~~

~~(d)~~

## Relevant Objectives

The proposer is of the view that this proposal meets the following Relevant Objective.

- d) 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.

The proposer considers that the aims and objectives of this proposal promote effective and efficient competition between parties, and allow for an ongoing equitable distribution of unallocated gas charges between sectors. Further, the proposal will improve transparency and accuracy in the allocation of RbD gas to the contributing sector.

In the view of the Proposer, and for the reasons explained in Section 2 above, implementation of this proposal will prevent consumers connected to Smaller Supply Points from being exposed to another year of inaccurately apportioned Unidentified Gas costs, which given the early indication of Unidentified Gas volume figures by the AUGS, could ultimately be as much as an additional £50m (~~dependant~~indicative value provided by the AUGS at UNCC Meeting on 20/12/12) and dependent upon the outcome of the final figures published by the AUGS).

Should the proposal not be approved, for the AUG Year 2013/14, a significant cross subsidy will prevail across the SSP and LSP sectors, which in addition to having a significant commercial impact upon parties and consumers, will also have an adverse impact on competition on shipping and supply.

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## Implementation

While no specific implementation timescale is proposed, implementation of the Modification should occur, as soon as possible, following a positive direction by Ofgem with implementation of the final AUGS and AUG Table for the 2013/14 AUG Year following the timescales as set out within the Solution section.

[The proposer does not envisage that there will be any specific implementation costs associated with the introduction of this modification proposal.](#)

## 32 Why Change?

As per Transportation Principal Document (TPD) Section E10 of the Uniform Network Code, the Allocation of Unidentified Gas Expert (AUGE) is responsible, for each AUG Year, for preparing an AUG Methodology and an AUG Table.

The AUG Year is defined within the UNC as the twelve month period commencing 1 April each year and ending on 31 March of the following year.

Within the 'Guidelines for the Appointment of an Allocation of Unidentified Gas Expert and the provision of the Allocation of Unidentified Gas Statement' paragraph 7.1.6, the AUGE is required to publish the proposed Allocation of Unidentified Gas Statement (AUGS), for the next AUG Year, by 1<sup>st</sup> August, with approval of the final document expected to take place on or around 1<sup>st</sup> September.

Once approved the AUGE is required to produce the indicative Unidentified Gas volumes for inclusion in the AUG Table by 1<sup>st</sup> October and to provide final Unidentified Gas volumes by 1<sup>st</sup> January.

The Guidelines provide for a query process which runs until the last day of February.

The degree and nature of the development and analysis work that has been required to be undertaken by the AUGE this year has meant that the timescales detailed within the Guidelines have not been able to be achieved. The AUGE has provided updates to industry parties during the year and within their letter dated 23<sup>rd</sup> November 2012<sup>4</sup>, proposed a timeline in order to publish a set of final figures by 31st January 2013, as detailed below.

- Publish 2nd draft AUGS: 7th December 2012
- AUGS meeting to present/discuss methodology: w/c 10th or 17th December TBC
- Consultation Period: 7th December 2012 – 11th January 2013
- Responses to AUGS: 17th January 2013
- Approval by UNCC: 24th January 2013 or suitable date around that time
- Publish Final Figures: 31st January 2013
- Implementation date: 1<sup>st</sup> April 2013

However, on 11<sup>th</sup> December 2012<sup>5</sup> the AUGE issued a further communication advising that due to unexpected operational issues they were unable to produce the AUGS during w/c 3<sup>rd</sup> December 2012. The AUGS was subsequently issued by the AUGE on 17<sup>th</sup> December 2012.

The delayed release of the AUGS by 10 days does have a slight impact upon the above timetable, however the proposer is of the view that the process could still be

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<sup>4</sup> [http://www.gasgovernance.co.uk/sites/default/files/2012%20AUGS%202013\\_14%20Progress%20Update%2011122012.pdf](http://www.gasgovernance.co.uk/sites/default/files/2012%20AUGS%202013_14%20Progress%20Update%2011122012.pdf)

<sup>5</sup> [http://www.gasgovernance.co.uk/sites/default/files/2012%20AUGS%202013\\_14%20UNCC%20Letter%2011122012.pdf](http://www.gasgovernance.co.uk/sites/default/files/2012%20AUGS%202013_14%20UNCC%20Letter%2011122012.pdf)



undertaken in a timely manner and completed by the end of February 2013 or March 2013 at the very latest.

At a recent UNCC meeting held on 20<sup>th</sup> December 2012, some Users indicated that they believed that they would not have enough time to review the work of the AUGE and complete the process in order for the new methodology and values to be implemented on 1<sup>st</sup> April 2013. It should be noted however that other Users (who represent the vast majority of sites registered within both the Smaller Supply Points and Larger Supply Point sectors) are of the opinion that completion of the process is not only possible but also essential. These Users have expressed a view for urgent conclusion of the process.

The new consumption based AUG Methodology has been developed and communicated by the AUGE over the past few months, therefore this methodology has been commonly socialised and is in a position where it is already well understood by all code parties, and which has been confirmed by the AUGE as being more robust and statistically more accurate than the current RbD bias AUG Methodology.

Whilst, as per the guidelines it is the responsibility of the AUGE to make 'the decision as to the most appropriate methodologies', the AUGE presented to the UNCC three way forward options for consideration within their letter dated 11<sup>th</sup> December.

Following an extensive debate, the UNCC undertook an indicative, non-binding vote which indicated a preference towards an option which proposes to rollover figures from the 2012/13 AUG Year, for use during the AUG Year 2013/14. The proposed new consumption based AUG Methodology would therefore subsequently be implemented within the 2013 AUGS for the AUG Year 2014/15 (commencing on 1<sup>st</sup> April 2014).

The proposer is concerned that this approach could perversely result in the industry not introducing, at the earliest possible opportunity, a knowingly more robust and statistically accurate AUG Methodology which would provide a fairer and more representative split of Unidentified Gas Costs between the SSP and LSP sectors.

At the UNCC meeting on 20<sup>th</sup> December, the AUGE provided an indication of the materiality between the RbD bias AUG Methodology and the new consumption based AUG Methodology. The AUGE advised the group that the estimated volume, based on the new analysis, is around 11TWh to 12TWh, with the LSP share expected to be between 2.5TWh to 3.5TWh and using an average SAP of 2 pence per kWh, about £70m might be projected. The previous year's AUG Methodology had produced a figure of £26m within the AUG Table (£20m utilising the same 2 pence per kWh price).

Upon review of the new consumption based AUG Methodology issued on 17<sup>th</sup> December 2012<sup>6</sup>, it is evident to the proposer that this AUG Methodology represents a major step forward towards a more robust and accurate allocation of unidentified gas within the industry. The consumption based method of Unidentified Gas calculation has been proven to be statistically more accurate and negates previous concerns regarding the Reconciliation by Difference Bias method. In addition, the sector theft allocation contained within the 2011 AUG Methodology for the 2012/13 AUG Year has since been shown to be highly inaccurate, which has a significant overall effect, and this new consumption based AUG Methodology addresses this issue.

It is evident to the proposer that the 2011 AUGS which included the RbD bias AUG Methodology has been proven to be no longer fit for purpose and when rolled forward and utilised for the 2013/14 AUG Year, will yield an inaccurate output – an outcome which the proposer believes is wholly inappropriate and unacceptable. The effect of knowingly taking this course of action would perpetuate this very long standing cross-subsidy from the mostly domestic SSP sector to the mostly commercial LSP sector. This is specifically the issue that the AUG process was designed to tackle. Given that the industry has seen significant pressures on household incomes and, given the impact of recent energy prices, the proposer believes it prudent that any opportunity to more correctly and equitably allocate costs should be realised at the earliest opportunity.

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<sup>6</sup> <http://www.gasgovernance.co.uk/sites/default/files/AUGS%202012%20Version%202.0.pdf>

The first RbD bias AUG Methodology produced by the AUGE in 2011, for the AUG Year 2012/13, allocated approximately 1TWh of Unidentified Gas, out of a total of approximately 6TWh, to the Larger Supply Point sector, which in financial terms equated to £26m out of a total of £160m.

This compared to the year 2011/12, which immediately preceded the implementation of the AUGE, when the approved Modification Proposal 0317 allocated just £2.75m of Unidentified Gas to the Larger Supply Points.

Prior to this, from the inception of the Uniform Network Code, the Smaller Supply Point sector has by default been erroneously exposed to all costs associated with Unidentified Gas, which over the years has meant that Smaller Supply Point (predominantly domestic) consumers have been exposed to hundreds of millions of pounds of cost.

The Allocation of Unidentified Gas process has played a critical role in addressing this historic deficiency and it is the view of the proposer that it would be perverse for the industry not to implement a more robust, statistically more accurate and fairer methodology as soon as possible, and ensure that consumers connected to Smaller Supply Points do not continue to be unfairly disadvantaged, especially given the current challenging economic climate and focus on energy prices.

The proposer is of the view that this proposal will provide more time for AUGE to finalise the AUG Methodology and for Gas Transporters and Xoserve to implement the AUG Table for the 2013/14 AUG Year. This proposal permits the necessary changes to be made in a low cost/low impact manner, enabling the avoidance of what would be a major and avoidable industry cross-subsidy, although even under the current timetable this would be low cost and relatively straightforward. ~~It also ensures that the current AUGE 2011 table is not just "rolled over" due to time constraints around the data analysis by the AUGE. It is proposed TPD Section E10.4 is dis-applied and replaced with the rules as set out within the Solution which are to be undertaken to approve and adopt an AUG Methodology and AUG Table, following conclusion of the consultation of the 2<sup>nd</sup> Draft 2012 AUGS as referred to in GL Noble Denton's letter dated 8<sup>th</sup> January 2013.~~

~~This proposal would introduce a delay to the implementation date of the AUGS for 2013/14~~

## 43 Solution

### Solution – Mod 442A

~~TPD Section E10.4 is dis-applied and associated-replaced with the rules as set out below which are to be undertaken to approve and adopt an AUG Methodology and AUG Table. Until implementation of the final AUGS for 2013/14 and AUG Table the current AUG Table will apply, thus ensuring that the most up to date view and most robust methodology for unidentified gas is used.~~

## 5 Solution

~~For 2013/14 AUG Year only, it is proposed that, following the completion conclusion of the consultation of the 2<sup>nd</sup>~~

~~Draft 2012 AUGS<sub>7</sub>, as identified referred to in GL Noble Denton's letter of 8 January 2012, subject to adoption and Publication of the output of this consultation by the Committee. dated 8<sup>th</sup> January 2013.~~

~~It is proposed that, for 2013/14 only, TPD Section E10.4 shall be dis-applied. and the AUGE shall be required to produce by 1<sup>st</sup> May 2013 a final AUG Table for adoption by the UNCC based on the AUG Methodology and AUGS which the AUGE has developed and recommends should be used to produce the AUG Table. It is further proposed that the values in this final AUG Table will be implemented with effect from 1 July 2013, and will remain in place until the end of the AUG Year — 31 March 2014. However~~

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should the final AUG Table not be finalised by 1<sup>st</sup> May 2013, implementation will be on the 1<sup>st</sup> of the month, two months following finalisation e.g. finalised on 15<sup>th</sup> May, implementation will be 1<sup>st</sup> August. The AUG Table will remain in place until the end of the AUG Year — 31 March 2014. It should be noted that the UNCC will be able, through unanimous resolution, to correct the AUG Table, if it is not an accurate reflection of the AUG Methodology as set out in the letter from GL Nobel Denton dated 8<sup>th</sup> January 2013.

Until implementation of the final AUGS for 2013/14 and AUG Table, the current AUG Table 2011/12 will apply

The following draft legal text has been prepared to support the above solution:

1. ~~TPD Section E10.4 is dis-applied in relation to Modification Proposal 442A.~~

~~It is acknowledged that should the Committee adopt and publish the revised AUG Methodology following the consultation of the 2<sup>nd</sup> Draft 2012 AUGS as identified The rules referred to above are detailed below:~~

~~1. The AUG Expert shall prepare a draft AUG Methodology.~~

1. ~~Following conclusion of the consultation referred to in GL Noble Denton's letter of 8<sup>th</sup> January 2013 that:~~

~~(a) the AUG Expert shall implement the AUG Methodology and prepare a proposed AUG Table based upon the output of the consultation in paragraph 2;~~

~~2. , the AUG Expert will prepare and publish a proposed AUG Methodology by 12<sup>th</sup> March 2013.~~

~~3. UNC Code Parties may provide responses to the UNCC on the proposed AUG Methodology by the 9th April 2013. The Transporters will publish all responses received. The AUG Expert may prepare a revised AUG Methodology subject to the outcome of the consultation.~~

~~4. A meeting of the UNCC will be organised by the Joint Office with the AUG Expert to consider the proposed AUG Methodology by 1<sup>st</sup> May 2013.~~

~~5. At the meeting the UNCC shall submit approve and publish the proposed AUG Methodology unless they unanimously agree changes to any part of the document. Any changes directed by the Committee will be implemented by the AUG immediately.~~

~~6. The AUG shall implement the AUG Methodology and shall be required to prepare a proposed AUG Table by 2nd May 2013 based on the AUG Methodology adopted by the UNCC.~~

~~7. UNC Code Parties may provide responses to the UNCC on the proposed AUG Table no later than 5 Business Days prior to the next UNCC meeting. Transporters will publish all responses received.~~

~~8. Subject to the responses received the AUG Expert shall prepare a final AUG Table to the Committee and the .~~

~~9. A meeting of the UNCC's will be organised with the AUG for consideration of the final AUG Table by 1 June 2013.~~

~~10. The Committee shall adopt this the final AUG Table, unless by unanimous resolution the Committee determines that the table AUG Table is not an accurate reflection of the AUG Methodology and revises the submitted AUG Table accordingly to reflect the AUG Methodology before adopting this revised final AUG Table, then.~~

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~~(a)~~11. Subject to the ~~Committee~~UNCC's decision, the UNCC shall publish the AUG Table or the revised AUG Table based upon the 2<sup>nd</sup> Draft 2012 AUGS by 01 May 2013; on 1<sup>st</sup> June 2013

It is proposed that the values in this final AUG Table will be implemented two calendar months after 1<sup>st</sup> June and will remain in place until the end of the AUG Year i.e. 31 March 2014.

~~12. where~~

~~13. Where the AUG Expert is unable~~fails to meet the ~~timescales set out in paragraph 2(b) the Committee~~timescale for the preparation and adoption of the final AUG Table on 1<sup>st</sup> June, the AUG Expert shall ~~publish~~use best endeavours to complete the revised AUG Methodology and outstanding requirements at the earliest opportunity.

~~(b)~~14. Where the final AUG Table ~~which is~~ adopted on any calendar day other than the 1<sup>st</sup> of the month, then it shall ~~be deemed to have been published~~be completed on the ~~first~~1<sup>st</sup> calendar day of the following ~~calendar month~~ month and the final AUG Table will be implemented two calendar months thereafter.

~~15. The AUG Table shall be implemented two calendar months after 01 May 2013 or such other date as provided for under paragraph 2(c) which shall replace the AUG Table implemented on the 01 April 2013 and continue in force until the commencement of the subsequent AUG Year. For the avoidance of doubt UNC Section E 10.4 and AUG E Guidelines will apply as necessary to allow for the adoption of the 2014/15 AUG Table.~~

~~(e)~~

#### User Pays

Classification of the modification as User Pays, or not, and the justification for such classification.

Changes to Xoserve's system for calculating AUG costs are expected to be necessary to implement this modification, and hence the Modification would fall within the definition of User Pays and be classified as such.

Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.

Shippers would be users of the service and bear 100% of the cost because there is no benefit for Transporters.

Proposed charge(s) for application of User Pays charges to Shippers.

It is proposed that the costs associated with implementation should be added to other AUGE costs and be billed as part of that sum, as already provided for in the Agency Charging Statement.

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.

Cost estimate awaited.

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## 64 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) 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.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	Positive
e) 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.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

The proposer considers that the aims and objectives of this proposal promote effective and efficient competition between parties, and allow for an ongoing equitable distribution of unallocated gas charges between sectors. Further, the proposal will improve transparency and accuracy in the allocation of RbD gas to the contributing sector.

In the view of the Proposer, and for the reasons explained in Section 2 above, implementation of this proposal will prevent consumers connected to Smaller Supply Points from being exposed to another year of inaccurately apportioned Unidentified Gas costs, which given the early indication of Unidentified Gas volume figures by the AUGÉ, could ultimately be as much as an additional £50m (dependant upon the outcome of the final figures published by the AUGÉ).

Should the proposal not be approved, for the AUG Year 2013/14, a significant cross subsidy will exist across the SSP and LSP sectors, which in addition to having a significant commercial impact upon parties and consumers, will also have an adverse impact on competition on shipping and supply.

## 75 Implementation

While no specific implementation timescale is proposed, implementation of the Modification should occur, as soon as possible, following a positive direction by Ofgem

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with implementation of the final AUGS and AUG Table for the 2013/14 AUG Year following the timescales as set out within the Solution.

A timely decision by Ofgem will provide both code parties and the AUGE with clarity and certainty over the revised timescales by which the AUG process for the 2013/14 AUG year needs to be completed, to enable a revised AUG Table to take effect from 1st ~~July~~August 2013.

Xoserve has identified that a lead time is likely to be necessary, firstly for the need for systems changes to be identified and, secondly, for the change to be implemented. This may not delay implementation of the modifications if a subsequent reconciliation process could be introduced.

## 86 Legal Text

Legal text is requested to be provided by the Gas Transporter.

The Legal Text will be required to appropriately address the treatment of the 2013/14 AUG Year in line with the solution detailed previously.

### Solution – Mod 442A

1. TPD Section E10.4 are dis-applied and replaced with the rules as set out below which are to be undertaken to approve and adopt an AUG Methodology and AUG Table, following conclusion of the consultation of the 2nd Draft 2012 AUGS as referred to in GL Noble Denton's letter dated 8 January 2013.
2. The rules referred to in paragraph 1 are as follows:
  - (a) The AUGE will prepare a draft AUG methodology and following the conclusion of the consultation referred to in paragraph 1, the AUGE will prepare and publish a proposed AUG Methodology by 12 March 2013.
  - (b) UNC Code Parties may provide responses to the Committee on the proposed AUG Methodology by the 9 April 2013 and the Transporters will publish all responses received.
  - (c) Subject to the consultation under paragraph 2(a) the AUGE may prepare a revised Methodology.
  - (d) A meeting of the Committee will be organised with the AUGE to consider the proposed AUG Methodology by 1 May 2013.
  - (e) The Committee shall approve and publish the proposed AUG Methodology under paragraph 2(d) unless they unanimously agree changes to any part of the document. Any changes directed by the Committee will be implemented by the AUGE immediately.
  - (f) Subject to the Committee's decision in paragraph 2(e), the AUGE shall implement the AUG Methodology and submit a proposed AUG Table based upon the adopted AUG Methodology to the Committee by 2 May 2013.
  - (g) UNC Code Parties may provide responses to the Committee on the proposed AUG Table under paragraph 2(f) by no later than 5 Business Days prior to the next Committee meeting. The Transporters will publish all responses received.
  - (h) Subject to the responses received under paragraph 2(g) the AUGE shall prepare a final AUG Table.
  - (i) A meeting of the Committee will be organised with the AUGE for the consideration of the final AUG Table by 1 June 2013.
  - (j) The Committee shall adopt the final AUG Table referred to in paragraph 2(i), unless by unanimous resolution the Committee determines that the table is not an accurate reflection of the AUG Methodology and revises the submitted AUG Table accordingly to

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- reflect the AUG Methodology before adopting this revised final AUG Table.
- (k) Subject to the Committee's decision in paragraph 2(j) the Committee shall publish the final AUG Table or the revised final AUG Table on 1 June 2013.
  - (l) Where the AUGE fails to meet the timescales set out in paragraph 2(i), then the AUGE shall use best endeavours to complete the outstanding requirements provided in this paragraph 2 at the earliest opportunity.
  - (m) Where paragraph 2(k) is completed on any calendar day other than the first day of a calendar month, then it shall be deemed to be completed on the first calendar day of the following month.
  - (n) The AUG Table shall be implemented two calendar months after 1 June 2013 or such other date as provided for under paragraph 2(m) and continue to apply until the commencement of the following AUG Year.
3. For the avoidance of doubt UNC Section E 10.4 and AUGE Guidelines will apply as necessary to allow for the adoption of the 2014/15 AUG Table.

## 97 Recommendation

The Proposer ~~recommends that~~ invites the UNC Panel to consider this ~~proposal~~ Modification which is issued ~~for~~ an Alternative to Mod 442 and issue it out to consultation.