



The Joint Office, relevant Gas Transporters and other interested parties

Promoting choice and value for all gas and electricity customers

Our reference: Net/Cod/Mod/UNC442
Email: RetailMarket&ResearchDirectorate@ofgem.gov.uk

Date: 14 January 2013

Dear colleague,

UNC442: Amendment to the implementation date of the Allocation of Unidentified Gas Statement (AUGS) for the 2013/14 AUG Year

Following consideration of the request from British Gas that modification proposal UNC442: 'Amendment to the implementation date of the Allocation of Unidentified Gas Statement (AUGS) for the 2013/14 AUG Year' follows the urgent modification procedure, we do not agree to the request for urgency.

Background

On 28 December 2012 the Allocation of Unidentified Gas Expert (AUGE)¹ published an AUG Table² with the volumes of Unidentified Gas for the coming AUGE Year.³ The effect of this is that the AUG Table agreed for the AUGE Year starting on 1 April 2012 will be used for the AUGE Year starting on 1 April 2013.

We understand that the AUGE had developed an alternative methodology⁴ for the AUGS but was unable to finalise this in accordance with the timescales set out in the Allocation of Unidentified Gas Document.⁵

In the view of British Gas (the Proposer), had this new methodology been used to define the AUGS for the AUGE Year commencing on 1 April 2013, this would have resulted in a redistribution of money from the Larger Supply Point (LSP) sector to the Smaller Supply Point (SSP) sector of approximately £50m over the coming AUGE Year.

The Proposer considered that rolling over the previous AUG Table would not result in the industry introducing, at the earliest possible opportunity, a better and more robust methodology which it considers would provide a more representative split of Unidentified Gas Costs between the LSP and SSP sectors.

¹ The AUGE is an independent technical expert appointed by GDNs to undertake completion of the Allocation of Unidentified Gas Statement (AUGS).

² The AUG Table sets out the volumes of Unidentified Gas that will be allocated to the LSP sector.

³ The AUGE Year is the period from 1 April to the following 31 March.

⁴ Referred to in this letter as the "new consumption based methodology".

⁵ "Guidelines for the Appointment of an Allocation of Unidentified Gas Expert and the provision of the Allocation of Unidentified Gas Statement". This document can be found here:

<http://www.gasgovernance.co.uk/sites/default/files/AUGE%20Guidelines%20v3.1%20approved.pdf>

Modification proposal

UNC442 was raised by the proposer on 24 December 2012 and amended on 10 January 2013. UNC442⁶ proposes that, for the AUG Year 2013/14 only, the AUGE shall be required to produce by 1 April 2013 a final AUG Table for adoption by the UNC Committee (UNCC)⁷, based on the new consumption based methodology. The modification proposal further proposes that the values in this final AUG Table will be implemented with effect from 1 June 2013, and will remain in place until the end of the AUG Year on 31 March 2013⁸.

Authority decision

In accordance with paragraph 10.1.1(b) of the Modification Rules⁹, before making our decision on whether the modification proposal should follow the urgent procedure, we requested the Panel's view on urgency for this particular proposal. At the UNC Panel meeting on 3 January 2013, the Panel members cast three votes in favour of granting urgent status to UNC442, seven against and there was one abstention. The UNC Panel therefore did not recommend that the modification proposal should follow the urgent process. The majority of Panel Members believed that there was sufficient time for the modification proposal to follow the normal procedures prescribed by the UNC Modification Rules.

We note that the UNC Panel's comments were made on a previous version of the modification and that since then, the modification has been amended. We have not asked the UNC Panel to reconsider its views. Whilst we consider that the changes are material, they have not altered our view that we should not grant urgency to this proposal.

In reaching our decision, we have considered the details contained within the modification proposal and the Proposer's justification for urgency¹⁰. An alternative modification (UNC442A) was also raised by Scottish Power on 11 January 2013. We have reviewed the information provided in this proposal. We have concluded that it does not provide any additional information that would cause us to grant urgency to UNC442.

We have assessed the request against the criteria set in Ofgem's published guidance.¹¹ We have considered in particular whether it is linked to "*an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholder(s)*".

We agree with the Proposer that this is likely to be a material issue as the modification seeks to address a potentially significant commercial impact upon consumers. We have not independently validated the noted figures, but understand that the distributional impacts between consumers could be considerable for the AUG Year starting on 1 April 2013.

We agree with the UNC Panel that, at this stage, there is not an imminent issue that requires urgent procedures to be used and which would justify the normal processes, which are designed to enable full consideration of modification proposals, to be curtailed. We agree with the UNC Panel that the normal modification process can be followed, such that the modification can be considered in a timely way, having regard to the time dimension of the potential impacts under consideration. Although the Proposer has indicated that an Ofgem's decision would need to be made by mid-February, they have not given a clear

⁶ As amended on 10 January 2013.

⁷ In accordance with TPD E10.4.3(h)

⁸ We understand from the Proposer that is a mistake in the text of the modification proposal and that the reference should be to 31 March 2014.

⁹ The Modification Rules can be found here:

http://www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

¹⁰ Modification Proposal UNC442 can be found on the Joint Office website: www.gasgovernance.co.uk/0442

¹¹ Ofgem's Guidance is published on our website:

<http://www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/Ofgem%20Guidance%20on%20Code%20Modification%20Urgency%20Criteria.pdf>

reason why this should be the case. In addition, the Proposer has not demonstrated that the Panel is unable to determine a timetable for the modification proposal that would allow it to be implemented in appropriate timescales (were it to be approved by the Authority).

For the avoidance of doubt, in rejecting this request for urgency, Ofgem has made no assessment of the merits of the modification proposal and nothing in this letter in any way fetters the discretion of the Authority in respect of this modification proposal. We also urge the UNC Panel to use its discretion and take all reasonable steps when establishing the timetable for the modification proposal to allow the original proposal or its alternative to be implemented in an appropriate timeframe, were either to be approved by the Authority.

If you have any queries in relation to the issues raised in this letter, please email: RetailMarket&ResearchDirectorate@ofgem.gov.uk.

Yours sincerely

Colin Sausman

Partner, Retail Markets and Research