

The Joint Office, relevant Gas
Transporters and other interested
parties

Our reference: Net/Cod/Mod/UNC456
Email: RetailMarket&ResearchDirectorate@ofgem.gov.uk

Date: 31 May 2013

Dear colleague,

UNC456: Revision to the treatment of Allocation of Unidentified Gas for the 2013/14 AUG Year

We have received a request from British Gas that modification proposal UNC456: '*Revision to the treatment of Allocation of Unidentified Gas for the 2013/14 AUG Year*' follows the urgent modification procedures¹. This letter confirms that we have agreed to that request.

Background

Historically, the cost of any gas that could not be directly attributable to an individual gas shipper or other party was smeared across all of those gas shippers operating in the Smaller Supply Point ('SSP') sector of the market. No costs of unattributed gas were allocated to the Larger Supply Point ('LSP') sector.

The implementation of UNC229² in June 2010 established the principle of an independent Allocation of Unidentified Gas Expert ('AUGE') who would be tasked with the production of an evidence based methodology for the allocation of such costs each year. This allocation would be set out in an Allocation of Unidentified Gas Statement ('AUGS') Table to be produced once the methodology had been accepted by the Uniform Network Code Committee ('UNCC').

Owing in part to operational issues during 2012, the AUGE considered that it would be unable to complete a revised methodology and subsequent AUGS Table in time for the start of the current 'AUGE year', which came into effect 1 April 2013. The figures contained in the AUGS Table from the previous year were therefore carried over, in accordance with the AUGE Guidelines³.

UNC Modification Proposals 442 and 442A⁴, which were raised by British Gas and Scottish Power respectively, both sought to amend the timetable associated with the AUGE process. Whilst the details of each proposal differed, they both sought to allow for the revised methodology and associated AUGS Table for 2013/14 to be implemented once work on them was complete, rather than roll over the previous figures for an entire year.

The Authority subsequently rejected both UNC442 and UNC442A, in part over concerns that the dates prescribed within those proposals for the completion of actions by the AUGE could

¹ Modification Proposal UNC451 can be found on the Joint Office website: www.gasgovernance.co.uk/0451

² UNC229: '[Mechanism for Correct Apportionment of Unidentified Gas](#)'

³ See: www.gasgovernance.co.uk/sites/default/files/AUGE%20Guidelines%20v3.1%20approved.pdf

⁴ UNC442 and 442A: 'Amendment to the implementation date of the Allocation of Unidentified Gas Statement (AUGS) for the 2013/14 AUG Year'

not reasonably be met. The letter setting out in full the reasons for our decision is available on the Ofgem website⁵.

UNC456 similarly seeks to implement the now complete revised AUGE methodology and an associated AUGS Table. If accepted, UNC456 would require the UNCC to accept the methodology and AUGS Table no later than 1 August 2013, with the latter coming into effect from 1 October 2013.

UNC Modification Panel View

In accordance with paragraph 10.1.1(b) of the Modification Rules⁶, before making our decision on whether the modification proposal should follow the urgent procedures, we requested the UNC Modification Panel's ('the Panel') view on urgency for this particular proposal. At the Panel meeting on 30 May 2013 the UNC Panel members present voted unanimously against recommending that the proposal follow urgent procedures. The Panel members did not consider that a case for urgent procedures had been demonstrated.

Notwithstanding its recommendation, the Panel considered that in the event the Authority did accept that UNC456 should follow urgent procedures, the timetable suggested by the Joint Office should be followed⁷. This is set out below.

Authority decision

In reaching our decision, we have considered the details contained within the modification proposal, the Proposer's justification for urgency and the views of the Panel. We have assessed the request against the criteria set in Ofgem's published guidance⁸. 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)*".

In our view, the proposed 1 October 2013 effective date for the revised AUGS Table cannot be properly considered to be an imminent date related issue as that date is simply the proposer's suggestion rather one which is currently prescribed anywhere or is in any way binding. However, as set out in our guidance we do consider that urgency could be warranted by a current and ongoing issue rather than necessarily an upcoming event.

To the extent that the proposer considers there to be a significant commercial impact to UNC Parties resulting from the 2012/13 AUGS Table being carried over into 2013/14, we are satisfied that there is a current issue. Whilst the existing rules envisage that where the previous year's AUGS Table is carried over into the following year, this will be for the whole year rather than part of the year, this is the crux of what UNC456 seeks to modify. We are also satisfied that to the extent there is a significant commercial impact, this may be negated by the earlier adoption of the revised methodology and AUGS Table, were UNC456 to be approved, than would otherwise be the case.

We therefore consider that there is a reasonable argument that, if not addressed urgently, this issue may cause or exacerbate a significant commercial impact to the proposer and other UNC Parties. It is therefore appropriate that this matter be consulted upon, as will be facilitated through the urgent progression of this proposal. Therefore, whilst we have had regard to the recommendation of the UNC Panel and share its reluctance to deviate from

⁵ See: <http://www.ofgem.gov.uk/Licensing/GasCodes/UNC/Mods/Documents1/UNC442D.pdf>

⁶ The Modification Rules can be found here: www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

⁷ For the minutes and voting record of this meeting see: www.gasgovernance.co.uk/panel/300513

⁸ Ofgem's Guidance is published on our website: www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/Ofgem%20Guidance%20on%20Code%20Modification%20Urgency%20Criteria.pdf

the normal modification procedures, we have agreed to this particular request for urgency and to the suggested timetable, as set out below:

Process	Date
Modification issued for consultation	03 June 2013
Consultation closes	11 June 2013
Draft Final Modification Report issued to the UNC Panel	12 June 2013
Panel provide recommendation and submit report to the Authority	20 June 2013
Authority decision requested by	28 June 2013
Proposed implementation date	1 July 2013

For the avoidance of doubt, our decision on urgency should not be treated as any indication by us on the merits of modification proposal UNC456. The Authority will make a decision on UNC456 in due course and in accordance with the appropriate process after taking account all relevant considerations.

Yours sincerely

Maxine Frerk
Partner, Retail Markets and Research