





UNC Workgroup Report	At what stage is this document in the process?
<h1>UNC 0758:</h1> <h2>Temporary extension of AUG Statement creation process</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #00a651; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 01 Modification </div> <div style="border: 1px solid #0072bc; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 02 Workgroup Report </div> <div style="border: 1px solid #9933cc; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ff9900; border-radius: 5px; padding: 2px; display: flex; align-items: center; gap: 5px;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</p> <p>To allow the new AUGE sufficient time to develop a robust AUG Statement in accordance with the Framework for the Appointment of an Allocation of Unidentified Gas Expert, (AUGE), and to rollover the existing AUG Table, repeating the process undertaken previously for the 2013/14 & 2016/17 AUG Years.</p>	
	<p>The Workgroup recommends that this modification should not be subject to self-governance.</p> <p>The Panel will consider this Workgroup Report on 18 March 2021. The Panel will consider the recommendations and determine the appropriate next steps.</p>
	<p>High Impact: Shippers</p>
	<p>Medium Impact: None</p>
	<p>Low Impact: None</p>

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Timetable	
Modification timetable:	
Pre-modification consideration by Workgroup	25 February 2021
Presented to Panel	18 March 2021
Modification considered by Workgroup	25 March 2021
Workgroup Report presented to Panel	20 May 2021
Draft Modification Report issued for consultation	20 May 2021
Consultation Close-out for representations	03 June 2021 (10 day)
Final Modification Report available for Panel	09 June 2021
Modification Panel decision	17 June 2021
Options:	
10 day consultation or	
Keep 15 days and short-notice	

 Any questions?

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1 Summary

What

To ensure that UIG is allocated between Shippers in accordance with the requirements of the UNC and its subsidiary documents, the industry must use the most accurate and verifiable UIG Allocation Adjustment Factors available to it. The AUG Statement proposed for the AUG Year 2021/22 has, owing to the limited time available, not had the same level of development as previous AUG Statements. The proposer believes that the area where the lack of development time is most pertinent is in the development of the principle of polluter pays. In previous AUG Statement the AUGE has not adopted the polluter pays concept for anything other than broad generalisations, (EUC and Product Class). With the new AUGE introducing a complete overhaul of the methodology, now is an appropriate time to improve the polluter pays concept and differentiate between customers settling gas on estimates versus actual meter reads which the proposer believes would be a significant improvement in line with the polluter pays principle. The proposer also believes that the data used to calculate the total gas volume and number of supply points by payment method does not align with the calculation of gas theft by payment method, resulting in a material error in UIG apportionment by payment method.

Why

There are two reasons for deferring implementation of the proposed AUG Statement, firstly the proposed AUG Table for 2020/21 does not go far enough in advancing the AUG methodology; and secondly, there is assurance needed to demonstrate that this methodology is an improvement on the previous methodology and not just a change. The proposed AUG Table for 2020/21 does not have the level of development as previous AUG Table and so does not represent the most robust view of Unidentified Gas available.

How

Concerns in the short term could be allayed by rollover the UIG Allocation Adjustment Factors that are currently in force the 2020/2021 AUG Year to the 2021/2022 AUG Year.

2 Governance

Justification for Authority Direction

According to the latest Xoserve estimate of 24 February 2021¹, UIG runs at approximately 2.42% of LDZ throughput, representing approximately 13TWh of gas annually, with an approximate annual materiality of £200-250 million². Any significant change to the AUG Table is therefore likely to result in the redistribution of these costs between shipper in the order of millions of pounds and so would be a material change, requiring Authority Direction.

¹ Xoserve UIG Graphs – Interim Reporting 24 February 2021

² Using a 30-day rolling average SAP price of 1.8444p/kWh on 13 February 2021

Requested Next Steps

This Modification should:

- be considered a material change and not subject to self-governance
- be assessed by a Workgroup

3 Why Change?

The development of a robust AUG Statement is a complex and difficult undertaking, which requires the assessment of multiple data sources and engagement with the industry as the methodology is developed. The timescales, as mandated by the Framework for the Appointment of an Allocation of Unidentified Gas Expert,³ (the Framework Document), are extremely tight, with the entire process required to be completed in less than a year.

Owing to a change in the AUG Statement, the AUG Statement that was presented to the industry on 30 December 2020 represents a significant departure from previous methodology, as it:

- Uses a bottom-up approach to assess the current UIG, rather than a top-down approach.
- Determines UIG only at line in the sand, rather than the previous process of assessing temporary and permanent UIG during the lifetime of settlement.
- Has utilised an entirely different methodology for deriving both the size of theft and the apportionment of theft between market sectors. Theft comprises approximately 75% of the total of UIG.

The AUG Statement that was presented to the industry is demonstrably different to previous years and could not be said to be a simple evolution of previous statements and has been effectively developed from first principles in large part.

There are 2 prime examples where further development is required: achieving the principle of polluter pays and accurately allocating prepayment customer numbers.

The first principle of the proposed methodology is:

“Polluter Pays – we interpreted “fair and equitable” to mean that UIG should be allocated in the same proportions as it is created” source: Draft Allocation of Unidentified Gas Statement (For Gas Year 2021-2022)

The AUG Statement produced fails to fully deliver this. Currently, the proposed AUG Table results in UIG being allocated to customers in the same EUC Band and Product Class, as opposed to the polluters themselves. It takes no account of metering systems that settle regularly on actual meter reads and are logically and statistically less likely to be involved in theft. Smart meters have specifically been identified by the department of Business, Energy and Industrial Strategy (BEIS) as directly beneficial to the reduction of theft:

The introduction of smart metering has improved energy suppliers’ ability to detect and manage energy theft. More granular data on consumption will help alert suppliers to patterns of behaviour that could be indicative of theft, enabling them to better target their enforcement activity, reducing the amount of energy theft incurred. BEIS Smart Meter Rollout Cost Benefit Analysis (2019)

³ [Framework for the Appointment of an Allocation of Unidentified Gas Expert](#)

The BEIS 2019 Smart Meter Rollout Cost Benefit Analysis attributes £913million in benefits to reduced theft and losses because of smart meters being installed.

The proliferation of smart meters and the enhanced data they provide (including daily meter reads and tamper alerts) should play a part in better identifying the polluters (or more accurately, the non-polluters).

The AUG Statement must reflect a true and accurate number of customers in each group; the current number of prepay customers included in the AUG Statement is approximately 2m, however, Ofgem data from 2020 states there are 3.4m prepayment meters⁴. The AUGE has used the best available data to calculate the amount of gas theft associated with prepayment and credit customers, (data not provided by the CDSP), but this does not align with the AUGE's assessment of both supply points and volumes by payment method, (data which was determined from CDSP's EUC band data). The AUG Statement must reflect a true and accurate number of customers in each group and, while CDSP data may be preferred where available, it is clearly inaccurate in this case and needs further development; failure to correct this error would result in materially inaccurate allocation of UIG by payment method within certain EUC bands.

Whilst the draft AUG Statement represents a reasonable foundation upon which to develop a robust methodology it is clear that more time is required. The AUGE appointment process commenced in 2011 with the first AUG Statement in 2012/13 being recognised as an interim development to replace the high-level assessment of UIG then in place. This Statement was then rolled over for the 2013/14 AUG Year to allow time for a more robust consumption method to be developed for 2014/15. The AUG Statement was rolled over again for the AUG Year 2016/17 to allow time for the AUGE tendering process to complete.

Considering these concerns and being mindful of the time it took for the previous AUGE to present a robust statement that was accepted by the industry, it is clear that the process has not given sufficient time for the AUGE to develop a new statement to the standard required for the industry to rely upon with a high degree of confidence. As a fully developed and tested AUG Statement is available, (unlike at the start of the process), we believe that additional time should be given for a robust statement to be developed by the new AUGE and the AUG Table from 2020/21 should be extended to 2021/22.

The current proposals substantially alter the impact of the AUG Statement under the new methodology. Not only have the extremely tight timescales impacted the new AUGE's time to develop the methodology they have also deprived industry of sufficient time for proper assurance work on a new and significant methodology.

For the avoidance of doubt, we have not considered whether there should be any changes to the Framework Document, as we consider the annual review process will give a suitable opportunity to do so.

4 Code Specific Matters

Reference Documents

- UNC TPD Section E9
- Framework for the Appointment of an Allocation of Unidentified Gas Expert.
- [Assessment of draft AUG Statement 2021/22 against the Framework for the Appointment of an Allocation of Unidentified Gas Expert \(provided by ICoSS to UNCC on 22 February 2021\)](#)
- [Letter to UNCC \(provided by ENGAGE on 17 March 2021\)](#)

⁴ [Ofgem Decision Document: Self-disconnection and self-rationing](#), (see Section 1.10)

- [Resource of AUG Statement documentation for Gas Year 2021/22](#)

Knowledge/Skills

- None

5 Solution

Business Rules

1. The AUG Table that is approved by the Committee under TPDE9.4.4(a) to apply for the period 1 October 2021-30 September 2022 (as voted or around the 15 April 2021) shall be disapplied and not used for any Code purpose.
2. The AUG Table for the AUG Year 01 October 2021 – 30 September 2022 will instead be the following:

Supply Points					Metered CSEPs	
	Class 1	Class 2	Class 3	Class 4	Category	Allocation Factor
EUC	Allocation Factor				All Metered CSEPs as a single category	
1ND	0.22	5.28	45.30	120.98		
1PD	0.22	5.28	45.30	120.98		
1NI	0.22	5.28	45.30	120.98		
1PI	0.22	5.28	45.30	120.98		
2ND	0.22	5.28	13.68	117.79		
2PD	0.22	5.28	13.68	117.79		
2NI	0.22	5.28	13.68	117.79		
2PI	0.22	5.28	13.68	117.79		
3	0.22	4.93	9.17	15.29		
4	0.22	3.87	9.17	11.76		
5	0.22	2.47	8.56	8.04		
6	0.22	1.13	6.30	4.79		
7	0.22	0.33	5.14	2.47		
8	0.22	0.22	0.42	1.55		
9	0.22	0.22	0.22	0.22		

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No

Consumer Impacts

None as UIG is allocated at a wholesale level to shippers.

Cross Code Impacts

None

EU Code Impacts

None

Central Systems Impacts

None as the process will simply rollover the AUG Table from 2020/21.

Workgroup Impact Assessment^[AR1]

Given the nature of the issue being discussed by the Workgroup, the views were, to a large extent, polarised and may be summarised as follows:

On one hand, some of the Workgroup felt that the modification was superfluous as the AUGE had delivered an AUG Statement which passed through all the relevant development and production stage-gates and was in a fit state to be applied.

On the other hand, some Workgroup participants expressed some concern that, given the new “bottom-up” methodology that had been developed, as opposed to simply refining a pre-existing methodology, insufficient time for scrutiny and third-party analysis was provided for in the standard annual process, as set-out in the Framework Document. Accordingly, for the industry to gain confidence in the methodology, a further year of refinement should be incorporated into the development cycle.

As these positions were unlikely to be reconciled during the development stages of the Modification or lead to a further iteration of the Modification Proposal, it was agreed that they should be recorded in the Workgroup Report to advise Panel that these disparate views, which first became evident during the AUG Sub-committee discussions, still exist.

At the March Workgroup, (and recorded in the minutes⁵), the Authority representative raised the following questions for consideration by the Workgroup.

Extract from “Purpose of the Modification”: To allow the new AUGE **sufficient time** to develop a **robust AUG Statement** in accordance with the Framework for the Appointment of an Allocation of Unidentified Gas Expert, (AUGE), and to rollover the existing AUG Table, repeating the process undertaken previously for the 2013/14 & 2016/17 AUG Years.

Has the AUGE requested more time?

A.

If not, what procedures are set out within the commercial contract to allow parties to determine, on behalf for the AUGE if more time is required or that the statement is not ‘complete’ or robust?

A.

Explain why the solution is being progressed as a modification, rather than through existing UNC or contract management processes.

A.

Extract from ““Why” section of the proposal: There are two reasons for deferring implementation of the proposed AUG Statement, firstly the proposed AUG Table for 2020/21 **does not go far enough in advancing the AUG methodology**; and secondly, there is assurance needed to demonstrate that this methodology is an improvement on the previous methodology and not just a change. The proposed AUG Table for 2020/21 does not have the level of development as previous AUG Table and so does not represent the most **robust** view of Unidentified Gas available.

How do parties contribute towards determining how far the methodology should go, or how an AUGE performs and delivers its duties and outputs?

A.

How do parties determine and agree if a statement is robust and what if there is a disagreement?

A.

What are the existing processes for agreement and validation?

A.

As this is a commercial contract, what are the contract management options and why are these considered to be insufficient for this issue. and would this Modification contradict established contract management and/or UNC processes?

A.

Authority Comment: This modification could be seen as placing a validation role of the statement onto the Authority.

Could you please explain, if this is the case, how this would interact with existing UNC, (of TPD Section E9 and the Framework Document), and the commercial contract for the AUGE?

⁵ Workgroup 758 Minutes of 25 March meeting

A.

Authority Comment: The AUGÉ statement gets discussed at the April UNCC meeting where it will be approved or rejected.

Does this modification intend to introduce the concept and precedent of a validation/refusal for any party into the UNC which would override that decision process?

A.

7 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.	Positive
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

Owing to the limited time which was available for its development, the AUG Table and accompanying statement that was presented to the industry on 30 December 2020 does not represent as detailed an assessment as the AUG Table in place for 2020/21. Extending the AUG Table for 2020/21 to cover the AUG Year 2021/22 would result in more accurate cost targeting and so further competition between shippers and would give further time for the requirements of the Framework for the Appointment of an Allocation of Unidentified Gas Expert to be discharged.

8 Implementation

No specific implementation date is proposed, but the modification will need to be implemented as soon as possible to provide certainty to shippers on the AUG Table for the AUG Year 2021/22.

9 Legal Text

Text Commentary

As this modification would effectively extend the 2020/21 AUG Table, (in the form specified in Modification 0711⁶), for a further 12 months, the textual change should be placed in Transitional Rules.

<u>Reference</u>	<u>Explanation</u>
TRANSPORTATION PRINCIPAL DOCUMENT	=
TRANSITION DOCUMENT, PART II – TRANSITIONAL RULES	=
New paragraph 24.2 (heading)	AUG Table for AUG Year 2021/22
New paragraph 24.2.1	The AUG Table approved by the Committee for the AUG Year 2021/22 shall, (notwithstanding such approval), not apply. Instead the table and the values set out in paragraph 24.2.3 shall apply for AUG Year 2020/21.
New paragraph 24.2.2	The Committee is required to publish the table and values set out in paragraph 24.2.3.
New paragraph 24.2.3	Sets out in the required format the table and values to apply for AUG Year 2021/22 for the purposes of determining a User's User LDZ Unidentified Gas on a day in AUG Year 2021/22.
New paragraph 24.2.4	When preparing the AUG Statement for AUG Year 2022/23 the starting point for the purposes of updating the methodology shall be the AUG Statement approved by the Committee for AUG Year 2021/22.

⁶ [Modification 0711: Update of AUG Table to reflect new EUC bands](#)

Legal Text (version of 12 April)

TRANSITION DOCUMENT: PART IIC – TRANSITIONAL RULES

Add new paragraph 24.2 to read as follows:

24.2 AUG Table for AUG Year 2021/22

24.2.1 In respect of AUG Year 2021/22 notwithstanding the Committee approving the AUG Statement and the AUG Table in accordance with TPD Section E9.4.3:

- (a) the AUG Table approved by the Committee ("**approved AUG Table**") shall not apply (and accordingly Section E9.4.4(a) and (b) shall not apply in respect of the approved AUG Table); and
- (b) the AUG Table set out in paragraph 24.2.3 ("**transitional AUG Table**") shall apply in its place, and the transitional AUG Table shall:
 - (i) not be subject to later modification in relation to AUG Year 2021/22;
 - (ii) be binding for the purposes of the Code.

24.2.2 The Committee shall publish the transitional AUG Table (and make clear in doing so that the approved AUG Table shall not apply).

24.2.3 The AUG Table for AUG Year 2021/22 shall be as follows:

<u>Supply Points</u>					<u>Metered CSEPs</u>	
	<u>Class 1</u>	<u>Class 2</u>	<u>Class 3</u>	<u>Class 4</u>	<u>Category</u>	<u>Allocation factor</u>
<u>EUC</u>	<u>Allocation factor</u>				<u>All Metered CSEPs as a single category</u>	
<u>1ND</u>	<u>0.22</u>	<u>5.28</u>	<u>45.30</u>	<u>120.98</u>		
<u>1PD</u>	<u>0.22</u>	<u>5.28</u>	<u>45.30</u>	<u>120.98</u>		
<u>1NI</u>	<u>0.22</u>	<u>5.28</u>	<u>45.30</u>	<u>120.98</u>		
<u>1PI</u>	<u>0.22</u>	<u>5.28</u>	<u>45.30</u>	<u>120.98</u>		
<u>2ND</u>	<u>0.22</u>	<u>5.28</u>	<u>13.68</u>	<u>117.79</u>		
<u>2PD</u>	<u>0.22</u>	<u>5.28</u>	<u>13.68</u>	<u>117.79</u>		
<u>2NI</u>	<u>0.22</u>	<u>5.28</u>	<u>13.68</u>	<u>117.79</u>		
<u>2PI</u>	<u>0.22</u>	<u>5.28</u>	<u>13.68</u>	<u>117.79</u>		
<u>3</u>	<u>0.22</u>	<u>4.93</u>	<u>9.17</u>	<u>15.29</u>		
<u>4</u>	<u>0.22</u>	<u>3.87</u>	<u>9.17</u>	<u>11.76</u>		
<u>5</u>	<u>0.22</u>	<u>2.47</u>	<u>8.56</u>	<u>8.04</u>		
<u>6</u>	<u>0.22</u>	<u>1.13</u>	<u>6.30</u>	<u>4.79</u>		
<u>7</u>	<u>0.22</u>	<u>0.33</u>	<u>5.14</u>	<u>2.47</u>		
<u>8</u>	<u>0.22</u>	<u>0.22</u>	<u>0.42</u>	<u>1.55</u>		
<u>9</u>	<u>0.22</u>	<u>0.22</u>	<u>0.22</u>	<u>0.22</u>		

24.2.4 For the purposes of TPD Section E9.4.1(d) and preparing the AUG Statement for AUG Year 2022/23 the methodology to be updated shall be the methodology contained in the AUG Statement approved by the Committee for AUG Year 2021/22.

10 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- This modification should proceed to consultation.
- This proposal requires further assessment and should be returned to Workgroup.[AR2]