

Nigel Nash
GB Markets
Ofgem
9 Millbank
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SW1P 3GE

25 January 2010

Dear Nigel,

Re: **RIA – Identification and Apportionment of Costs of Unidentified Gas**

Thank you for the opportunity to respond to this Impact Assessment. Responses to the individual questions posed in the Impact Assessment are attached.

Northern Gas Networks (NGN) has been actively involved in the discussions and development of the Modification Proposals covered within this Impact Assessment. NGN agrees that there may be merit in considering the issue of unidentified gas which is currently attributed to the Small Supply Point (SSP) market by virtue of Reconciliation by Difference (RbD). The underlying reasons that gas has been categorised as unidentified for the purpose of the Modification Proposals included within the scope of this Impact Assessment is varied and includes, but not limited to, late confirmation, unregistered and orphaned sites and theft. By their very nature these are areas of gas usage where it is difficult to calculate the volumes in total, and therefore the subsequent breakdown which would be attributable to each market sector is also contentious.

NGN agrees that the principle of procuring an independent third party to carry out the analysis and create a subsequent reallocation appears to be the method which is favoured by most industry participants. This is as a result of both the opportunity for the industry to be actively involved with the setting of the scope of the work that the Apportionment of Unidentified Gas Expert (AUGE) would consider, and by the independent nature of the position of the AUGE.

In the view of NGN, the detail contained within UNC Modification Proposal 229 for the timelines and tendering process should be subject to further development to ensure that the final solution is acceptable to all parties. In summary, NGN is sympathetic to the principles contained within UNC229 but believes that further development of the detailed processes is required before implementation could be fully achieved.

I hope you find these comments useful and please contact me should you require further information.

Yours sincerely,



Joanna Ferguson
Network Code Manager

Chapter Three

Question 1: Do you agree with Ofgem's assessment that the likely impact of the Modification Proposals on charges made to consumers?

NGN agrees that these Modification Proposals will cause the industry to incur additional costs and will also reallocate some existing costs to market sectors in a manner different from the existing arrangements. We note that the values contained within the IA only include estimates of energy costs and the xoserve ROM costs which were produced for Modification Proposal 194.

The costs of procuring the AUGER and costs resultant from the extent to which xoserve are required to carry out additional analysis and provisions of data are not included in the analysis of additional costs which will ultimately be borne by consumers.

Question 2: Do you consider that the proposed governance arrangements under UNC229 offer adequate protection to the interests of consumers in their present form?

The governance arrangements for UNC229 are complex with opportunity for industry to fail to conclude the process. The interests of consumers are not specifically addressed in UNC229, however the constitution of UNCC is wide reaching in the industry with all market sectors being represented.

Question 3: Do you anticipate any further impact upon consumers in addition to those considered in this chapter?

Nothing identified.

Chapter Four

Question 1: Do you agree with our assessment that any of these Modification Proposals will have an affect upon incentives for shippers to reduce the quantity of Unidentified Gas offtaken at LDZs?

NGN agrees that none of the Modification Proposals include specific measures to incentivise the reduction in volumes of Unidentified Gas. In the case of UNC228 and UNC228A it would be likely that LSP shippers may wish to carry out a review of the levels of Unidentified Gas being allocated should they believe that these levels are reducing as a result of specific measures they have taken.

Question 2: Do you agree with our assessment of the likely distributional impact of the Modification Proposals?

NGN believes that the implementation of any of these Modification Proposals will have an impact on the processes of LSP shippers who will be required to put in place appropriate mechanisms for managing the costs of Unidentified Gas associated with the proposals. It is unclear whether the level of change required could be considered to be a barrier to entry.

Question 3: Do you believe that the potential benefits of the Modification Proposals justify the additional costs which may be imposed on customers?

It is important the any new mechanism is targeting of costs appropriately to relevant markets sectors. As the overall costs associated with these modifications are unknown a fully considered cost/benefit case cannot be carried out at this time.

Question 4: Do you agree that applying a variable RbD charge upon LSP shippers would potentially entail a negative impact upon competition? Do you feel that this potential impact justifies the imposition of a fixed rather than variable charge on LSP shippers?

NGN understands that many LSP shippers operate contracts with end consumers on cost pass through basis. As the costs of Unidentified Gas cannot be associated with a particular Supply Point these costs would require an appropriate smearing mechanism to pass these on to end consumers, whether as a specific cost item or included in a general risk premium assigned to consumers. The ability of LSP shippers to make such changes could impact on competition in the short term.

The variability of RbD is as a result of many factors including Supply Point Reconciliation of LSP sites and LDZ Offtake metering reconciliations. The ability of shippers to influence the variability is limited and the causes of Unidentified Gas are varied. It may be appropriate for some of these to be allocated on a fixed basis while other may be more seasonally variable in their nature.

It should be noted that UNC229 does not provide the AUGÉ with scope to assess the seasonal variability of how the charges are applied.

Question 5: Should any third party authority created under the terms of UNC229 be tasked to review incentives for investigating theft upon individual shippers?

NGN believes that the scope of the AUGÉ should remain focussed on the calculation of appropriate methodologies. Theft of gas and the incentives to investigate theft are currently under review in other UNC Review Groups.

Chapter Five

Question 1: Do you agree with Ofgem's assessment that any impact on sustainable development as a result of these Modification Proposals is likely to be marginal?

NGN agrees that any impacts on sustainable development resultant from any of these Modification Proposals would be, at best, marginal.

Question 2: Do you agree with Ofgem's assessment of the relative impact on sustainable development of each of the Modification Proposals?

As above

Question 3: Do you consider that there are any further impacts on sustainable development that are likely to result from the Modification Proposals?

None identified

Chapter Six

Question 1: Do you anticipate any impact on health and safety as a result of these Modification Proposals? If so, what?

None identified.

Chapter Seven

Question 1: Do you agree that the implementation of UNC229 would leave parties with adequate recourse to query decisions made by the AUGE?

There is considerable opportunity for challenge within the UNC229 process as it is currently constructed. It is NGNs belief that this may lead to the process not being completed efficiently and potentially undermines the independent nature of the AUGE and resultant AUGS.

Question 2: If not, how should any additional governance be implemented?

Both the governance and contracting procedures of UNC229 require further development to establish a practical, implementable solution as noted in our representation to UNC229.

Question 3: Are there any additional risks which may be placed upon industry parties by implementation of the Modification Proposals within scope of this Impact Assessment which we have not identified in this document?

The contractual processes contained within UNC229 were not fully developed during the development of the Modification Proposal. As noted in our representation to UNC229 NGN also believes that the timelines associated with the UNC229 processes require further development to ensure an efficient and equitable methodology is established.

While we note that the intention of UNC229 is that the Transporters remain cost neutral to the process, the cost recovery mechanism and levels of contractual risk associated with the Modification Proposal are unclear and require further development.

NGN agrees in principle with the intentions of UNC229 and would prefer to engage with the industry further to develop these principles into a suitable solution rather than be required to implement UNC229 as it is currently drafted.

Question 4: How could the Governance Arrangements for appointment of an AUGÉ be structured to minimise impact upon shipper parties? Should GTs be indemnified from any risks from holding this contract, and if so how might this be implemented in practice?

The Governance Arrangements for the appointment of an AUGÉ require further development to ensure that all industry parties believe that their risks are suitably mitigated. NGN believes that this further development should be carried out quickly and with the engagement of all affected parties.

Chapter Eight

Question 1: Do you agree with Ofgem's assessment that the benefits of appointing an independent third party to assess Unidentified Gas would accrue to the industry?

NGN agrees that the appointment of a properly funded independent third party may bring additional benefits to the industry in the form of better assurance that the underlying causes of Unidentified Gas are being appropriately identified and allocated.

Chapter Nine

Question 1: Do you believe that a post-implementation review will be necessary for the Modification Proposals which Ofgem is minded to implement?

NGN remains of the belief that further development of the processes of UNC229 is required prior to implementation of a Modification Proposal. This would ensure that the underlying principle of procuring an independent third party to ensure equity is part of a fully developed, workable solution.