

February 2013

British Gas Consultation Response to 17th December 2012 2nd Draft AUG Statement

Consumption-based methodology

British Gas (BG) welcomes the recent work undertaken by the AUGÉ and the move to the consumption-based method of Unidentified Gas (UG) calculation. We are however disappointed that the AUGÉ did not publish their statement as per the stated timeline. BG believes that this delay is in part caused by the AUGÉ investigating issues that are potentially out of scope and dedicating critical time and effort outside their core delivery items. It is our opinion that the AUGÉ need to concentrate their time and resources on delivering the core requirements of the job. It was not necessary to see the output from every LDZ to determine whether the methodology (which is the same in each instance) is suitable or not. In addition, the AUGÉ has previously stated that shrinkage is out-of-scope and therefore we would expect that the AUGÉ do not attempt to address perceived concerns regarding CSEP shrinkage. This issue must be addressed within the appropriate industry forum in the first instance.

We believe that the consumption-based methodology is the most accurate method of calculating UG and critically is able to calculate SSP-assigned UG; an area not covered by the previous RbD-Bias method. We acknowledge that the AUGÉ has stated that this is both more intuitive and statistically more accurate. We believe that there is no merit to any argument that the RbD-bias method generates a better outcome than the consumption-based method. The AUGÉ has shown this not to be the case on numerous occasions and therefore we feel that the AUGÉ do not need to address this matter again.

We have seen that SSP-assigned UG is a significant component part of total UG. Recent AQ review outcomes further highlight the importance of calculating SSP-assigned UG; so much so that the RbD-bias method is no longer fit-for-purpose.

Scaling-up

BG believes however, that through the scaling-up process the AUGÉ may be attributing consumption to non-consuming sites as such reducing the overall quantity of calculated UG. For example, sites with no meter read data have a higher propensity to be vacant and as such be non-consuming. Additionally during the recent industry session it was pointed out that some sites have sub meters and that potentially the AUGÉ is attributing EUC-average consumption to sub meters in error. We believe that the AUGÉ needs to adjust their output to take account of issues in this area. This is potentially a contributing factor (along with data immaturity) causing negative UG values for the most recent year of calculation. The AUGÉ is required to scale-up significantly more due

to the lack of available data and therefore the outcome is more prone to over-attributing consumption. This is an issue we feel that the AUGÉ can address during the next formula year.

Theft Allocation

BG additionally welcomes the adoption of the throughput method for the allocation of theft. This is the only sensible method to allocate the balancing number. Arguments looking to exclude subsets of accounts based on perceived lower propensity to steal must be rebuffed. Theft must be allocated either only to those sites that steal or in the absence of perfect data to enable this then to all sites in-line with their consumption proportion. It is interesting to note that the argument to exclude sub-sets of accounts was demonstrated using the NHS as an example. BG notes that the NHS is one of a number of institutions that in many cases has a legal bypass in place and as such would actually likely have a higher than average propensity to pass unmetered and therefore unidentified gas.

The AUGÉ has investigated the exclusion of sites from the allocation of theft due to meter read frequency and also at EUC level. The AUGÉ has concluded that meter read frequency does not impact theft and that there is not sufficient data to support the removal of EUC bands. It is our belief that these investigations have partially led to a delay in the publication of the 2nd draft AUGS that has resulted in a knowingly incorrect outcome 'rolling-over'. BG believes that the AUGÉ has sensibly decided to allocate theft via throughput and therefore these investigations are essentially redundant. If the AUGÉ intends to investigate potential exclusions further then BG would request that they investigate every single site (including all SSPs) or none at all, thus ensuring a fair and even-handed approach.

Extrapolated LSP Proportion of Throughput

BG believe that the AUGÉ must explain in detail how the proposed LSP proportion is calculated and extrapolated since recent reversals in AQ review outcomes suggest that the 'straight-line' extrapolation will not hold true. As such we do not think that it is suitable to simply state that the trend will be reviewed. For transparency, we believe that the AUGÉ should publish in advance the equation utilised to extrapolate LSP proportion of throughput since we need assurance that this can increase should the circumstances require it. Clearly a straight-line extrapolation cannot be sustainable since over time this would lead to a negative LSP throughput - which is impossible.

Conclusion

BG broadly welcomes the much improved methodology presented by the AUGÉ. It addresses our main concerns with the RbD-bias methodology. There are some specific areas where we feel the methodology and output

could be improved and suggest that these are considered during the next formula year.

Moving forward we would request that the AUGÉ more closely observes their key in-scope deliverables and ensures that all milestones are achieved as per the timeframes indicated in the guidelines.