

## Representation - Draft Modification Report UNC 0758

### Temporary extension of AUG Statement creation process

**Responses invited by: 5pm on 04 June 2021**

**To:** [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

*Please note submission of your representation confirms your consent for publication/circulation.*

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| <b>Representative:</b>                   | Mark Bellman                             |
| <b>Organisation:</b>                     | ScottishPower                            |
| <b>Date of Representation:</b>           | 4 <sup>th</sup> June 2021                |
| <b>Support or oppose implementation?</b> | Oppose                                   |
| <b>Relevant Objective:</b>               | <b>d)</b> Negative<br><b>f)</b> Negative |

#### Reason for opposition: Please summarise (in one paragraph) the key reason(s)

ScottishPower does not support implementation of this modification which seeks to overturn a legitimate decision of UNCC to approve AUG's proposed 2021/22 AUGS which was developed following a process compliant with the AUG Framework <sup>1</sup>.

We see no material cause of concern in either their conclusions or the process. Xoserve have confirmed that the AUG has complied with the AUG Framework <sup>1</sup> and their contract terms.

The case that the process was defective is not convincing; there was no concern raised about the process prior to the AUG publishing the AUGS.

In fact this could be taken to indicate that it was the AUG table itself, more than the AUG process, that resulted in concerns being expressed by ICOSS and some shippers.

This mod effectively seeks to overturn a legitimate decision of the UNCC by which the AUG's proposed 2021/22 AUGS was approved.

If approved the modification sets a dangerous precedent for challenging unfavourable decisions even where there is no convincing evidence of an error in the Code.

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<sup>1</sup> Refer the [minutes](#) of UNCC 15<sup>th</sup> April 2021

The 2021/22 AUGS was approved on 15<sup>th</sup> April 2021, so this mod presents several months of uncertainty for all shippers who may now need to alter the gas that they have already hedged for 2021/22 UIG with the following consequences:

- increased costs to the industry and ultimately consumers
- inefficiency in the running of the UNC

**Implementation:** *What lead-time do you wish to see prior to implementation and why?*

ScottishPower does not wish to see this mod implemented.

If the Authority approves this mod this **MUST** be in time to implement and avoid any retrospective recalculation of UIG for the start of the 2021/22 Gas Year. ScottishPower believes that Correlia has advised that must be at least 2 weeks before 1<sup>st</sup> October 2021.

**Impacts and Costs:** *What analysis, development and ongoing costs would you face?*

ScottishPower would have no system change required.

Changes to UIG forecasting, hedging and current traded positions introduces additional gas costs, albeit relatively marginal.

**Legal Text:** *Are you satisfied that the legal text will deliver the intent of the Solution?*

In its current form the Legal Text could result in retrospective changes to UIG if Authority direction was received after the 1<sup>st</sup> October. In this situation the Authority are asked to direct changes to the legal text to prevent any retrospective change to UIG factors for the 2021/22 Gas Year.

**Modification Panel Members have requested that the following questions are addressed:**

*Q1: Please provide your views on whether the 2021/22 AUG Statement production process has been robust.*

Modelling UIG is extremely difficult, but we are satisfied with the methodology used and the assumptions it contains. The adoption by the new AUGE of polluter pays, line in the sand and bottom-up elements are improvements on the previous AUGE's approach which left c. 90% of UIG as a balancing figure, explained away as theft.

Xoserve have confirmed that AUGE has complied with the AUG Framework.

There are some minor improvements for next year but nothing significant enough to suggest it has not been robust. And this is a normal part of the annual AUG process, demonstrating that the process works as approved.

*Q2: Please provide your views on whether the 2021/22 AUG Statement production process has delivered a robust result and provide an explanation to support your response.*

ScottishPower feels a robust result has been delivered. Reasonable assumptions on theft have been made supported by evidence brought in from other industries. Previous AUG assessments of UIG factors and anticipated UIG levels did not reflect actual UIG witnessed so a change to the methodology was required.

The c. 14% SME theft included in the 2021/22 AUGS is cited as evidence of an incorrect result because it is more than last year. ScottishPower believes the two years cannot be compared since previous AUG's factors did not have the new EUC sub-bands.

*Q3: With reference to the existing governance arrangements, please provide your views regarding the effectiveness of the governance of the AUG Statement approval process, including, (but not limited to), the UNC and CDSP contracting arrangements, and the application of the Framework Document, including the UNC Committee stages.*

ScottishPower is satisfied with the existing governance arrangements.

The AUG role should remain that of an independent and unbiased expert because the subject matter is highly complex, with no mechanistic means to calculate factors and what little evidence is available must be investigated carefully to arrive at reasonably argued judgments in an unbiased manner.

For these reasons it's also correct that the UNCC process has a high threshold before it intervenes in the expert's proposal. As such the existing process is reasonable, where the AUGS is not in fact submitted for approval, but for unanimous rejection in the event that all parties agree there is a manifest error. If not rejected, then the expert's AUGS is deemed approved.

It's inevitable that partisan arguments will be made for change, motivated by dislike of the result, but UNCC membership confers an obligation to act in the interests of GB industry, not in the narrow commercial interests of any particular party or segment.

The involvement of CDSP in the procurement and management of the contracted services of the AUG also ensures professional capability and independence. The performance of the current (now Correla) manager in these processes during the last AUG year is to be commended and is beyond reproach in the matters with which this modification is concerned.

*Q4: Please provide a reasoned opinion as to whether the request for a direction on this Modification could be seen as placing a validation role of the AUG Statement on the Authority.*

ScottishPower's view is that, yes, this mod amounts to a request for the Authority to validate the AUG Statement and determine if the 2020/21 table or the proposed 2021/22 table gives a fairer distribution of UIG for the period Oct-21 to Sep-22.

The UNCC has exercised their duty to review the AUGS and not intervened in approval of the proposed statement. This mod therefore has the effect of asking the Authority to take a view on whether the proposed AUGS is 'fit for purpose'.

The independence of AUGE is a critical aspect of the role. The AUGE has confirmed that it has complied with its obligations and the Framework and that it does not intend to change the 2021/22 AUGS. In view of this, if the Authority was to approve UNC0758 it would discredit the AUGE who may then be unable to comply with their contractual obligations to develop 2022/23 AUGS. This would have commercial/procurement impact on Xoserve/Correlia that would further inhibit the delivery of next year's AUGS.

In addition, if approved, the modification would be a precedent for overturning legitimate decisions made under Code but which are not in the interests of a party or segment and thereby result in further proposals.

**Are there any errors or omissions in this Modification Report that you think should be taken into account?** *Include details of any impacts/costs to your organisation that are directly related to this.*

**Please provide below any additional analysis or information to support your representation**

ScottishPower notes that the UNCC 15<sup>th</sup> April

- an Xoserve representative confirmed in response to a direct question from a Transporter Representative that AUGE had complied with the AUG Framework:

“D Lond (DL) noted that the AUGE contract is with Xoserve and asked whether Xoserve believed the AUGE had complied with the AUG Framework. FC advised on behalf of Xoserve that Xoserve believes the AUGE has been compliant.”

- The UNCC approved AUGE's proposed 2021/22 AUGS on 15<sup>th</sup> April after rejecting both i) Gazprom's proposal to roll over the 2020/21 AUG table and ii) the need to make any other changes to the table.