

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

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

Representative:	David Morley
Organisation:	OVO Energy (OVG, SOP, SPK, SSH)
Date of Representation:	4th June 2021
Support or oppose implementation?	Oppose
Relevant Objective:	d) Negative f) Negative

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

- We are not supportive of the purpose of raising the modification.
 - The AUG's Allocation of Unidentified Gas Statement for 2021-2022 provides an allocation methodology that centralises around sound principles for the apportionment of UIG. For example, Polluter Pays is in line with the global push to reduce greenhouse gas emissions. Bottom-up Determination and Line in the Sand provide more accurate allocation that relies less heavily on estimation.
 - The distribution of UIG has been done with the consumption landscape of 2021/22 in mind and it would therefore be wholly inappropriate to roll over Weighting Factors from 2020/21.
 - The AUG is an independent expert, and as such is not commercially biased.
 - This modification does not seem to be distributing UIG in a way which is fair and in line with the AUG's principles of integrity and impartiality.
 - The rationale put forward by the proposer contains assertions which must be reviewed:
 - The proposers assertion that there is a precedent for rolling over the Weightings Table is inaccurate/misleading and explored within the "Are there any errors or omissions in this Modification Report" section below.
 - The proposer of 0758 supposes theft was not given appropriate consideration. This statement by the proposer of 0758 does not consider previous allocation methodologies, which by the measure of the proposer of 0758 would be considered to have provided even less appropriate consideration. As noted by Engage Consulting, "in previous gas years the top-down methodology left over 90% of UIG unexplained and simply assumed that it was all theft". It must be considered that the calculations for

- gas year 21/22 quantify theft in a far more detailed manner than in previous years, and by extension of that logic are far more accurate.
- 0758 sets out that the process did not allow enough time to engage with the process.
 - On reviewing the minutes of the AUGE sub-committee it may be insightful to note that the proposer did not take part until Feb 2021, and, as is noted by Engage Consulting, “no concerns were expressed [to the AUGE] by any industry parties prior to publication of the Weighting Factors.”
- We are not supportive of using the urgency requirements which essentially necessitate that the final word on the matter of 0758 must be had on the part of Ofgem.
 - This sets a precedent which undermines the core purpose of the AUGE which is to act as an independent expert.

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

We would like this modification to be carefully considered in a manner that does not rush to conclusions without having factored in the points raised in our response. If in the event that this does get approved, implementation would need to be at any time prior to the start of the gas year.

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

The approval of this modification will have a deleterious effect on trading processes.

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

We are concerned that the legal text of 0758 will set a precedent for future years that undermines the integrity and impartiality of the AUGE role.

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.

OVO fully supports the quality of the services provided by the AUGE. Their report was developed with sound principles, as expanded upon in its [letter](#) to the UNC Committee (UNCC) dated 17th March.

Engage’s overall approach was founded on the principles of integrity and impartiality, and we agree that the Final Statement as approved at the April UNCC meeting allocates Unidentified Gas (UIG) in an equitable manner. Throughout the process the AUGE engaged openly with all stakeholders and we do not agree with the assertion in the modification that there was a ‘lack of development time’. The assertion by the proposer that the timescales are ‘extremely tight’ could be due to attending AUG Sub-Committee sessions from February 2021 moving forward.

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.

OVO are fully supportive that the 2021/22 AUG Statement production process has delivered a robust result and of the principles as set out by the AUGE. The Final Statement and the methodology moves away from outmoded allocation methodologies based on unreconciled versus reconciled volumes. For example, the new methodology follows a ‘polluter pays’ principle where UIG is allocated in the same proportion as it is created. This goes in line with the government’s ambition in [cutting emissions by 78% by 2035 compared to 1990 levels](#).

It should also be considered that the Weighting Factors used within the 2020/21 report are based on a consumption landscape that is vastly different to that which is currently in place, and therefore are inaccurate when applied to 2021/22.

For example, the COVID pandemic has had a distinct effect on altering gas consumption. It would therefore be inappropriate to “roll over” the Weighting Factors as proposed by 0758.

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.

The Framework for the Appointment of an Allocation of Unidentified Gas Expert stipulates:

(5.1.15) “*The AUG Expert will act with all due skill, care and diligence when performing of its duties as the AUG Expert and shall be impartial when undertaking the function of the AUG Expert, ensuring that any values derived will be equitable in their treatment of Code Parties.*”

Incorporating the AUG Framework Document into the UNC main body, as per 0767, would undermine 5.1.15 by removing its impartiality. It would no longer be able to allocate UIG in an equitable manner, as it must pass its expert decisions by the commercial interests of the individuals that govern the UNC main body.

If the proposer wishes to engage with the AUG at any point during the production of the AUG Statement they may do so through multiple channels, as detailed within the AUG Framework. No party is precluded from engaging in the Statement production process.

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.

Yes, OVO believes a direction on this Modification would amount to a request for the Authority to validate the AUGS and determine whether the Weighting Factors from 20/21 better reflects a fair and equitable distribution of UIG than the AUG’s proposed Weighting Factors for 21/22.

It is OVO Energy’s position that the Authority should not be required to validate the AUG Statement.

- This is an unnecessary duplication of efforts resulting in extra work and costs.
- This undermines the independence of the AUG.

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.*

We believe that the premise on which 0758 is built is misleading and should be taken as an indication of the quality of the modification report as a whole:

“Purpose of Modification: To allow the new AUG 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”

It states that this is the process undertaken previously for the 2013/14 & 2016/17. We do not agree that this is repeating the process undertaken in 13/14 and 16/17. The circumstances under

which the Weighting Table was rolled over in 13/14 and 16/17 are completely different and cannot be used for comparison here.

Not only are these dates pre-Project Nexus, but also the AUGE is very much against rolling over the UIG Weighting Factors for 21/22, unlike in 13/14, and is in no way asking for more time. Let me be clear that no extra time was requested in 16/17.

16/17 was rolled over from the previous year due to conflicting with the implementation of Project Nexus as seen [here](#) - **it is not comparable at all, is therefore misleading, and should be removed from the modification report.**

13/14 was rolled over [at the request of the AUGE](#), as they noted that they did not have enough time to analyse enough data - again, this is not the case with 21/22 and **is not comparable, is therefore misleading, and should be removed from the modification report entirely.**

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

N/a