

## 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.*

<b>Representative:</b>	Rhys Kealley
<b>Organisation:</b>	British Gas
<b>Date of Representation:</b>	4 June 2021
<b>Support or oppose implementation?</b>	Oppose
<b>Relevant Objective:</b>	<b>d)</b> Negative <b>f)</b> None

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

The argument that more time is needed to develop the AUG Table has not been substantiated in the evidence provided by the proposer. The cost uncertainty from potentially rolling over the AUG Table has a negative impact on the securing competition objective (d). We can't see any impact against the efficient code administration objective (f).

We make the following observations on the factors influencing the delivery timelines:

- the incumbent AUG Expert delivered against every milestone and has at no point indicated that more development time was required;
- we understand that a detailed hand-over was provided between the contractors, so the incumbent AUG Expert was not starting afresh – if indeed there has been any time pressure from this aspect of the process, we would have serious concerns over conflicts of interest as the previous contractor has subsequently been engaged by certain shippers to critique the new AUG Expert's work;
- the previous AUG Expert's methodology was more time-intensive and detailed (however as their methodology was reliant on incomplete and biased data this should not be conflated with a more accurate modelling outcome); and
- there were no substantive concerns over the timeline raised before the initial modelling outcomes were available.

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

The advice from the CDSP at a workgroup meeting was that at least two weeks would be required prior to 1 October 2021 in order to make and test the required changes. Less than two weeks would see an increased risk of unsuccessful delivery of the change.

It is noted in the modification report “that it is not intended that there would be a retrospective application of the proposed AUG Table should a decision be made after 01 October 2021”. The legal text as written however implies that retrospective changes to the AUG Table would occur. We oppose retrospectivity on principle, and it would harm the integrity of gas settlements as the rules for retroactive application of AUG factors are currently undefined. It follows that the proposer is bound to withdraw the modification in mid-September if a decision is not available by then.

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

No development costs are anticipated, but impacts will include pricing changes, changes to financial forecasts, and changes in trading positions.

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

As per the comments under Implementation, if not approved by 1 October 2021 the legal text becomes unsafe as it will imply a retrospective change to the AUG Table.

In general, we are concerned that legal text as drafted places a fetter on the Authority’s decision-making process – the subject matter is detailed, and a decision should not be unduly rushed.

**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.*

As per our comments on the draft AUG Statement<sup>1</sup>, we are satisfied that the production process has been robust.

*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.*

We are satisfied that the 2021/22 AUG statement production process was robust and as a consequence has produced a robust result.

A commonly cited concern with the AUG Statement is the attribution of ~14% of small business throughput to theft. As concerning as this may be, it is an outcome of adding the separate EUC sub-bands to the AUG Table (as per UNC 0711). An assessment suggests that had the split EUC bands been in place last year, the previous AUG

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<sup>1</sup> British Gas comments on the First Draft 2021/22 Allocation of Unidentified Gas Statement (AUGS)

Expert's methodology would have arrived at an even higher percentage throughput as theft for small businesses<sup>2</sup>.

*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.*

Given this work is contentious and requires judgements on inherently unobservable variables, it is right that the bar is set high for a UNCC intervention to alter the AUG Table (i.e. a unanimous vote is required).

While we have no visibility of the contract terms between the CDSP and the AUG Expert, we would expect the contract to deal with egregious examples of non-performance (e.g. missing delivery deadlines, non-attendance at industry meetings), but not with contention over the modelling outcomes as we have in this case.

Given the contentiousness of this process we suggest that consideration is given to introducing an independent assurance role in the arrangements, to provide confidence to the industry that the AUG Expert has followed the framework, and that:

- the methodology proposed by the AUG Expert is reasonable;
- the best available data has been used, and that all reasonable steps have been made to triangulate and resolve discrepancies between sources; and
- all judgements where required to be made have been reasonable within the framework of analysis.

We would not expect the assurance provider to replicate the modelling or analytical work undertaken by the AUG Expert.

We see this as a more efficient change to the arrangements than introducing dispute resolution to the process as per the proposals in UNC 0767.

*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.*

Given that the proposer notes that “there is assurance needed to demonstrate that this methodology is an improvement on the previous methodology and not just a change” we take this modification as an explicit request for the Authority to take on a validation role. Given the proposal is to roll-over the current table it also implies an assessment is required of the previous AUG Statement, so that the Authority has confidence it is imposing a more accurate outcome on the market.

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<sup>2</sup> Slide 6, AUG Sub-Committee Meeting slides, 6th April 2021, Engage

**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.*

The legal text implies retrospective reallocation of costs should a decision not be made before 1 October – a straightforward conditional clause could have circumvented this, however the proposer decided not to take this approach.

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

It is important to note that despite many years of development there remained many outstanding issues with the methodology of the previous AUG Expert, for example:

- The previous AUG Expert used a top-down "differencing" approach which relied on accurate assessments of total close out UIG and all other contributors, and assumes all unattributed factors are theft. As a reference point, the previous AUG Expert's forecast of close-out UIG was out by a factor of 3 for 2018/19 and a factor of 2 for 2019/20<sup>3</sup>, leading to inaccurate cost allocations.
- The previous AUG Expert had issues obtaining theft data and was forced to deal with inherent bias within the theft data that was available. This caused non-domestic theft to be underrepresented<sup>4</sup>.

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<sup>3</sup> Page 22, "Allocation of Unidentified Gas Statement (For Gas Year 2021-2022) v1.2", Engage

<sup>4</sup> "British Gas comments on the Proposed Allocation of Unidentified Gas Statement (AUGS) for 2020/21", <https://www.gasgovernance.co.uk/augenex/2021>