

## Representation Draft Modification Report

### Modification 0758 - Temporary extension of AUG Statement creation process

1. **Consultation close out date:** 4<sup>th</sup> June 2021
2. **Respond to:** [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)
3. **Organisation:** Gazprom Energy  
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Manchester  
M15 4RP
4. **Representative:** Steve Mulinganie  
Regulation Manager  
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0799 097 2568 / 0751 799 8178
5. **Date of Representation:** 4<sup>th</sup> June 2021
6. **Do you support or oppose Implementation:**  
We **Support** implementation of the Modification

**7. Please summarise (in 1 paragraph) the key reason(s) for your position:**

Gazprom Energy and a number of other stakeholders have raised concerns, throughout the process, in relation to the Allocation of Unidentified Gas Expert (AUGE's) proposals for 2021/22 including compliance with the Framework for the Appointment of an Allocation of Unidentified Gas Expert (the Framework Document). As such we believe the current AUG Table for 2021/22 is less robust when compared to the AUG Table for 2020/21 which we agree with the proposer should therefore be carried forward for 2021/22.

In particular, we believe, the proposals for 2021/22 are unduly detrimental to Small & Medium Enterprises (SME), including Micro Business, consumers. The proposals are based on an assertion that circa 14% of SME throughput is attributed to theft. Despite this being challenged as being self-evidently erroneous throughout the process, no further justification has been provided and it has been retained. Thus, the proposals assert that circa 1 in 7 SME, including Micro Business, customers are stealing gas. As noted, this challenge, amongst others, have not been addressed and the outcome of the data driven approach has been retained.

We therefore believe that due to: -

- The limited time available to a new AUGÉ within the current process to develop a robust set of proposals based upon a polluter pays principle
- The failure, in our opinion, to adequately address concerns raised throughout the stakeholder engagement
- The detrimental impact on particular classes of customers including Micro Business
- The fundamental changes to the methodology being proposed
- The issues in relation to compliance with the Framework Document

then **this modification should be implemented** to allow sufficient time for the new AUGÉ to adequately address the issues that have been raised.

**8. Are there any new or additional Issues for the Modification Report:**

**No**

**9. Self-Governance Statement Do you agree with the status?**

**NA**

**10. Relevant Objectives:**

*How would implementation of this modification impact the relevant objectives?*

We **agree** with the proposer that this modification is positive in respect of Relevant Objective (d) & (f)

**11. Impacts & Costs:**

*What analysis, development and on-going costs would you face if this modification was implemented?*

We **have not** identified any significant costs associated with this modification

**12. Implementation:**

*What lead times would you wish to see prior to this modification being implemented, and why?*

We would like to see this modification **implemented as soon as possible** ahead of the 1<sup>st</sup> October 2021. Based on the Value at Risk (circa £100m's) we would expect Ofgem to prioritise a decision in line with its approach to other recent high value modifications.

**13. Legal Text:**

*Are you satisfied that the legal text will deliver the intent of the modification?*

We **have not reviewed** the Legal Text provided.

**14. Is there anything further you wish to be taken into account?**

*Please provide any additional comments, supporting analysis, or other information that you believe should be taken into account or you wish to emphasise.*

**Yes**

We would note that recognising the deficiencies in the current arrangements in relation to the Governance of the Framework Document we have raised Modification 0767 - Incorporation of AUGÉ Framework Document into the UNC main body.

**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.

We do not believe this has been done robustly for the reasons set out above and further outlined in the ICoSS letter in March 21 which detailed an assessment of the process against the Framework Document.

We would note that no new AUGÉ has ever managed to develop a robust process in a single year and we therefore support providing more time to the AUGÉ to complete its task thus repeating the process undertaken previously for the 2013/14 & 2016/17 AUG Years.

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.

Please see also see our previous comments above pertaining to our reasons for supporting this modification.

We would note we have been fully engaged in the annual AUGÉ process and have previously communicated our concerns at relevant points that there have been and continue to be a number of areas where the methodology developed does not seem to have been to a suitable standard for a process dealing with the allocations of £100m's.

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 current Governance arrangements for the AUGÉ have to strike a difficult balance with such a high level of interest in its output. However, we believe that we have identified a hitherto material unidentified deficiency in the existing process. The requirement that the AUGÉ complies with the Framework Document is key to stakeholder confidence, as we are not parties to, nor have sight of, the AUGÉ service contract. The Framework Document clearly allows for issues of compliance to be escalated to the UNCC however as we have found out this year, when matters have been escalated in accordance with the Framework, Document the UNCC have been unable to address those concerns.

Recognising this deficiency and wishing to avoid the need for future modifications, we have raised Modification 0767 - Incorporation of AUG Framework Document into the UNC main body to ensure that this will not be an issue in the future.

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.

We believe the Modification should be considered in the context of its impact on the Relevant Objectives and any consequential impact arising as a result of a compliant modification is therefore out with the viries of this process.

However, in answer to the question we do not believe it creates such a role as the **Authority is not being asked to validate the AUG Statement**. Instead, it is being asked to judge whether the use of allocation factors from a new AUG Statement, developed in under a year by a new AUG, which many parties have indicated concerns furthers the relevant objectives more than this proposal to use a tried and tested set of factors developed over many years.