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Dear Tony and Andy,

British Gas consultation response to the First Draft 2018/19 Allocation of Unidentified Gas Statement (AUGS)

As per the First Draft Allocation of Unidentified Gas Statement for 2018/19 report of the 1st February, please find attached the British Gas consultation response.

Please feel free to contact me if you have any questions regarding our response.

Yours sincerely

Rhys Kealley
Head of Industry Change

British Gas consultation response to the First Draft 2018/19 Allocation of Unidentified Gas Statement (AUGS)

March 2018

British Gas welcomes the opportunity to comment on the draft Allocation of Unidentified Gas Statement 2018/19. We would like to suggest the following areas for further development of the methodology, as outlined in the draft statement.

1. **Impact of DM Errors identified during Nexus Transition on the Total Unidentified Gas Calculation**

From the Q&A from the 9th February AUGS walkthrough:

> Q7: Have the DM Errors identified during Nexus Transition affected the Total Unidentified Gas Calculation?
>
> *A: The Total Unidentified Gas Calculation for the 2018/19 AUGS has used data which is solely pre-Nexus Implementation and as such the DM Errors post Nexus have no impact.*

The transition to the post-Nexus regime has revealed some long-standing issues with read submission for daily and monthly read sites, previously masked by 'fuzzy matching'.

While we understand that a degree of maturity is required in the data to assess permanent UG, these DM Errors are baked into the historic data, and a robust assessment of the available post-Nexus data needs to be undertaken to back out the impact DM site issues will have had on UG.

2. **Allocation of Balancing Factor to PC 1 sites**

We note that no theft has been recorded from a DM site, and while we are satisfied to accept that wilful theft is unlikely to occur at DM sites, there are often metering arrangements that feasibly allow for unregistered consumption. As examples, unregistered consumption can occur during site maintenance, or when a meter bypass is used. This should be accounted for in the allocation of the Balancing Factor. Specifically, a Balancing Factor allocation of zero is not appropriate for PC 1 sites.

3. **Smart Meter theft levels**

Some clarity should be provided about which features of smart meters make them less prone to theft, and the degree to which AMR meters should be treated the same as smart meters.

In terms of the levels of theft via smart meters, we oppose the level indicated in the draft statement (taken as the mid-point of the upper and lower bound). The BEIS Cost Benefit Analysis notwithstanding, at this point of time there is not sufficient evidence for the theft levels for smart meters to be differentiated from those of dumb meter levels. More practical operational experience would be required to do so.

4. **Smart Meter population**

There was some discussion at the 9th February walkthrough as to whether it was appropriate to take start-of-year values for smart meter population.

In terms of smart meter installations, we consider a mid-point value to be more appropriate. In addition, rather than a linear projection of installations, there is also some safety in assuming an accelerating rate of installations across the industry.

We also note that the BEIS smart meter report significantly underestimates non-domestic installations, as only Big 6 and large mid-tier suppliers are required to submit data to BEIS. There are also pre-SMETS smart meters in the market that offer the same theft benefits as smart. These won't be recorded in the BEIS figures as they don't count towards the mandate – there are of the order of several hundred thousand of these meters installed.

5. Shrinkage Error and other uniformly allocable sources of UG

We note that the AUGE Framework has been updated to exclude Shrinkage Error from the Unidentified Gas analysis. For completeness, a comment from the AUGE on the impact of this exclusion would be appropriate i.e. given that this error is embedded in the data, what impact does ignoring it have on the rest of the analysis?

While this debate has been taken outside the remit of the AUGE, it is worth reiterating our position: that treating shrinkage error (in effect) as theft introduces a market-wide inefficiency, and that shrinkage error should be firmly in the scope of the AUGE's review of UG, in line with the treatment of all other sources of error.

Perhaps less controversially, we propose that the AUGE includes in their methodology a catch-all for UG sources not yet known about. These sources are currently treated as theft, and it is our view that they should more rightly be smeared across all Product Classes equally. This non-specific, non-theft, uniformly allocated factor could in the first instance be set to zero, although it could also naturally accommodate CSEP Shrinkage and other directly measured components (such as metering error).

We remain convinced that UG is higher than the AUGE's current estimate, and that not all of this delta is comprised of theft. We look forward to future assessments of the current (post-Nexus) regime, that will reveal a truer estimate of UG once reconciliations have matured sufficiently.

6. Statistical house-keeping

Any commentary that the AUGE could provide on the confidence interval on the estimates of the Permanent Unidentified Gas and Balancing Factor would be appreciated.