



# AUGE Response to the draft AUG Statement Consultation for Gas Year 2023-2024

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### INTRODUCTION

The draft AUG Statement was published by the Joint Office of Gas Transporters on 29<sup>th</sup> December 2022. Alongside this, we provided a consultation document requesting stakeholder views on the Weighting Factors, our overarching methodology and any assumptions, methodology aspects, calculations and results for each UIG Contributor within the draft AUG Statement.

We thank stakeholders for their consideration of the draft AUG Statement. We received two responses to the consultation which are available separately on the Joint Office website.

Each response addressed a specific element of the methodology and so our approach to addressing them is to summarise the points made in turn, provide our related commentary in each case. We will not run through the original consultation questions given that most were not addressed by industry.

We will present the views summarised in this document, and our response to them, at the AUG Sub-Committee on 17<sup>th</sup> February 2023. There will be an opportunity for discussion for any interested party, and we will welcome any further views at this meeting, whether or not they have already been shared as part of this consultation process.

### CONSULTATION RESPONDENTS

RESPONDENT	NO. OF PARTIES REPRESENTED
British Gas	1
TotalEnergies Gas and Power	1



## STAKEHOLDER RESPONSES AND AUG CONSIDERATIONS

### Impact of UIG costs on prepayment customers

British Gas raised the following points:

- All other prepayment EUC bands have the same weighting factor as their non-prepayment counterparts, and it is only small domestic prepayment customers who are treated differently in this way. The consultation document states that this is due to limited data, but we question the equitability of such an approach.
- Is it not fair and equitable to allocate almost 6 times more UIG to small domestic prepayment customers compared to non-prepayment customers. The weighting factors for prepayment and non-prepayment domestic customers should be equalised across product class 3 and 4 separately.
- Applying the “Polluter Pays” approach at a meter type level is unfair because in the case of gas theft, by definition, the polluter is not paying: the approach places the cost of theft increasingly on those who are not stealing gas simply because theft detection rates have been higher for customers with similar meter types. The “Polluter Pays” approach should be applied at such a granular level.

*Our response:*

British Gas correctly point out that prepayment and credit populations are combined in other Bands for the purposes of calculating Weighting Factors. In these cases, because of small populations, one-off data items can have a noticeable and often distortionary impact on Weighting Factors. For this reason we calculate a combined Weighting Factor where prepayment populations are very small.

The domestic prepayment sub-bands 1PD has a relatively large population. The justification for combining sub-bands 1ND and 1PD would therefore be different, that is, owing to the disproportionate knock on impact on energy prices to a specific consumer group of high UIG allocation to the 1PD Matrix Position. This leaves us considering the validity of this justification against the AUG’s agreed Terms of Reference.

We have discussed the proposal to equalise credit and prepayment Weighting Factors with British Gas. Our understanding of this proposal is that it is intended to achieve the eradication of the differential in UIG-related costs between customers on credit and prepayment meters.

We set out to them the following possible options and their potential outcomes:

- Option 1a: Reconsider the inputs driving the differential – Detected theft data
- Option 1b: Reconsider the inputs driving the differential – Matrix Position populations (CDSP data)
- Option 2: AUG unilaterally combines certain Matrix Positions to achieve a common Weighting Factors
- Option 3: Industry modification specifies the combination of certain Matrix Positions to achieve a common Weighting Factors

Options 1a and 1b are part of the ongoing cycle of AUG data and methodology validation. The annual prioritisation process is likely to bring about an increased focus on both, however both options will not



conclude before the final 2023-2024 Weighting Factors are published and neither is likely to remove completely the differential between credit and prepayment UIG.

We have considered whether undertaking Option 2 is consistent with the AUGE's Terms of Reference, which we broadly consider to be to bring about an equitable allocation of UIG between *Code Parties* (Shippers). That has meant a strong focus on impartial and objective reflection of the sources of UIG.

It is clear that the AUGE's methodology results in very different UIG-driven costs falling on credit and prepayment customers. This is an unfortunate outcome of:

1. The high relative proportion of detected theft at prepayment meters;
2. The existence of separate credit in prepayment categories Bands 1 and 2, and;
3. The inability under current domestic tariff arrangements to determine the way that UIG costs are passed through to end users.

However, we believe that the AUGE enacting unilaterally a methodology change to eliminate the differential in treatment of end users goes beyond what we have sought to achieve to date and the Terms of Reference that we adhere to.

We are aware that Option 3 has been progressed by a Code Party. We have provided some information to assist the proposer and will further support the modification process where appropriate and as requested by Corella, Ofgem or Code Parties.

Our interpretation of the Polluter Pays principle with reference to calculation of Weighting Factors is that cannot go to a granular level. The Matrix Positions in the Weighting Factors table mean that the most granular UIG falls in the Matrix Position in which it is estimated to arise. Put differently, those Shippers active in the Matrix Position take a proportionate share of the UIG costs that arise.

We agree that this means that the costs of theft fall on customers who pay for their energy rather than those who steal it; but currently the costs do fall in the sector of the market where the evidence suggest relatively more theft takes place. That is the most granular level that the AUGE can work at when allocating UIG.



**Increasing Consumption Forecast for Class 3**

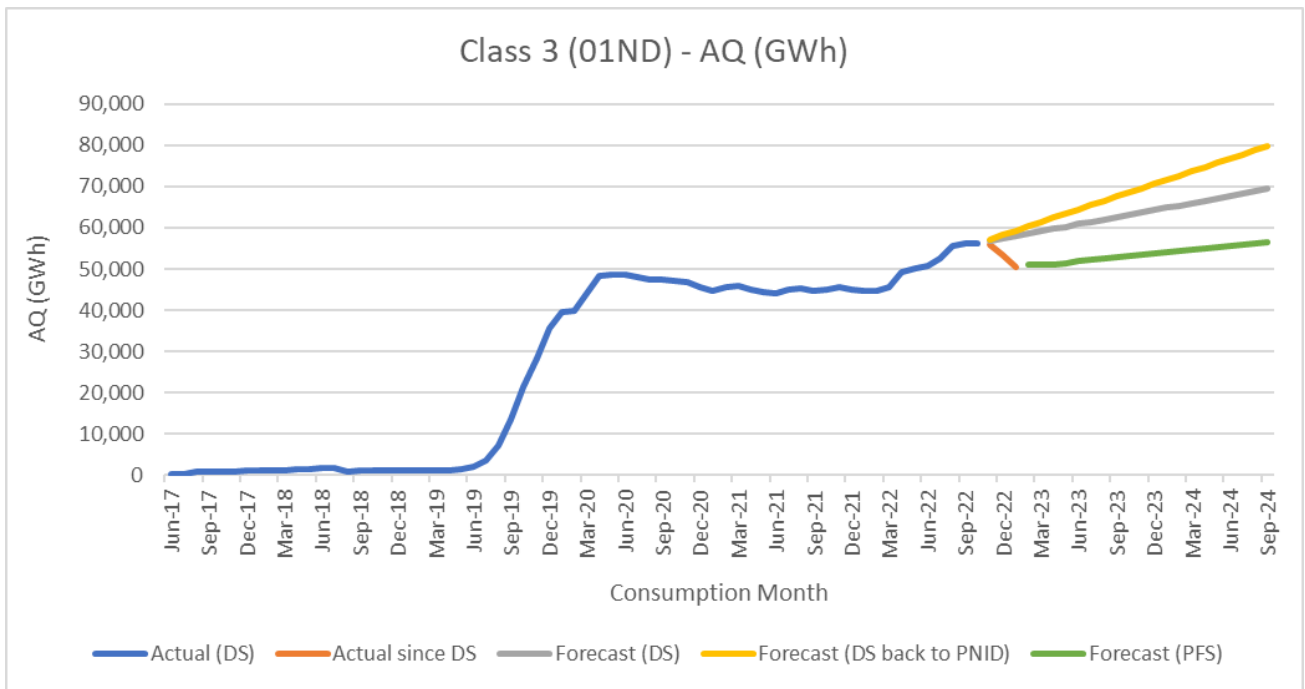
TotalEnergies noted that Consumption Forecast for SPC3 is assumed by the AUG to increase despite reducing AQs, questioning whether there was evidence to support further significant site migration to Class 3.

*Our response:*

We thank the respondent for highlighting this. It is good to ensure we have considered all relevant factors in making our consumption forecasts for the target Gas Year.

The figure below is helpful in showing the uniqueness of the total consumption profile in Class 3, and how our forecast for this Class is determined. The consumption profile shows the extent of the impact of sites transitioning into Class 3, with the most marked transition taking place over 6 months from June 2019.

If we were to overlook this sudden ramp up, we might draw a trend line from June 2017 to the target Gas Year. The result would be the yellow line, forecasting in the region of 75,000 GWh of consumption. However, our methodology does in fact account for the unique growth in sites in Class 3 by taking a trend from October 2019 only. The result for our draft Weighting Factors (grey line) was a forecast consumption in 2023-2024 of 65,372 GWh (mid-point).



Note on key: DS = Draft Statement; PFS = Proposed Final Statement

Since publication of the draft Weighting Factors, we have received further recent consumption data to inform our forecast for the target Gas Year. This data has shown a marked impact of reducing AQs that was not apparent in the data available for the draft Weighting Factors. The effect of this new data is shown above in orange.

We do not consider that the impact of reducing AQs will continue to have such a marked effect on total AQ across Class 3 sites as we have seen over the last three months. Our forecast therefore assumes a continued increase in total consumption because the gradual transition of sites into this population will still outweigh the effect of reducing AQs. However, as shown by the green line, our forecast for the

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proposed Final Weighting Factors has shifted downwards from 65,372 GWh, with more gradual rise to 54,370 GWh between now and next Gas Year.

In summary, we can confirm that the draft Weighting Factors for Class 3 were based on a dataset starting only in October 2019, to prevent a disproportionate impact of the historic rapid transfer of supply points into this Class. We can also confirm that whilst our methodology will remain unchanged, the data refresh incorporating AQ values from November 2022 to January 2023 has had a marked impact on our Consumption Forecast used for the proposed Final Weighting Factors in Class 3, with total consumption in this Class some 11,000 GWh lower than used for the draft Weighting Factors.



### Allocation of theft

TotalEnergies noted a continued unease in the way theft is allocated, and difficulty in explaining and substantiating the associated cost to customers.

*Our response:*

We recognise the commercial implications of such a large proportion of UIG attributable to theft and there the importance of a transparent and robust methodology for its allocation.

Given its importance, we have this year focussed heavily on working with the detected theft data and considering alternative approaches for UIG allocation. We expect that this should remain the focus of future investigations. RECCO's theft estimation methodology is an alternative source of assumptions that was published too late to have a bearing on our thinking this year. It suggests a materially lower annual level of gas theft than our methodology, and we will continue to study its output and any inputs we can source.

In the meantime, we repeat our offer from previous years to explain in bi-lateral discussions any elements of the Statement or methodology that are not clear.

### NEXT STEPS

We will present our views described in this document at the AUG Sub-Committee meeting scheduled for 17<sup>th</sup> February 2023. This will be an opportunity for stakeholders to ask further questions and for us to add some more detail to the explanations we have given above.

A link to the documentation for that meeting can be found here: [AUG Sub-Committee 17 February 2023](#).

We will then consider feedback provided by stakeholders at that meeting and whether any further amendments to the AUG Statement for Gas Year 2023-2024, additional to those listed in this document, should be made.

Should you require clarification on the consultation, please do not hesitate to contact us at: [auge@engage-consulting.co.uk](mailto:auge@engage-consulting.co.uk).







Call us on **02074 050740**



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