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DNV GL

9th May 2017

AUGE proposals regarding potential shrinkage error and allocation of UAG in AUG year 2017/2018.

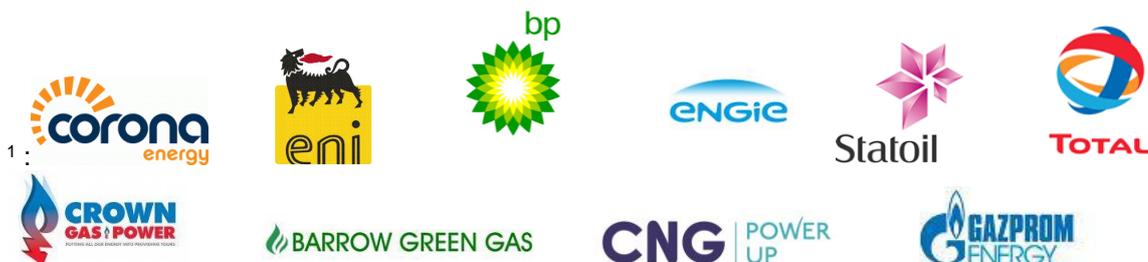
The Industrial and Commercial Shippers and Suppliers (ICoSS) group is the trade body representing non-domestic industrial and commercial (I&C) suppliers in the GB energy market. Members collectively supply three-quarters of the gas needs of the non-domestic sector as well as half of the electricity provided by non-domestic independent suppliers¹.

We are writing concerning the letter (“**AUGE Letter**”) written by the AUGE responding to ICoSS members’ concerns regarding the proposals presented at the industry meeting on 13th April 2017 to utilise a third-party report into the shrinkage model as the basis for determining the alleged shrinkage error present in Unidentified Gas for 2017/18, despite this report having already been considered via established industry shrinkage processes.

We are concerned that our response of 14th March 2017 (“**ICoSS Response**”) and the follow up letter of 19th April 2017 (“**ICoSS Letter**”) has been misinterpreted and that the AUGE has not considered our concerns regarding this proposal to the degree that we believe is required.

With reference to our expectations regarding shrinkage, it would appear from the AUGE Letter the ICoSS Response has been misunderstood. We refer you to our statement in the ICoSS Response:

*“The AUGE should undertake a true assessment of shrinkage error and **report separately** [emphasis added] on its materiality using the sources identified above as well as any additional data sources it has identified”.*



This is a clear indication that we do not expect any shrinkage error to be included in the AUGS, but believe it should instead be evaluated separately.

Our follow-up ICoSS Letter is consistent with this approach and we do not concur with the assertion made in the AUGE Letter that it is not. For the avoidance of doubt, we would like to reiterate that ICoSS does not believe that the AUGE should be seeking to include any form of shrinkage error in the Unidentified Gas calculations.

With regard to the statement regarding the AUGE's vires, in the AUGE Letter you make the point in relation to our referral to the GDN's communication regarding the EUK report:

"The above documents are the GRG Shrinkage study and a response from the GDNs (not the Shrinkage Forum)"

This highlights a key issue that may have been inadvertently overlooked by the AUGE– the Shrinkage Forum, referred to several times in the AUGE Letter, has no formal vires and should be not treated as having such. We would like to draw your attention to the fact that the Transporters, under Special Condition 1F of their licence, are obliged to develop a Shrinkage and Leakage Model and, under TPD Section N of the UNC, are obliged to assess shrinkage volumes. Therefore, the statement which we referred to in the ICoSS Letter should be taken as a definitive response from the organisations responsible for assessing shrinkage rather than as stating an opinion from a group of parties.

Finally, we note that the AUGE itself would appear to be at variance with its own previous statements regarding shrinkage, including that contained in the draft AUGS, published 1st February 2017:

"The AUG Expert process is not an opportunity to deal with/investigate issues within the gas industry that should be addressed by other workgroups (e.g. Shrinkage Forum)."

and

"6.1.2 Shrinkage Error is not a component of UG, and hence no attempt is made to estimate it directly".



We agree that the AUGE process should not be attempting to include shrinkage volumes in the calculation and have reflected this viewpoint in the ICoSS Response and ICoSS Letter.

We are somewhat concerned that it has been necessary for us to write again to reiterate our disagreement with the assertions made in the AUGE Letter. We feel that the AUGE has not properly considered the concerns raised in the ICoSS Letter, namely that the AUGE may be going beyond the agreed boundaries of its scope and potentially contradicting the work of the Transporters in discharging their licence obligations.

We therefore reiterate our belief that the aspects of the AUGS regarding shrinkage should be removed, with any concerns relating to the Transporter's determinations being dealt with under the appropriate Governance.

Though the AUGE is due to complete its work soon, we note that there is a precedent in deviating from the established industry timeline as the AUGE did for the development of AUGE statement 2, on the basis that a more accurate assessment of Unidentified Gas would be delivered. Given the potentially material issue this represents, we feel that there is a compelling argument to do so again.

Should the AUGE feel that it is unable to do this, we will then be forced consider corrective action in relation to this issue, potentially by seeking to amend the AUGE process to remove this cross-subsidy from the market and to re-evaluate the current Unidentified Gas and shrinkage frameworks.

Yours sincerely

A handwritten signature in black ink, appearing to read 'G. Evans'.

Gareth Evans
Chair ICoSS

[cc. Ofgem (Jonathan Dixon)
UNCC (via Joint Office)