

BRITISH GAS RESPONSE TO REVIEW OF AUG YEAR 2016/17

Dear Fiona,

Thank you for the opportunity for allowing us to respond to the 2016/2017 Allocation of Unidentified Gas (AUG) process. We would have like to have provided a more comprehensive response, but due to time pressures we are only able to list our key concerns. To provide clarity we are happy to expand on these points at a later stage.

We note that whilst this was the first year of the new arrangements, the new process built upon the previous arrangements and many involved in previous year's arrangements were involved with the new arrangements. Given how 'bumpy' previous year's activities had been, we were looking forward to a fresh start. Unfortunately this year's activity encapsulated all the problems with previous AUG processes, which is a surprise and a major disappointment. This was reflected in the unanimous decision by The Committee that a review was required.

Key concerns -

- The AUG output is non-compliant with Code, section 9.4.3 (f) – the AUG Statement and AUG Table still do not align. How do we ensure in future years the obligation is correctly delivered and the Statement and Table align?
- The Legal Text and Guidance document still do not align. One example is that Guidance Document 7.1.9 and Modification 0473 does not require a second vote to approve the AUG Table. Somehow the Legal Text requires a 2nd vote to approve. Should the intention of the modification and the guidance document be reflected in the Legal Text? How should this be corrected? How should it be made more clear what document takes precedent under Code?
- The detailed activity of the AUG is documented in the AUG Guidelines. Once the AUG statement is approved, the AUG is not able to change the methodology. Under pressure the AUG undertook additional 'in-house' consultation activity. In the future how do we ensure all activity is transparent? How do we ensure the AUG only undertakes the activity set out under the rules?
- Further to the DMV GL 'in-house' consultation activity, when the AUG presented their procurement proposal the extent of the 'AUGE team' it did not include the unsolicited 'experts' documented in the Final Factor Table letter. This raises several concerns.
 - Should the AUG be able to approach anyone outside of the known team without approval from those paying for the contract or should there be some control?
 - We understand the unsolicited DNV GL expert's roles extend to the GT Mains replacement programme. Whilst their intentions are not in question, it would be a surprise if they ruled in favour of the independent Imperial College Study, as this would conflict with their consultative activity, signing off the GT mains replacement project. Therefore how independent or impartial were these experts? Should the AUG be able to introduce such a clear conflict of interest into the process?
- The unsolicited experts state the shrinkage error is not zero. The Imperial College Study states it is not zero. Customers are now knowingly being charged for shrinkage-error. How is it correct the AUG calculates the GDN shrinkage error to be zero? How do we de-politicise the AUG to work towards the correct answer rather than the answer they are pressurised to deliver? We have seen this previously and remain concerned.
- Should there be a new consultation cut off period, observed by all parties or can members provide new information to lobby/influence the AUG up to the Final AUG Table is published?
- Shippers and their relevant suppliers are required to price contracts in advance of the new gas year. The AUG updates resulted in huge swings in cost and pricing impacts for customers. This created operational inefficiencies with pricing teams reworking some contracts and downing tools until the position was known for other contracts. How do we ensure pricing volatility is reduced going forward?
- Further to the pricing swing, British Gas sought reassurance from Xoserve on multiple occasions that once the AUG Statement was approved the Final AUG Table numbers could not change significantly. At several meetings Xoserve's response was that output could not then change significantly. We don't accept a net swing of millions of pounds from PC1 customers to non-PC1 customers is not a material change. We have a ongoing concern relating to the lack of transparency of the contractual arrangements in place with the

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AUGE. As Xoserve are the contracting party of the AUGÉ, how can Xoserve be in a better position to own and manage the relationship with all parties and ensure Xoserve customers are correctly informed and kept abreast of information?

- British Gas requested a compliance statement to ensure the AUGÉ Code process was followed and to ensure compliance with the AUGÉ contract. We are very grateful for the open and honest response, but at the same time it was very unhelpful and raised concerns.
 - The response did not step-by-step go through the AUGÉ process detailed how compliance was achieved. Therefore it did not address concerns or provide a complete compliance statement.
 - Instead Xoserve responded to the questions only, stating the process was compliant. Xoserve's response conflicts with the AUGÉ's own information, whereby they wrote a letter to explain why they had taken additional non-codified activity to amend the final table at the final stage of the process.
 - Xoserve's own response to question 2 contradicts itself, whereby it states additional analysis [was carried out by DNV shrinkage experts] indicated that a 20% figure for Shrinkage error was not justifiable, but a detailed expert assessment was not allowed without a change to the methodology? But the unsolicited experts output did result in a change in methodology whereby shrinkage was reset to zero. How can this not be a change in methodology, which in Xoserve's response says is not allowed under the rule and therefore how can this be compliant?
 - Xoserve state that 'as the current AUGÉ is DNV GL, a statutory company and part of an international group, rather than any one individual, we can expect them to bring a breadth and depth of technical knowledge to the assignment, depending on the issues that arise in any year'. Where in the rules is it stated DNV GL can call on anyone associated within the company? If this is possible in the contract, does the contract need amending? Again, we are concerned at the lack of transparency.
- How do we ensure the AUGÉ activity is clearly documented in the future, whereby rules are robust, strictly followed and transparent? Xoserve responding everything is okay, the process has been followed, when they clearly haven't is not helpful to its customers who have to manage the mess that has been created. Without admission that things could be done better, how will the process improve? We believe this is part of the reason why the new arrangements have been no better managed than the previous arrangements. How do we change Xoserve's culture to be more customer focused in this area?

Kindest Regards,

Andrew Margan



Fiona Cottam
Business Process Manager
Xoserve
Solihull
B91 3DL

15/09/17

Allocation of Unidentified Gas (AUG) Process 2017/18 – Request for Feedback

Dear Fiona

Thank you for the opportunity to feedback on this year's AUG process. There are some specific points that are pertinent to this year's process that we would like to raise, in particular for consideration on how issues that have arisen could be avoided in future.

The key process area that we feel requires feedback is the addition and amendment of shrinkage estimates into the draft AUG factor table and statement. In the draft statement, the AUG noted that the Imperial College study had highlighted a potential error or bias of up to 20% in the existing model. As a result, the AUG incorporated this point and value into the weighting factors in the draft table, the methodology of which was approved by the UNCC Committee in May, in line with the process timetable.

However, on 30 June, the AUG released the final table with amendments to the factors which were due to a change of view on the shrinkage estimates. The AUG stated that further advice had taken place on the shrinkage error estimates incorporated from the Imperial College study, but that this additional advice had resulted in a rejection of the 20% estimate. The view was taken that the figure was not 20% but also wasn't zero (that it was felt that there remained some error or bias) but there wasn't the opportunity or remit to estimate what that figure could be.

The AUG makes the point that as the original methodology had been approved in May, there was therefore no further opportunity to revisit the shrinkage estimate by creating a new calculation to do so. However, the original draft statement that was approved makes no real mention of an underlying 'methodology' for calculating shrinkage, rather that the methodology is a matter of taking a directly estimated error percentage and applying it to the transporters' total shrinkage estimates for the relevant year.

It could be argued that as the methodology that was approved specifically included a stated error figure (with no reference to a supporting underlying calculation, more to

npower

Npower Group plc
Trigonos
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

T +44(0)1793/87 77 77
F +44(0)1793/89 25 25
I www.npower.com

Registered office:
Npower Group plc
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England
and Wales no. 8241182

the study itself), the complete removal of the stated and approved error figure (without replacement with another figure) was not appropriate. It's also not clear that the approval of the shrinkage error methodology necessarily precludes another calculation, as in the methodology it states that only an error percentage is needed to be applied to the shrinkage estimates:

"The current best estimate of Shrinkage Error is that the models contain an inherent bias that results in an under-estimate of approximately 20% [16]. For each training year only a single figure for total Shrinkage bias (in GWh) is required, and this is obtained by applying the error percentage to the total Shrinkage estimates for the year from each Transporter's Shrinkage statements."

This approach leaves the unsatisfactory conclusion at the end of the process whereby it is acknowledged by the AUGÉ that while the 20% shrinkage error figure is now no longer supported, it is still believed that there is a degree of error, which has not been included in the weighting factors.

This unsatisfactory conclusion raises further questions and points. There should be some thought about what constitutes methodology when using directly estimated figures. In this instance there is a lack of clarity where an existing study's directly estimated figure was accepted but then taken out completely (but with this study being the basis for the approved methodology).

Also, we feel it is worth noting that while there is a specific route for transporters to deal with shrinkage, if there is intelligence and information that would lead the AUGÉ to conclude that shrinkage error or bias is contributing to unidentified gas, then it is right and proper that the AUGÉ consider that information, but the issues with this year's process related to shrinkage are taken into consideration and smoothed out in future process years.

We hope these comments are useful, and we would be happy to expand or discuss further if required.

Yours sincerely

Maitrayee Bhowmick-Jewkes

Regulatory Change Analyst

Email: maitrayee.bhowmick-jewkes@npower.com

Mobile: 07468715176

Fiona Cottam
Business Process Manager

14th September 2017

ICoSS Response to AUGE annual review consultation 2016/2017 The Industrial & Commercial Shippers & Suppliers (ICoSS) is the trade body representing the majority of the GB non-domestic energy market. Our members, who are all independent Suppliers, in total supply in excess of three quarters of the gas and half the electricity provided in the highly competitive non-domestic market.

As we have communicated before we have a number of concerns over the scope and robustness of the Allocation of Unidentified Gas Expert (AUGE) process and also the quality of assessment that is currently being undertaken as part of the AUGE process. We would propose that the contract arrangements that underpin the AUGE process is re-evaluated to provide clarity on scope and to ensure that the process is undertaken to an acceptable standard.

AUGE Scope

The AUGE has been contracted to perform a specific task, which is to assess the source of the losses that occur downstream of the Emergency Control Valve and hence are the responsibility of the shipper community. For the avoidance of doubt this assessment is one of a number of processes that make up the gas settlement regime, along with the demand estimation process, submission of meter readings (both by shippers and transporters) and the shrinkage process.

Each of these processes must have a clearly defined scope that does not impinge on the other aspects of the gas settlement regime; otherwise they will result in an overlapping or inconsistent apportionment of cost across industry parties, to the ultimate detriment of the market and the customer.

The AUGE, during its deliberations has the opportunity to review the workings of the current market regime and inevitably part of that process will involve an assessment of areas outside of its remit. Where the AUGE identifies areas of concern it should note them and to that end, ICoSS was supportive of the AUGE highlighting the existence of a potential error in the shrinkage calculations.





However the identification of issues in another process, does not mean that the AUGE should seek to unilaterally correct the problems identified.

The initial proposals by the AUGE to contradict and effectively override the current shrinkage estimate determined by the transporters was inappropriate and, if it had been included in the final AUGE table, would have undermined the integrity and independence of the current shrinkage process.

The fact that it was even suggested demonstrates a serious lack of clarity with the current contractual terms of reference and scope of the AUGE. Clearly the AUGE believed it could base its assessment (and affect the apportionment of losses to shipper) on any error it believes exists anywhere in the market.

It is essential therefore that there is clarity on the AUGE's ultimate scope and that it is limited in future to assessment to the area required, i.e. the sources of Unidentified Gas that are **downstream** and not already covered by other industry process.

Indeed we suggest that a revision of its current contractual terms of reference (with the terms clearly set out in the UNC) be undertaken.

AUGE Assessment

The materiality of the AUGE's final proposals is significant, affecting as it does the apportionment of millions of pounds of costs to shippers each year. It is important therefore that this process is robust and transparent so that all involved accept the proposals, minimising the chance of the findings being challenged.

The process followed this year sadly did not achieve this aim. Firstly, as referenced above, a substantial portion of the Unidentified Gas identified was initially attributed to shrinkage error. Not only was this an inappropriate overlap with the shrinkage process, the evidence that this was based upon had previously been considered by the Shrinkage Forum and was ultimately deemed by the AUGE to be inadequate, resulting in a substantial last minute adjustment to the final scaling factors.

This volatile change to the values through the development of the AUGE statement is highly concerning and brings into question the robustness of the assessment undertaken.





Though this was the most material issue, there are other areas which also were not fully and robustly assessed. Outside of the poorly-founded attempt to hive off a large amount of gas to the shrinkage process, there does not seem to have been any meaningful attempt to further assess the balancing factor; the vast majority of Unidentified Gas.

In particular though substantial datasets on the location of theft by EUC band exist, no attempt was made to assess these and provide a more accurate allocation of gas theft by market sector. It was also surprising and disappointing that it was only through engagement with the wider industry that the AUGE became aware of the existence of external information of the progress of the smart meter rollout; a simple google search would have obtained this information.

It is also disappointing that the AUGE did not inform the industry as soon as possible that its engagement with the Theft Risk Assessment Service (TRAS) was stalled; we would expect cooperation between industry service providers and where this is not forthcoming the industry should be made aware immediately so any issues can be resolved.

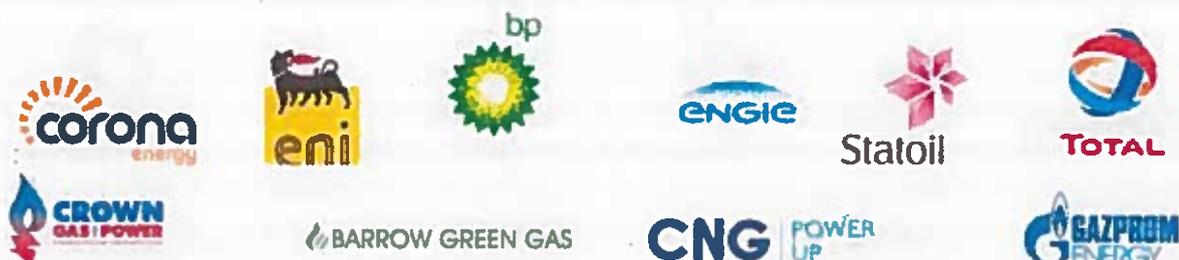
It is also unclear as to why the AUGE abandoned the long-standing principle that sites that are daily metered (voluntary) are not significant contributors of Unidentified Gas. Such a substantial shift in principle should be backed up by significant evidence as to what has changed, but we are not aware of any such assessment.

Owing to this apparent lack of assessment of the various aspects of Unidentified Gas, we are not confident that the work completed is as thorough as it needs to be. This concern is exacerbated by the lack of transparency in the calculation process.

Transparency

Finally the transparency of the process is also a cause for concern. Practically none of the information the statement is based upon has been made easily accessible, through the Joint Office website. This is part of a worrying trend where Xoserve places the majority of its information behind firewalls, even though it is not commercially sensitive in any way.

As we have stated before to Xoserve, for smaller suppliers this is a barrier to engagement as they tend to rely on one or two key individuals who will be the only ones with access and so for others to work on the information provided this have to be obtained by those key individuals. This limits engagement as it places unnecessary barriers on obtaining the data.



There is also very little transparency on the contractual basis on which the AUGE is appointed and managed. For example the contractual length for which DNV GL is contracted for is not known. Now that Xoserve is managed under a co-operative model, shippers should be made aware of the contractual terms under which the AUGE operates including termination clauses.

Next Steps

As set out above, and also in our submissions during the consultation process, we have identified several areas where the AUGE did not fully examine all potential areas of evidence available to it to their fullest extent and does not to have fully explored all areas. It has also strayed into areas which are covered by other processes.

We have identified a number of actions that need to be progressed to rectify these problems:

- The AUGE terms of reference in its contract need to be clarified so that it does not evaluate areas that are covered by other industry processes.
- The AUGE contract management process must be strengthened to ensure that the AUGE gathers and evaluates all information to the fullest extent during the compilation of the AUGS.
- Efforts should be made to improve the transparency of the process, including provision of summaries of calculation processes on the Joint Office website.
- Provision of AUGE contract terms and conditions to shippers.

Should you wish to discuss any aspect of this response please contact me directly

Gareth Evans

ICoSS

gareth@icoss.org



Fiona Cottam
Analytical.services@xoserve.com

Wales & West House
Spooner Close
Celtic Springs
Coedkernew
Newport NP10 8FZ

Tŷ Wales & West
Spooner Close
Celtic Springs
Coedcernyw
Casnewydd NP10 8FZ

T. 029 2027 8500
F. 0870 1450076
www.wwutilities.co.uk

15th September 2017

Allocation of Unidentified Gas (AUG) Process – Request for Feedback

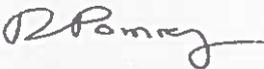
Dear Fiona,

Thank you for the opportunity to comment on the operation of the new AUG process post Nexus.

WWU's main comment on the 2017/18 AUGE process relates to the process by which the decision to assume that the assumption that Shrinkage Error was systematically different from zero was made and was then reversed. We are concerned at what appears to be a lack of rigorous internal challenge by the AUGE to the initial decision which was seemed to be reversed only when the Gas Distribution Networks wrote to the AUGE in June 2017. Notwithstanding this we think that the AUGE should have been aware of the current arrangements for Shrinkage and the fact that assuming that Shrinkage Error was systematically non-zero would have considerable implications for the current industry arrangements.

We are happy for our response to be published

Yours sincerely



Richard Pomroy
Commerical Manager
Wales & West Utilities

