

## Representation - Draft Modification Report UNC 0625

### Extension of 4 months to 10 months to transfer non-mandatory sites from Class 1

Responses invited by: **5pm on 02 November 2017**

To: [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

<b>Representative:</b>	Andrew Margan
<b>Organisation:</b>	Centrica Plc
<b>Date of Representation:</b>	07 November 2017
<b>Support or oppose implementation?</b>	Oppose
<b>Relevant Objective:</b>	Negative

**Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)**

The gas UNC Daily Metered Voluntary (DMV) regime was allowed a maximum of six months from PNID to transfer sites from the new Daily Metered Mandatory (DMM) Product Class 1 classification into another Product Class. The six month transitional period is intended to enable DMV sites to transition efficiently into the post-Nexus arrangements. We are concerned that sites remain incorrectly in Product Class 1, when the framework is designed that Product Class 1 should be Daily Metered Mandatory (DMM) sites only.

Since the DMV transition arrangement was agreed, the Allocation of Unidentified Gas Expert (AUGE) allocates 100<sup>th</sup> of the Unidentified Gas (UIG) smear to Product Class 1 sites compared to similar EUC bands within Product Class 2, 3 and 4. Product Class 1 sites that should have transferred into another product class are gaining a cost advantage through a much lower permanent UIG weighting smear. Given the sensitivity of UIG, we believe non-DMM sites should be moved out of Product Class 1 sooner than December 2017, not later.

These UIG consequences are creating a distortion in the market. If the transfer time extension is approved, UIG costs will continue to be allocated from the parties that can manage the risk to NDM sites that include the market's poorest consumers, who can't afford to offset the risk or cost.

As Modification 0625 will extend arrangements that will enable DMV customers to avoid UIG costs, we cannot support a change that is anticompetitive and will result in a distortion in the market. As a result we believe this solution is anti-competitive, as low consuming customers are unable to take advantage of Product Class 1 UIG cost avoidance. Therefore we do not support this proposal.

Further to the above, shippers received multiple notifications pre-Nexus through Market Trials and the wider Nexus programme to cleanse data, otherwise stronger asset validation rules, would result in data issues. Shippers who did not undertake the pre-Nexus data cleansing correctly may have experienced issues migrating sites from Product Class 1 to other product classes.

If a robust data cleansing exercise did not taken place resulting in asset data quality issues, we believe that shipper would have gaining an operational cost advantage compared to shippers who did undertake the work properly. For parties that have not invested appropriately pre-Nexus, their issues and non-ability to nominate sites into Product Class 2 should not be socialised to other industry parties.

**Implementation:** *What lead-time do you wish to see prior to implementation and why?*

Not required

**Impacts and Costs:** *What analysis, development and ongoing costs would you face?*

There are no internal systems or process costs identified with implementation of this change. Our data cleansing exercise costs have been sunk into the completed Nexus Programme costs. There is an increased adverse industry smearing cost should this proposal be approved.

**Legal Text:** *Are you satisfied that the legal text will deliver the intent of the Solution?*

We confirm Legal Text aligns with the solution

**Modification Panel Members have requested that the following questions are addressed:**

*Q1: Respondents are to consider the materiality of the proposed modification and provide evidence (where available) to demonstrate the potential impacts should it be implemented.*

The materiality of the issue is difficult to calculate as the full cost of Final UIG is not known. Based on the AUGE assumptions of final UIG being £120m we estimate the minimal impact or advantage is in or around the low hundreds of thousands. In line with our market view of UIG being much higher than the AUGE assumption, this proposal could have a material impact below the half the million pounds mark.

*Q2: Following consideration of representations, it is recommended that Panel test the materiality of the modification against the self-governance criteria, prior to making a recommendation/determination on the Final Modification Report.*

As this cost will adversely impact the poorest customers most and costs will be moved between the DM and the NDM market, we believe this change has a likely material impact to consumers and a likely material impact to competition, so we believe it is appropriate the final decision is made by the Authority.

**Are there any errors or omissions in this Modification Report that you think should be taken into account?** *Include details of any impacts/costs to your organisation that are directly related to this.*

None identified

**Please provide below any additional analysis or information to support your representation**

It should be noted that during modification development some parties are entangling this data fix extension request with the initial UIG volatility issue. The two issues should not be confused. If a shipper, through their relevant supply arrangements has gained a supply contract advantage through not pricing expected industry costs, they need to

accept their risk strategy and the consequences of being in a competitive market. UIG volatility should not be used to mitigate party's responsibilities to manage DMV customers out of Product Class1.