Joint Office of Gas Transporters

Representation

Draft Modification Report

0366 - Clarification of legal text for UNC Modification 0229

Consultation close out date: 11 March 2011

Respond to: enquiries@gasgovernance.co.uk

Organisation: **EDF Energy**

Representative: Stefan Leedham

Date of Representation: 11 March 2011

Do you support or oppose implementation?

Not in Support

Please summarise (in one paragraph) the key reason(s) for your support / opposition.

Under the current arrangements a minimal amount of energy and value is recovered from the LSP market for Unaccounted for Gas (UAG). This was recognised in Ofgem's decision letter on 0317 in which they state: "£2.75m is the minimum annual payment that should be made based on analysis of the available data." All of the risks associated with an under allocation of gas to the LSP sector remain with the SSP Shippers, who also have to fund this under allocation. It is widely recognised that the accurate allocation of costs and energy is beneficial to competition. This proposal seeks to maintain the current cross subsidy from SSP to LSP Shippers until after the AUGS statement is completed. This will have a detrimental impact on competition and ensure all of the risks remain with SSP Shippers even though they are not best placed to manage them.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

We are aware that this proposal is essentially an alternate to several other modification proposals on this issue – namely 0339, 0339A and 0340. These proposals have been developed and discussed by the industry for a significant period of time, and so there has been ample opportunity to raise alternatives, as witnessed by 0339A. Raising a separate proposal and not a formal alternative has delayed the progression of the other modification proposals and created the risk that proposal 0340 will time out. We believe Ofgem and the UNC panel should consider whether this was the intent of the modification rules, and whether delaying the consideration of modification proposals to allow other proposals to progress creates an incentive to deliberately raise proposals later and filibuster those already in progression.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

This proposal will have an impact on relevant objective A11.1 (d), but this will be a negative impact. From 1 April 2011 a minimal amount of costs will be attributed to the LSP market; however, however this will be a fixed volume derived from a report that is over a year out of date. All of the risks therefore associated with this reallocation of costs are currently borne by the SSP Shippers – even though the costs should be attributed to the LSP market. However, the current UNC text also allows these errors and mis-allocation to be corrected so that the LSP market is exposed to the costs that they are responsible for. This risk to the SSP market therefore becomes a cash flow issue with monies funded by the SSP market and corrected at a later date. It is important to note that this concept is already present in the UNC with LSP Shippers allocated energy which is subsequently corrected through reconciliation when meter readings are submitted.

Implementation of this proposal would remove this correction and so ensure that costs and risks continue to be borne by SSP Shippers. We believe that the mis-allocation of energy and risks will have a negative impact on competition and so will not facilitate this relevant objective.

We disagree that the current arrangements are retrospective. These arrangements were implemented with proposal 0229. Shippers therefore have had since 26 May 2010 during which to plan and account for these arrangements coming into effect from 1 April 2011. This would therefore not be retrospective.

Further the correct allocation of energy can not be viewed as retrospective, otherwise all reconciliations and RbD would have to be stopped – for being retrospective. As previously noted the concept of the correct of allocation of costs to sectors and supply points already exists through reconciliation, whereby energy allocation is corrected when more up to date information is received. In the extreme this can result in energy re-allocation going back up to almost 5 years. The current arrangements would not go back this far and so would have less of an impact.

We would also note that one of the key elements of recent proposals and topics are that risks should sit with those who are best placed to manage those risks. Currently they sit with the LSP market and Shippers. Arguably these Shippers are best placed to manage these risks as they are able to forecast and build these into their tariffs. This modification proposes that these risks are transferred from LSP to SSP Shippers. We do not believe that this is appropriate as it requires SSP Shippers to forecast LSP contributions to UAG. Not all SSP Shippers have exposures to the LSP market and so are not as well placed as LSP Shippers to manage this risk.

In summary we do not concur that the current arrangements are retrospective, and instead follow normal UNC arrangements to ensure that energy is accurately allocated. Instead we believe this proposal will have a negative impact on competition as it will re-instate a cross subsidy from SSP to LSP Shippers and requires SSP Shippers to forecast and model LSP UAG even if they do not have any exposure to this market. We believe that the risks associated with LSP gas should reside with LSP Shippers.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

No direct development or operational costs.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

We believe that this modification if implemented would require a 2 month lead time to allow SSP Shippers to incorporate LSP risks and costs into their tariffs.

Legal Text:

Are you satisfied that the suggested legal text will deliver the intent of the modification?

No comments.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

In addition to the issues already identified we believe that implementation of this proposal will create a perverse incentive on LSP Shippers to deliberately delay the development and implementation of the AUG methodology and statement. As recognised in the decision letter of 0317 the amount of energy allocated to the LSP sector is a minimal amount. Therefore the AUG methodology and statement will allocate more costs and charges to the LSP market. Implementation of this proposal would provide an incentive on LSP Shippers to maintain the allocation of costs under 0317 and so avoid exposure to the costs that should be attributed to the LSP market and maintain the current cross subsidy from SSP to LSP Shippers. We do not believe that this is an appropriate incentive and so provides a further reason why this proposal should be rejected.