

Representation

Draft Modification Report

0442 and 0442A:

Amendment to the implementation date of the Allocation of Unidentified Gas Statement (AUGS) for the 2013/14 AUG year

Consultation close out date: 22 February 2013
Respond to: enquiries@gasgovernance.co.uk
Organisation: E.ON
Representative: Colette Baldwin
Date of Representation: 25 February 2013

Do you support or oppose implementation?

0442 - Support

0442A - Support

If either 0442 or 0442A were to be implemented, which would be your preference?

Prefer **0442**

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

0442

This modification seeks to implement at the earliest opportunity, a more accurate reflection of the share of unallocated gas between the different market sectors. The AUGS has reviewed its methodology and consulted on it and stands by its assertion that the proposals they are putting forward represent a fairer reflection of the split of costs across the market than the current methodology.

The non-domestic sector should not have its costs unfairly cross-subsidised by domestic customers if evidence is available that a more equitable apportionment of RbD costs is attributable to the non-domestic market based on the revised methodology.

The market is preparing for non-domestic contract rounds and suppliers are aware of the uncertainty that this modification has created in terms of fixed prices for the next contracting period.

Given this, prudent suppliers will have or will be preparing their customers for the possibility that this element of the price they are being offered may have to be revised if this modification is approved. Non-domestic contracts invariably have clauses that allow suppliers to revise costs where there is a degree of variation possible.

0442A

As above, however, given that 442 gives a more certain date and therefore a definitive decision on application of the methodology in the coming year, we would prefer the earlier implementation date.

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

No

Relevant Objectives:

How would implementation of either of these modifications impact the relevant objectives?

Implementation would facilitate Relevant Objective D – the securing of effective competition. Given that this would more accurately and fairly reflect the apportionment of costs across the different markets, those suppliers who operate only in the domestic market would see their share of unallocated gas costs reduce. Similarly those suppliers who operate only at the larger end of the market will no longer receive a cross-subsidy of unallocated gas costs only being paid for by RbD shippers, since there is evidence confirming that LSPs are not immune to the creation of this cost and therefore should share fairly in disbursement of those costs.

Impacts and Costs:

What analysis, development and ongoing costs would you face if either of these modifications were implemented?

Operating in both the LSP and SSP market we will face some implementation costs for this modification, however the implementation costs will not be significant, as like many suppliers operating in this sector we do include provisions for passing through consequential cost increases from such regulatory change.

Implementation:

What lead-time would you wish to see prior to either of these modifications being implemented, and why?

Given the work that has been done in this area over recent years, it was reasonably foreseeable that the costs of unallocated gas were likely to change with the introduction of the AUGÉ, and so it is not reasonable to delay the implementation of a more accurate and cost reflective methodology due to a lack of preparedness by some parties, particularly for those operating in a niche market who are usually much more adaptable and capable of responding with more agility when faced with change. We would be able to

implement this change relatively quickly, as we have prepared our LSP business and customers for the potential impact of this change.

Legal Text:

Are you satisfied that the legal text will deliver the intent of each of these modifications?

Yes

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.

The AUGÉ at its most recent presentation to the industry, firmly asserted that they had confidence that this methodology was more statistically accurate than the RbD bias methodology, and despite a number of questions and suggestions that were levelled at the methodology during the presentation, resolutely stood firm in their contention that the consumption methodology, utilising a larger data sample and produced a more statistically valid conclusion.

The AUGÉ's independence should give the whole market confidence in its analysis and in the absence of robust and contrary evidence to discredit the conclusions it has presented, it would be disappointing if certain customers were disadvantaged and unable to benefit from the revisions because of undue hesitancy in adopting the methodology change.