

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: RWEpower

Representative: Edward Hunter

Date of Representation: 22 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 **0442A**

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

Modification 0442 and 0442A seeks to extend governance dates to implement a more accurate methodology for calculating the volume of, and allocate unidentified gas within the market. The AUGS is an independent body put in place to perform this calculation and unfortunately did not achieve the required timescales to implement what is, as they state, a more accurate calculation.

Aside from the commercial arguments that may be put forward RWEpower believes that a lack of flexibility within the governance process which in turn results in inaccurate methodology being implemented is not good governance. It seems perverse to appoint an independent body to produce this methodology and ignore calculation improvements due to a date issue.

Given that the AUGS, which is an independent body, has established an improved methodology for ensuring accurate allocated of unidentified gas, it would be in our view inequitable and anti-competitive to continue to allocate costs using the inferior

methodology. To do so would clearly have a significant impact on domestic customers, and RWEpower considers that this must be the key factor in deciding the way forward in this case.

In the interest of fair, transparent and accurate allocation of costs across market sectors RWEpower support both of these modifications with a preference for 0442a which cannot "time out."

Any costs that are incorrectly allocated to and picked up by the SSP sector will negatively impact SSP suppliers' costs to serve and will therefore contribute to the future level of pricing for such customers. This is clearly inequitable given that the AUGÉ has established that some of these costs are in fact attributable to the LSP sector (and this is not in dispute).

Some suppliers may seek to argue that it is unfair to attribute these costs to the LSP sector at this stage because these costs cannot be passed through to those customers. However, we consider that LSP suppliers should have taken steps to ensure that their customer terms and conditions permit legitimate costs such as this to be passed through. Cross-subsidy across the sectors is in our opinion unfair and unjustifiable.

We feel the reduction in SSP cost allocation is accurate, appropriate and reduces the burden on the domestic market sector with inherent social issues such as fuel poverty. As a responsible supplier we believe these costs should be allocated accurately and in a fair manner to benefit the consumer.

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

None

Relevant Objectives:

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

d) Securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.

Correct accurate and appropriate cost allocation between industry parties secures effective competition. The cross subsidy that appears to be in place where domestic customers support I&C customers would continue under current methodology and is contrary to effective competition.

f) Promotion of efficiency in the implementation and administration of the Code.

It is inefficient to delay the implementation of a superior methodology produced by an independent party therefore the intention of these modifications promotes efficiency in the code.

Impacts and Costs:

0442 and 0442A
Representation

22 February 2013

Version 1.0

Page 2 of 3

© 2013 all rights reserved

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

None

Implementation:

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

As soon as is practicable.

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.

None