

Representation

Draft Modification Report

0456 (Urgent): - Revision to the treatment of Allocation of Unidentified Gas for the 2013/14 AUG Year

Consultation close out date: 11 June 2013

Respond to: enquiries@gasgovernance.co.uk

Organisation: Corona Energy

Representative: Peter Olsen / Tim Hammond

Date of Representation: 11 June 2013

Do you support or oppose implementation?

Not in Support

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

We fail to understand why Modification 0456 (Urgent) has been raised, as it seems to be identical in both intent and impact as Modification 0442A. The only difference we can discern is that Modification 0456 (Urgent) requires the UNCC to publish the finalised table on the 01 August 2013, rather than by 01 June 2013 as set in Modification 0442A. As the previous modifications were rejected and nothing fundamental has changed we do not support Modification 0456 (Urgent). Further reasons for our view are set out below.

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

As Modification 0456 (Urgent) is identical to Modification 0442A, our concerns regarding the original modification are still valid and we refer you to our previous consultation responses on 0442 and 0442A; proposing to implement the AUGGE table proposed for 2014/15 in October 2013 rather than August 2013 will have the same negative impacts on the market.

Since consideration of Modification 0442 ICoSS has worked with Phidex to produce an analysis of the AUGGE's current work. Having raised some serious concerns regarding the AUGGE's calculations we consider that the position is now somewhat worse in that we have little confidence that the AUGGE's figures are accurate. If Modification 0442 was rejected then it must be correct to reject Modification 0456 (Urgent) given that we are no further forward and indeed have taken several steps back.

The uncertainty produced by this prolonged process is causing us numerous difficulties. Given that Ofgem has previously rejected Modification 0442A we find it hard to accept that Ofgem will approve Modification 0456 (Urgent). If Ofgem was to change its mind they will be contributing to the issues relating to uncertainty. Uncertainty will then lead to questions about the credibility of the

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AUGE process, the modification process and ultimately Ofgem's role as the decision maker on modifications.

If Modification 0456 (Urgent) is approved it will raise the question as to which other modifications, previously approved or not approved, that should be re-raised by a party who is not content with that previous decision. The modification process needs to be allowed to do its work but not at any cost. It would be highly problematic and create a lot of confusion if modifications were simply re-raised every time a party does not like the outcome.

One of the fundamental concerns we have surrounds the ongoing resources we have put in place to deal with Modifications 0442, 0442A and 0456 (Urgent). Both external and internal teams must be kept informed about these modifications. This disrupts our business and incurs costs. Furthermore, we would prefer to direct our resources to operating our business and addressing any number of the other regulatory issues that we currently face. If implemented, UNC Modification 0456 (Urgent) will incur significant costs to Corona Energy's 'bottom line' irrespective of whether we absorb the AUG costs or pass them through to customers. We also consider this modification will have a detrimental impact on our business and jeopardise our competitiveness.

We also have anecdotal evidence that a number of customers have questioned Corona Energy about these charges and how or if we intend to pass them on. Understandably they are concerned about future costs, but more importantly what work the industry is undertaking to mitigate these future costs.

Having set out the reasons why from a process perspective Modification 0456 (Urgent) should not be approved, we believe it is pertinent to examine the reasons why the first proposal was rejected, as set out in Ofgem's decision letter¹

Ofgem's statement regarding UNC Modification 0442A "*that these proposals may potentially result in a windfall gain (or loss) for shippers*" highlights a key point we made in the original consultation response; the certainty of the AUG process as it is currently laid out is relied upon by shippers in setting prices. Linked to this we are not aware of any information being provided to the industry to address the concern expressed by Ofgem in its original decision that it needed "*to see more information from shippers on the extent to which, and when, this change would be reflected in tariffs*".

These fundamental issues have not been addressed. Bringing forward the implementation date by six months (UNC Modification 0456) or eight months (UNC Modification 0442A) from that currently agreed upon **will** result in windfall gains and losses depending on your position in the market. It also highlights a key point we made in the original consultation response; the certainty of the AUG process as it is currently laid out is relied upon by shippers in setting prices. Deviation from this timeline is damaging to both the market, creates cross-subsidies and would fatally undermine the credibility of the AUG process.

Relevant Objectives:

¹ <http://www.gasgovernance.co.uk/sites/default/files/UNC442D.pdf>

How would implementation of this modification impact the relevant objectives?

As stated above unwarranted mid-year adjustments to the process will undermine the certainty and credibility of the process and result in windfall profits and losses between shippers. This modification will therefore, like UNC Modification 0442A, have a negative impact on *Relevant Objective d) – "the securing of effective competition between relevant shippers"*.

Impacts and Costs:

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

If implemented, this modification will have serious impacts on our business as it will be necessary for us to adjust all of our contracts to take into account the revised Unidentified Gas costs. It will also undermine our current contract prices being offered in the market which will jeopardise our competitiveness. In addition if the principle of adjusting the AUGGE table mid-process is accepted, then a significant risk premium will need to be added to our charges to cover for potential future adjustments.

Implementation:

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

N/A – we do not believe this modification should be implemented.

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.

No.