

Representation

Draft Modification Report

1. UNC 0456: 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: GDF SUEZ Solutions Limited

Representative: Phil Broom

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.

The timescales and process relating to the application of AUGE charges have been fully developed and agreed by the industry only recently as a result of the implementation of UNC 0229. The principles adopted include setting charges only once per year, starting April which aligns with the setting of network charges and other policy costs and this is generally recognised as a price setting point for suppliers. Setting levies once per year allows for greater transparency to customers as within-year changes tend to arouse suspicion and additional queries. It is bad process to disturb this established protocol, especially so soon after it has been agreed.

Additionally, it is highly likely that the overall cost to consumers will be increased overall as a result of a within year intervention and there could be a significant windfall benefit to domestic gas suppliers. It is difficult to ascertain how any potential savings (assuming a reduced attribution to SSPs) will be passed through to domestic customers given that the magnitude of cost re-distribution will be small on an individual basis; around £1.50 per gas meter and 75 pence per dual fuel account. It is uneconomic to make tariff changes of such a small magnitude. At the same time it is likely that the effect of changes to the allocation for the non-domestic segment will be felt immediately, particularly where such charges are levied on a pass-through basis. Hence consumers overall will be disadvantaged.

Ofgem themselves shared this concern in their very recent decision letter on UNC0442/442A. *“Although the change in methodology may result in a significant change to the distribution of AUGE costs, the AUGE itself has been keen to play down the reliance that is being placed on the provisional numbers it presented to the UNCC in late 2012. It is possible that the final AUGE table will be substantially different. However, we consider that whichever end of the likely range the number ends up being, it will be a small proportion of the shippers overall energy costs. Given that shippers typically purchase gas 12-24 months ahead it is not clear what, if any, impact the AUGE’s final figures may have upon tariffs for 2013/14. We therefore share the concern of those respondents who suggested that these proposals may potentially result in a windfall gain (or loss) for shippers”.*

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

No.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

UNC 0256 would be detrimental to competition given the likely disproportionate benefit to domestic suppliers as described above. This may either result in a windfall benefit or may be used to cross subsidise activity in the non-domestic sector to the detriment of non-domestic only suppliers.

A mid-year change would also be inefficient for code administration as it would upset a recently established protocol which was implemented under UNC 0229.

Impacts and Costs:

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

Impacts as stated above.

Implementation:

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

We are not in support of implementation.

Legal Text:

Are you satisfied that the legal text [and the proposed ACS (see www.gasgovernance.co.uk/proposedACS)] will deliver the intent of the modification?

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.

No.