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Representation

Draft Modification Report

Modification 0456 Revision to the treatment of Allocation of Unidentified Gas for the
2013/14 AUG Year

Consultation Close out date: **11th June 2013**
Respond to: enquiries@gasgovernance.co.uk
Organisation: Gazprom Marketing & Trading Retail Limited (GMT&R)
Trading as Gazprom Energy
Representative: Steve Mulinganie
Regulation & Compliance Manager
Date of Representation: **11th 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 DO NOT SUPPORT the proposal and we believe it is critical to note that: (i) the proposed revised methodology being developed by the AUGGE has yet to be adopted; and (ii) the AUGGE has been consulting on the proposed approach and this consultation is yet to close.

In line with the agreed industry timetable and approach, suppliers have raised concerns over the “quality” & “reliability” of the data which is essential in supporting the revised methodology. As the approach in the new methodology is “bottom up” the quality of the data underpinning the process is critical.

We have funded, through ICoSS, independent analysis which has been presented to the industry and has been submitted to the AUGGE in line with the process and timelines set out in the Guidelines Document and agreed by the industry. This analysis indicated significant errors, in the order of 2 TWh, based only on a high level analysis of the information provided by the AUGGE.

Gazprom Energy Response
2013 Version 1.0

As we have previously noted the AUG process sets out clear rules for how the AUGE discharges its obligation. Once it became clear that the independent AUGE was going to be unable to meet the timelines set out in the guidelines document for implementing an alternative methodology, it was the independent AUGE who recommended the retention of the existing methodology which led to the implementation of the 2013/14 table.

The potential to “re-open” the AUGE table through modification at any time introduces significant risk on suppliers and customers who, in supporting the implementation of the AUGE, relied on the independence of the AUGE in developing an output table and communicating in accordance with the agreed timetable and process. The independence of the AUGE and a set timetable provides confidence for the market that the table can be relied upon to fix risk premiums, so that pricing risks can be minimised for our customers.

If we are to be constantly subject to challenges to the AUGE outside of the agreed process then every time a modification is raised, and until Ofgem rule on it, the risk strategies of some suppliers have to be reopened. This is obviously detrimental to both suppliers as well as consumers looking to manage risk in contracts.

This situation is also unsatisfactory in that the raising of a modification, whether successful or not, exposes some suppliers to pricing risk whilst others may benefit from the commercial uncertainty created as a result of the modification being raised.

As we have previously stated (with recognition from Ofgem), short notice changes have a larger impact in the competitive non domestic market which is very price sensitive and liquid compared with portfolios with large populations of “sticky” customers who are not as sensitive to price movements.

As noted in Ofgem’s response to 0442 & 042A, “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?

We are unclear why modification 0456, which is very similar to modification 0442 which was denied urgent status, has been granted urgent status. At the extraordinary UNC Modification Panel meeting on the 30th May the proposer was not even present to explain the case for urgency although it was suggested that there would be a significant resultant commercial impact should the modification not be implemented. However, the AUGE has previously stated the results of applying the current draft methodology will not be published prior to approval of a final methodology. Therefore, the scale of any impact is unknown.

Panel members then concluded that the case for a significant commercial impact had also not been made and, in their view, none of the criteria for urgency had therefore been met. Those members present then voted unanimously against recommending that urgent procedures be followed for this modification.

As the proposal was granted urgent status very little opportunity has been provided to review the proposal or challenge some of the statements contained in the modification proposal

For example the modification infers that the proposed consumption-based methodology has been unanimously supported by the market. This is patently untrue and fails to take into account the detailed feedback at AUGE meetings, as well as the analysis and responses submitted to the AUGE as part of the development of proposals for 2014/15. This analysis has shown that the underlying data, critical to support the proposed methodology, requires considerable work if it is to be considered of sufficient quality to support a new methodology.

We note that in Ofgem's decision letter reference is made to the table from 2012/13 being carried over to 2013/14. However we also note that the methodology and output for 2013/14 was proposed by the AUGE and was formally adopted as the 2013/14 table. Therefore we do not see this as a "carried over" table but a formally adopted table in line with the procedure set out and agreed by the industry.

Whilst the proposer seeks to highlight concerns on the impact to households they, of course, fail to highlight the potential negative impact of cost transfer into a slowly recovering non domestic sector, in which consumers are struggling to manage budgets & cash flow.

One of the issues we have repeatedly highlighted with Ofgem, in particular in our industry meetings with Alistair Buchannan, has been the need to address volatility and short notice changes in charges. We welcomed Ofgem's recent consultation on "*Mitigating Charging Volatility arising from Price Control Settlements*" and its recognition that reducing short notice changes reduces the risk premiums which otherwise have to be factored into suppliers' commercial strategies, which are ultimately paid for by consumers. We are therefore disappointed that this proposal would introduce such a late notice change which cannot be quantified even at this stage, and thus will require suppliers to reopen risk premiums with consumers.

We also note that elsewhere Ofgem are tackling volatility and short notice changes in areas such as Incentive Charges, where Ofgem have recognised the need for predictability and stability in introducing 1 year lags to enable parties to account for and price in changes.

Relevant Objectives:

(How would implementation of this modification impact the relevant objectives)?

We believe that the proposal has a detrimental effect on competition as it introduces an unreasonable level of risk on suppliers and non domestic consumers affected by any changes to the AUGS table introduced outside the agreed timetable.

Implementation:

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

No comment

Legal Text:

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

We have not reviewed the legal text

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

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

No