

## 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:** RWE npower  
**Representative:** Edward Hunter  
**Date of Representation:** 10<sup>th</sup> June 2013

#### Do you support or oppose implementation?

Support

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

The AUGGE is an independent body put in place to calculate and allocate unidentified gas and unfortunately did not achieve the required timescales to implement what is, as they state, a more accurate calculation. Previous modifications were rejected on the grounds that they increased risk for Shippers' LSP contracts.

As both an LSP and SSP Shipper we believe that this modification addresses the issues raised previously. The proposed timescales detailed in it gives Shippers an opportunity to manage their contracts before the contract round period and RWE npower has always been of the opinion that any additional costs would be justified as a pass through cost given robust contract terms and conditions which all Gas Shippers/Suppliers should have in place.

RWE npower believes that the established improved methodology for ensuring accurate allocation of unidentified gas should be implemented as soon as is practicable and this solution addresses the concerns that have been raised. It is in our view inequitable and anti-competitive to continue to allocate costs using the inferior methodology.

Implementation of this modification would clearly have a positive impact on domestic customers and we believe that this should be a key driver for deciding the way forward in this case. Any costs that are incorrectly allocated to and picked up by the domestic sector will negatively impact domestic suppliers' costs to serve and will therefore contribute to the future level of pricing for such customers. This is clearly inequitable given that the AUGGE has established that some of these costs are in fact attributable to the LSP sector (and this is not in dispute).

We do not consider this to be a "windfall" for Shippers/Suppliers, it will impact the future pricing of domestic customers significantly. Pricing structures and methodologies for LSP and SSP sectors are

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significantly different therefore cannot subsidise each-other. Any benefit for domestic customers will feed into the domestic customer price calculation. The current Industry cross subsidy or misallocation of costs 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 and the pressure of recent price rises. As a responsible supplier we believe these costs should be allocated accurately and in a fair manner to benefit the domestic consumer.

**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?*

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.

This proposal fulfils the relevant objective of securing effective competition by removing a cross subsidy between market sectors that is inherently wrong. It is also necessary to reiterate the fact that this modification prevents the domestic consumer from bearing the cost of this misallocation for a 6 month period.

**Impacts and Costs:**

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

None

**Implementation:**

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

As soon as is practicable

**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