

## 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:** ScottishPower Energy Management Ltd  
**Representative:** Marie Clark  
**Date of Representation:** 11 June 2013

#### Do you support or oppose implementation?

Support

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

ScottishPower supports the implementation of this Modification Proposal.

- The AUGGE has been developing the consumption based methodology since May 2012. This methodology is widely accepted as being more robust than the previous RbD bias methodology.
- The methodology has been through several iterations and as a result where the AUGGE has deemed appropriate, amendments have been incorporated within the documentation.
- As a result of this consultation and review process, we believe it is highly unlikely that any material issues will be raised at this late stage which will fundamentally alter views on the perceived robustness of this methodology.
- SSP Shippers continue to incur the largest proportion of unidentified gas costs with many contributing factors still yet to be clearly identified.
- The AUGGE acknowledges that the consumption based methodology will produce a more accurate calculation of unidentified gas and the contribution by each market sector.
- Implementation of Modification 456 will ensure that AUG Table, produced as a result of the consumption based methodology, is implemented on 1<sup>st</sup> October and as a result will reduce the cross subsidy of unidentified gas costs between the SSP and LSP markets.

The AUGGE has been preparing the consumption based methodology since May 2012 and throughout the development of methodology, a number of formal written consultations and face to face meetings have been held. We therefore believe that it is highly unlikely that any fundamental issues will now be raised which will call into question

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the robustness of the methodology and prevent adoption of the methodology at the earliest opportunity.

When Mod 229 was implemented Ofgem stated "The introduction of the AUGE is intended to enable an appropriate methodology to be developed, using the best evidence available to determine which market sector is likely to have contributed to Unidentified Gas and how these costs should be apportioned".

Concerns have been raised by some Shippers that windfall gains or losses will be introduced if the methodology is adopted prior to 1/4/14. The AUG Methodology should not be considered in terms of which market sector is viewed to "win or lose" from its implementation but based on its merit of appropriateness and suitability in calculating the level and contributory factors of unidentified gas. All Shippers and their Suppliers will take into consideration a number of relevant factors, including impacts on their overall cost base, when evaluating the need for tariff or contract price revisions. We believe that should this Modification be implemented that the value of any re-apportionment of unidentified gas costs will be considered within this evaluation process and more importantly within the realms of competition between Suppliers in general.

Since the introduction of RbD, SSP Shippers/Suppliers and their customers have faced unprecedented levels of uncertainty and unpredictability in relation to the value of charges resulting from the RbD smearing mechanism. The AUGE has, through their detailed analysis of consumption data, concluded that LSP Shippers are contributing a much higher value than previously calculated, to the overall value of unidentified gas under the RbD bias methodology. Domestic customers should not continue to cross-subsidise the LSP market sector where evidence clearly demonstrates that unidentified gas costs are attributable to that market sector.

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

No

#### **Relevant Objectives:**

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

d) the securing of effective competition

ScottishPower consider that the objective of this Modification proposal is to promote effective and efficient competition between parties and to facilitate a more equitable distribution of unidentified gas charges between market sectors.

Implementation of this Modification will prevent consumers connected to SSPs from being further exposed to another period of inappropriate unidentified gas costs. ScottishPower believes in these tough economic times that it is essential that any known and demonstrated cross subsidy from the mainly domestic SSP market to the mainly LSP non-domestic market is addressed at the earliest opportunity. Since the introduction of RbD, SSP Shippers and their customers have faced uncertainty and unpredictability in the level and value of costs which they may face via the RbD smearing

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mechanism. The AUGGE has, through their detailed analysis of consumption data concluded that LSP Shippers are contributing an even higher value to the level of unidentified gas than that determined under the current RbD bias methodology. Domestic customers should not continue to cross-subsidise the LSP market sector where evidence clearly demonstrates that unidentified gas costs are attributable to that market sector.

Competition between Shippers and their Suppliers is affected by the cross-subsidy of costs. The AUGGE has rightly been appointed as an independent body to develop a Methodology which seeks to identify the level of unidentified gas and address this cross-subsidy by estimating and assigning the volume of energy attributed to the LSP and SSP market sectors. It is therefore appropriate that the AUG Methodology deemed as being the most accurate is implemented at the earliest opportunity.

### **Impacts and Costs:**

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

There are no material additional costs for ScottishPower if this change is made.

### **Implementation:**

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

As outlined within the Modification Proposal

### **Legal Text:**

*Are you satisfied that the legal text will deliver the intent of each of these modifications?*

Yes we are satisfied that the legal text reflects the intent of this Modification

### **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.*

As outlined within our response to Modifications 442 and 442A, we are concerned that Transporters have voting rights on matters relating to the AUGGE when there is no consequence or material impact to them. In comparison with other governance arrangements this is unusual. For example within the MRA, on matters only affecting Suppliers, DNOs will record an abstention from voting by declaring "no interest" or will cast a neutral vote.

Gas Transporters failed to submit a response to the Draft Mod Report (DMR) prepared for Modifications 442 and 442A. At the Mod Panel meeting held to discuss the DMR, Transporters did not state any opinion or comment on whether either Modification should be implemented or not. However as voting rules state that any participating Mod Panel member is deemed to have an exercisable vote, when voting took place on whether implementation of either of these Modifications should be recommended or not, the fact that Transporters were present and participating within the Mod Panel meeting, resulted in their exercisable votes being considered and counted within the overall

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outcome. However if all Transporters had withdrawn from the meeting when the actual voting was taking place, the meeting could be deemed to be non-quorate.

This change to the voting rules was introduced as a result of a self-governance Modification i.e. 384S. We do not believe that this practice is acceptable as the outcome of Panel voting may have an impact on an individual party's right of appeal under the Energy Act.

ScottishPower believe that the constitution and voting rights of the UNC and UNCC require to be reviewed urgently so that no one party or group of parties should be able to apply undue influence, whether it be intended or not, over proceeding and decisions being made.