

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: Total Gas & Power Ltd
Representative: Andrew Green
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.

TGP does not support this modification for the following reasons:

- This modification seeks to change the established AUGE process and guidelines for the current AUGE year in the same way as Modification 442 sought to do and this was recently rejected by Ofgem. This creates risk and price uncertainty for commercial suppliers and consumers and is detrimental to competition in the market
- This modification prejudices the outcome of the AUGE's new methodology, hurries the process at the expense of consultation, analysis, data quality, data accuracy and ultimately would provide a questionable outcome that would have little credibility and undermine confidence to the market.
- The process and timescales set out in the original AUGE guidelines were purposely set in line with existing industry charging principles (e.g. setting of Transportation charges) i.e. charges are set once a year to be applied from April. This certainty of forward pricing, aside from being good customer practice, reduces additional risk premium and therefore cost on consumers.

- This modification is effectively the same modification as Mod 442 which was rejected by Ofgem therefore the same reasons for rejection will apply to this modification relating the inability of the AUGE to meet timescales, accuracy being compromised, process, inability of shippers to react to their allocation of cost base and windfall profit to large domestic suppliers.
- The revised AUGE methodology is still under industry consultation and development. The suitability of the methodology is still under question and there are known issues within the industry relating to the poor quality of underlying data. This is illustrated in a report that ICoSS commissioned from industry specialist consultants "Phidex" which found significant discrepancies questioning the validity of 2TWh of unallocated gas under this new methodology. Forcing premature publication introduces an unacceptable degree of risk and error.
- The credibility of the AUGE and AUGE process should not be called into question through the Modification process. The AUGE should be left to follow the agreed guidelines and given the time that they said they require to provide the industry with a robust methodology and accurate calculation of the unallocated gas amount and split between market sectors. The AUGE have indicated that they (and the industry) require until November to publish the first AUGE table, for the table to then be consulted upon and for the values to apply from April 2014. Introducing a modification that forces the AUGE to prematurely conclude the publication of the revised table under the new methodology at short timescales not only prevents due consultation and input from industry stake-holders but it also introduces unacceptable error.
- The modification would have an unreasonable and detrimental impact on businesses in the UK whereas the impact on individual domestic consumers would be very small.

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

It is not clear why Ofgem have granted this modification urgent status going against a unanimous panel vote for non-urgency and having declined urgency of Mod 0442 and then subsequently rejecting that modification.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

If this modification were to be implemented it would have a detrimental on competition by introducing unacceptable levels of risk for Industrial and commercial suppliers and customers brought about by unanticipated changes to AUGE charges. Competition would also be impacted due to an unfair advantage to domestic suppliers who would benefit from windfall gains and they would not be exposed to the same levels of risk and uncertainty in the I&C sectors of their businesses.

Impacts and Costs:

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

0456 (Urgent)
Representation

31 May 2013

Version 1.0

Page 2 of 3

© 2013 all rights reserved

Insert Text Here

Implementation:

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

We would like the timescales associated with the agreed existing AUGE guidelines to apply

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