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Dear Tony

British Gas comments on the First Draft 2020/21 Allocation of Unidentified Gas Statement (AUGS)

We appreciate this opportunity to provide feedback on the work being undertaken by the Allocation of Unidentified Gas Expert.

Please find attached our recommendations based on the draft AUG Statement.

Yours sincerely



Rhys Kealley
Head of Energy Market Design
British Gas

Comments on the Draft 2020/21 Allocation of Unidentified Gas Statement (AUGS)

January 2020

1. Theft methodology: targeting and lead generation bias

The theft methodology is the most critical element of the AUG statement given that it is used to apportion the balancing factor, by far the largest segment of unidentified gas.

Based on input from the Theft Issues Group (a group to consider theft issues under the SPAA and DCUSA) the methodology is now in a state of flux pending further analysis. We would have expected the alignment of understanding between the AUGS and the Theft Issues Group to be prioritised, given the impasse that arose for the 2019/20 process. We understand that the AUGS is developing a method to counter any bias in the volume data provided by suppliers to TRAS (on which qualified outliers are generated) and look forward to more clarity on this work.

In terms of specific feedback for this year, we expect the bias introduced through differences in the address matching rates between residential and commercial sites to be corrected. The population of unbiased leads (i.e. not generated by supplier activity) is underrepresented for non-residential sites. The way these leads are generated relies on the successful matching of address data. British Gas has provided to the AUGS the reported success rate for address matching, which should warrant an appropriate uplift to the allocation of balancing factor to commercial sites.

Finally, there are insights from the relative performance of different suppliers under the Gas Theft Detection Scheme that should be informing the theft methodology, given that suppliers representing nearly a third of the market have not reported a single theft to the scheme.

Recommendations

- Outline how the theft methodology is likely to change to address newly identified sources of bias and indicate the impact on the allocation of the balancing factor for 2021/22.
- Apply an uplift in the theft analysis to account for the differential in address matching success between residential and commercial sites.
- The AUGS should obtain and analyse the anonymised results of the Gas Theft Detection Incentive Scheme.

2. Theft methodology: assumptions related to the impact of smart meter installation

It would be useful to provide transparent assumptions on the changes to the rate of theft once smart meters are installed. There are several factors that when fully considered should reduce the rates of undetected theft expected from smart sites, for example:

- sites where theft is occurring are less likely to willingly adopt a smart meter; and
- theft at smart metered sites is likely to be more rapidly detected.

Recommendation

- *Please provide a summary of the explicit assumptions and derived values related to the difference in rates of theft detection between smart and non-smart sites.*

3. Theft methodology: PC3 analysis

The AUG Statement describes the process to uplift the rates of observed theft from smart sites due to the relative recency of most smart installations.

An initial review of the AUGS's theft analysis relating to PC3 highlights some points of concern:

- the starting point for PC3 theft is based on a sample of five observations, suggesting a high degree of unreliability, which is then amplified significantly to reflect the mass migration to PC3;
- more than half of the observations of theft in PC3 EUC1 to date are from credit meters, which we believe should not be in PC3 in the first place; and
- average thefts in the analysis are higher for existing PC3 EUC1 supply points (23,311 kWh) than for PC4 EUC1 smart metered supply points (14,255 kWh) – given the mass migration is comprised of smart sites from PC4, we would expect an adjustment so the average theft volume assumptions for 2020/21 are more reflective of the PC4 volumes.

Recommendation

- *Consider revising the assumptions in the theft analysis related to PC3 EUC1.*

4. Other factors influencing theft assumptions related to PC3 migration

Where a supplier is active in revenue protection, there is the possibility that risk profiling insights could be used to support decisions about which supply points to migrate to PC3, as a “curation” effect.

While strategic decisions of this nature are unlikely to be uniform across suppliers, and will by nature be confidential, we nevertheless expect that future TRAS data will display a disparity in theft detection rates between otherwise identical smart-enabled sites in PC3 and PC4.

In addition, the increased access to data necessitated by the PC3 settlement processes introduces greater opportunities to detect anomalous data, which may well increase theft detection rates on smart meters in PC3, reducing undetected theft and feeding back into the ability to curate theft prone sites out of PC3.

Recommendation

- *We would be supportive of an effort to derive an initial estimate of the size of any curation effect, for example through a confidential poll asking migrating suppliers about their risk profiling intentions.*

5. Parameter smoothing

We note that smoothing is applied to the factors in the table along the EUC bands, and query why this is not also applied to some degree across Product Classes.

There is a strong practical argument that there should be less undetected theft from supply points as they move from PC4 to PC3 and start providing daily data to the CDSP, assuming the rules in the Product Class are being followed in terms of read submission (with any deviation from the rules being a matter for the Performance Assurance Committee). Counter to this the draft factors for EUC bands 5-7 are higher in PC3 than they are in PC4, and there is also an interesting anomaly in the draft AUG Statement where PC2 EUC 8 is lower than PC1. These discrepancies are difficult to practically justify.

Recommendation

- *The AUGS should ensure allocation factors don't increase as sites move from Product Class 4 to 3, from Product Class 3 to 2, and from Product Class 2 to 1.*

6. Stability between draft and final versions

We welcome comments made by the AUGE on 10 January 2020 that there is no intention for significant changes to the factors in the final version of the statement.

We are supportive of updates that address "clear weaknesses" such as those outlined above, but significant updates other than corrections in response to industry representations should be avoided.

We should note that we are reviewing our rights to appeal under circumstances where:

- there is a failure to take into account consultation responses; or
- there are significant changes made to the final table that are not directly addressing a weakness identified in a consultation response.

Recommendation

- *Any significant changes to the factors for the final version should be limited to where a "clear weakness" identified through consultation has been addressed.*