# British Gas comments on the Proposed Allocation of Unidentified Gas Statement (AUGS) for 2019/20

## 21 January 2019

We appreciate this opportunity to provide feedback on the work being undertaken by the AUGE.

We provide comments on the following areas:

- Potential changes to the composition of sites in Product Class 2

- The relationship between the AUGE and the Shrinkage Model

- Impact of Failed Suppliers

- Interaction between Demand Estimation Methodology, UIG allocation, Reconciliation and UGR Smearing

- Comments on Proposed Theft Methodology

- Presence of Volume Converters (Section 5.4.2)


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### 1. Potential changes to the composition of sites in Product Class 2

The AUGE's analysis considers the relative proportion of two sub-populations in PC2 when attributing the balancing factor – those that were previously non-mandatory DM, and those that were previously NDM. The ex-DM sites were noted to never have a reported theft, while the comparatively smaller subpopulation of ex-NDM sites attract more UIG based on having more theft reports and fewer volume converters.

The large decrease in the factors for PC2 this year provide a strong incentive for suppliers to move sites into PC2 - these will necessarily be former NDM sites. To the extent that this shift occurs, the relative sizes of the sub-populations will shift and the average UIG across PC2 should increase. We note the provision of a 36% increase in the aggregate AQ forecasts (table below). This feels low. The population is increasing from a relatively low base. Additionally, it would only take a small percentage (in terms of AQ) of sites to shift from PC4 for the growth in PC2 to be much higher.

We appreciate there is more art than science in this projection, however this point warrants more discussion before the AUG Statement is finalised.

## Table: Aggregate AQ (GWh)

| Product Class | August 2018 | April 2020 Forecast | % Change |
|---|---|---|---|
| 1 | 57,809 | 57,809 | 0% |
| 2 | 14,751 | 20,114 | 36% |
| 3 | 15,682 | 19,006 | 21% |
| 4 | 423,656 | 433,089 | 2% |
| Total | 511,898 | 530,018 | 4% |

Source: Section 7.10 - Product Class Population and Aggregate AQ

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## 2. The relationship between the AUGE and the Shrinkage Model

The AUGE made a commitment to "present any comments or observations on the LDZ Shrinkage model through the annual consultation carried out by the DNOs". The consultation closed on 20 December 2018 – can we have confirmation whether the AUGE made a representation?

The AUGE states in the issue log against Issue 24 (Shrinkage Error): "No further action required. Estimation of shrinkage is explicitly outside the scope of the AUGE as it is the responsibility of GTs who have a license condition to **accurately** calculate it."

While we appreciate arguments that seek to avoid dual governance of shrinkage, and are not seeking for the AUGE to in any way fetter the GDNs in discharging their licence conditions, we note the comment in the GDNs Shrinkage and Leakage Model Review 2018 Final Report, that "we do recognise that the purchase of Shrinkage gas on a flat profile which reflects an average daily quantity does **not reflect** the actual amount of Shrinkage gas that is lost on a daily basis."

While Shrinkage Model Error is excluded from the terms of reference set out by the Uniform Network Code Committee, this clear statement of the daily inaccuracy of a flat shrinkage profile suggests that there are questions related to Shrinkage that should be considered by the AUGE. For example, if shrinkage is under and over-represented by the Shrinkage Model on a seasonal basis, are loads that correlate with this seasonality being adversely impacted, and should there be some adjustment to the methodology to ameliorate this impact?

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## 3. Impact of Failed Suppliers

In reference to Issue 53, we note Xoserve's comment that failed suppliers will not contribute to permanent UG. We would also like some reassurance on the degree to which failed suppliers will distort the reconciliation process, for example by changing the market share calculations used in the UGR smearing calculation.

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**4. Interaction between Demand Estimation Methodology, UIG allocation, Reconciliation and UGR Smearing**

Since the start of the current gas year, with the application of the new scaling factors for 2018/19 which effectively increase initial allocation by 7% for EUC band 1 sites, average national UIG has been -0.4%. This change from a positive to negative UIG levels at allocation may be having unintended impacts. For example, the now beneficial initial UIG is being allocated at the highest rate to EUC bands 2 and 3 in PC4, which aren't impacted by the new scaling factors. It is not clear whether this will even out through subsequent reconciliation and UGR smearing.

We would like the AUGE's views on the interaction between the UIG allocation table and the proposed demand estimation methodology for 2019/20, as well as any observations for the current gas year.

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**5. Comments on Proposed Theft Methodology**

We feel it is not appropriate for the AUGE to be undertaking any theft related assessment or analysis inisolation, without it being considered as part of the wider industry approach to theft. The AUGE's approach needs to be complimentary to other theft-related industry activities, obligations and incentives, and should be aligned with Ofgem's early thinking regarding an industry-wide "theft strategy".

In terms of specific comments on the Theft Methodology:

- As the data to be analysed by the AUGE includes Assessed Losses, we would like to highlight that large numbers of tampered pre-payment meters will result in no assessed loss because the nature of the tamper is to disarm the prepayment module rather than to prevent the recording of usage. Consequently, the Domestic Credit meter sub-population is more likely to be responsible for UIG than the Domestic Prepayment meter population, and the AUGE should account for this in their theft methodology.
- We are not convinced that TRAS data will reliably indicate relative levels of theft between classes/bands. While TRAS does cover I&C sites, it is acknowledged that the outliers produced for Commercial sites are significantly less than those for residential sites due to how address data, amongst other things, is held.

Finally, we would like to offer the AUGE the opportunity of a briefing with our Revenue Protection Unit to discuss the factors influencing theft detection and revenue protection performance. We would also be happy to discuss the relative performance of suppliers, as demonstrated by the Gas Theft Detection Incentive Scheme Year 1 results.

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**6. Presence of Volume Converters (Section 5.4.2)**
We note AUGE's concerns about the veracity of the data on the penetration of volume converters provided by CDSP. In addition, we find it unusual to have seemingly meaningful values provided (in Table 4) for the currently vacant class/band combinations PC2-4 EUC 9, especially given that data should be a current snapshot.

|  | PC1 | PC2 | PC3 | PC4 |
|---|---|---|---|---|
| 01B | 100.00 | 0.52 | 0.00 | 0.00 |
| 02B | 100.00 | 0.00 | 0.01 | 0.00 |
| 03B | 100.00 | 0.00 | 0.04 | 0.19 |
| 04B | 100.00 | 39.84 | 1.94 | 5.96 |
| 05B | 100.00 | 82.46 | 18.50 | 32.97 |
| 06B | 100.00 | 93.20 | 30.34 | 59.55 |
| 07B | 100.00 | 96.08 | 69.71 | 75.53 |
| 08B | 100.00 | 94.04 | 76.06 | 84.13 |
| 09B | 100.00 | 92.45 | 100.00 | 75.91 |

Table 4: Percentage of Energy from Meters with Volume Conversion Devices