

Mr Bob Fletcher
Secretary, Modification Panel
Joint Office of Gas Transporters
51 Homer Road
Solihull
B91 3LT

6th January 2012

Dear Bob

RE: UNC Modification 0326VV – “Allocation of unidentified gas following the appointment of the Allocation of Unidentified Gas Expert (AUGE)”.

1. British Gas supports the implementation of Modification Proposal 0326VV and believes it will further improve the accuracy with which unidentified gas costs are reallocated in the market.
2. The key aim of the Allocation of Unidentified Gas Expert (AUGE) process is to ensure that the costs of unidentified gas are reallocated fairly in the market, thus removing any distortions in allocation between the Small (SSP) and Large (LSP) Point Sectors.. Modification Proposal 0326VV is entirely in keeping with that aim as it ensures that as any new information or evidence comes to light, the reallocation of costs is also updated.
3. Our experience, and we believe the experience of the AUGE themselves, is that this is a highly complex and technical area where it is not unreasonable to expect improvements in the methodology, or new issues, to be found over time. If such an issue was found, it would be inequitable to permanently “lock in” those inaccuracies and thus also the distortion to competition.
4. This is all the more pertinent given the AUGE’s own acceptance that their methodology is in part built on an incomplete picture of the data. They have been unable, for example, to use up to date samples of actual Small Supply Point (SSP) consumption data which has led to assumptions being made.
5. We can point to precedents for such a process, for example the Offtake meter errors regime where new costs and benefits can go back for some time. Whilst we can see merit in the industry subsequently developing a process to supplement this Proposal which alleviates any cash flow impacts of a sudden

correction (as Modification Proposal 0335 proposes for the Offtake Meter regime) we accept that when a correction is required due to new evidence it should be made and not ignored.

6. We recognise that the AUGE process has not yet completed its first full year and agree that, generally, it would be preferable to allow the process to bed in before making any changes. We consider however that as the proposed process would take effect only at some point in the future, and as it safeguards the industry against potential inaccuracies, the benefits of implementing the Proposal now outweigh the potential negatives.
7. We are aware that some have argued that this Proposal will create the potential for retrospective charges being levied on the Shipper community and that this will create risk. We reject this point and again argue that the precedent of the Offtake Meter Error process demonstrates the need to reconcile such errors once they are identified and not allow them to be fixed in future only. It also demonstrates that Shippers are able to manage the risk such reconciliation presents.
8. Our expectation is that this process will, if ever, be sparingly used given the time, investment and effort which has gone in to finalising the AUGS. It is impractical to assume however that the first attempt at devising this methodology will be the perfect answer however, and thus there is a need to provide future AUGE's with the ability to correct manifest errors if they are identified.
9. Finally, we wish to point out that the effect of this Proposal should be neutral in it's effect on the market given that future corrections are as likely to be made in the SSP markets favour as the LSP market.
10. Our assessment of how these Proposals meet or do not meet the Relevant Objectives of Code are set out below.

(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.

11. This Proposal will allow any identified inaccuracies in the methodology to be subsequently corrected. This will mean they will not be "locked in" and thus prevent them from forever distorting competition. This in turn will mean Shipper's share of unidentified gas costs will be more accurate, and thus their ability to compete fairly will be improved.
12. If you have any queries relating to this representation, please do not hesitate to telephone me on (07789) 570501.

Yours sincerely

David Watson
Head of Market Design & New Markets, British Gas