

## Representation

### Draft Modification Report

#### 0473 0473A – Project Nexus – Allocation of Unidentified Gas

**Consultation close out date:** 13 Nov 2014  
**Respond to:** enquiries@gasgovernance.co.uk  
**Organisation:** Co-Operative Energy  
**Representative:** Chris Hill  
**Date of Representation:** 13 November 2014

#### Do you support or oppose implementation?

0473 – Support

0473A - Oppose

#### If either 0473 or 0473A were to be implemented, which would be your preference?

Prefer 0473

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

Co-Operative Energy is of the view that it would be a retrograde step to remove the existing AUGE process, which is the result of industry dialogue and in-depth analysis of actual data, and to implement instead a less accurately targeted approach to unallocated gas (UAG) cost allocation on the basis of share of gas market throughput as proposed by 0473A. The AUGE process to be reinstated post Project Nexus delivery by 0473, if implemented, avoids the cross-subsidy by daily read and settled sites of non-daily read sites and the allocation process which exists for these. Implementation of 0473A would codify this cross-subsidy and potentially lessen the incentive for customers to have smart meters installed and be settled on the basis of actual reads, thus delaying the benefit that Government expects to be delivered by this.

#### Modification Panel Members have indicated that it would be particularly helpful if the following questions could be addressed in responses:

**Q1: Please provide as much information and analysis to support your response, particularly any justification for why any particular class should, or should not, attract unidentified gas costs.**

It is worth noting that daily read sites have, in the latest draft AUGE statement, been allocated a small minority (a fraction of 1%) of the total UAG amount for the first time since the inauguration of the AUGE process five years ago. That this has not occurred previously is due to the fact that the settlement inaccuracies which

0473 0473A  
Representation  
00 Month 2014

Version 1.0

Page 1 of 3

© 2014 all rights reserved

contribute to a significant proportion of UAG sit within the non-daily read market, both LSP and SSP. As, based on the historical AUGÉ data, daily read sites do not appear to contribute to these inaccuracies apart from certain exceptional cases which are quickly apparent it is not right that they should bear associated costs which do not originate with them, particularly as this would negatively impact the cost and competitive benefits which the smart (and AMR) metering rollout is expected to deliver to the wider market. Following the implementation of Project Nexus it seems reasonable to assume that it will be much easier to quantify and target UAG as more sites have smart metering technology installed and become daily read and settled upon actual meter reads. Implementation of 0473A could potentially reduce the incentive to install metering technology of this nature and thus delay this step and the attendant benefit for consumers and the wider market.

**Q2: We welcome views on the attribution of unidentified gas costs under these modifications to NTS direct-connected sites.**

We are of the view that NTS sites, being daily read and settled against these actual reads, should not be allocated UAG costs. It is our view that this should be the case for all daily read sites settled against actual meter read data unless and until evidence emerges to the contrary. As previously mentioned, the latest draft AUGÉ statement has allocated a very small quantity of UAG to the daily read market for the first time on the basis of data apparently collected at a single site. This proves that daily read sites are not exempt from UAG costs under the AUGÉ regime where there is appropriate evidence for this and strengthens the argument for an evidence based approach to UAG allocation taking into account the different metering and settlement regimes at different types of site rather than a smear of costs based on throughput which does not take into account these differences.

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

We believe that there is a significant risk that implementation of 0473A would be likely to reduce the incentive to roll out smart metering technology at the earliest possible opportunity and thus delay the benefit that this is intended to deliver. We also believe that basing UAG allocation on proportion of gas market throughput will benefit participants with a significant portfolio of higher margin sticky customers whose customer base (and throughput) is diminishing and penalise participants whose customer base (and throughput) is growing and made up entirely of lower margin customers who have chosen to switch to them as this will result in a margin benefit to the first participant and a margin detriment to the second participant without these necessarily being equal and opposite.

We would also like to highlight the importance of interface meters (offtake) being operated and maintained to best practice and the latest appropriate metering standards. We are also aware that certain offtake meters are currently being operated under supplementary agreements to the Offtake Arrangements Document (OAD) of the UNC which allows them to operate within a measurement uncertainty of 4% whereas the requisite uncertainty within the OAD is currently set at 1%. We consider that those offtake meters operating under the supplementary agreements described may be contributing to a significant proportion of UAG. Should this be proved to be the case

following investigation, appropriate incentives should be placed on GDNs in order to reduce UAG.

**Relevant Objectives:**

*How would implementation of this modification impact the relevant objectives?*

We believe that implementation of 0473 would avoid the cross subsidy of non-daily read sites by daily read sites which would potentially be created by implementation of 0473A and would result in appropriate allocation of costs thus furthering relevant objectives (d) (i) and (ii) - securing of effective competition between shippers and suppliers.

**Impacts and Costs:**

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

Although implementation of 0473A would, we believe, result in a lower level of cash flow impact around UAG for Co-Operative Energy in the mid-term than the implementation of 0473, we believe that the benefit would only be temporary as implementation of 0473A would ultimately delay the greater benefit that wide spread smart meter rollout would bring to consumers and competition as the incentive to install these would be significantly weakened and the ability to properly quantify and allocate UAG cost would be hindered. Therefore in the longer term, implementation of 0473 will be in the best interests of all classes of customers.

**Implementation:**

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

As soon as possible following a direction by Ofgem.

**Legal Text:**

*Are you satisfied that the legal text and the proposed ACS (see [www.gasgovernance.co.uk/proposedACS](http://www.gasgovernance.co.uk/proposedACS)) will deliver the intent of the modification?*

Yes.

**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.