

Representation

Draft Modification Report

0442 and 0442A:

Amendment to the implementation date of the Allocation of Unidentified Gas Statement (AUGS) for the 2013/14 AUG year

Consultation close out date: 22 February 2013

Respond to: enquiries@gasgovernance.co.uk

**Organisation: ScottishPower
Energy Management Ltd**

Representative: Marie Clark

Date of Representation: 22 February 2013

Do you support or oppose implementation?

0442 - Support

0442A - Support

If either 0442 or 0442A were to be implemented, which would be your preference?

Prefer - **0442. If Mod 442 is not implemented we fully endorse and support Mod 442A**

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

0442

ScottishPower supports this Modification Proposal and MOD442A:

- The AUGE has proposed a new consumption based methodology which they believe is more robust
- The process to consult on the methodology was delayed for 10 days and this MOD is trying to ensure that the opportunity to use the methodology is not unduly delayed

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- Further delays experienced due to an extended consultation period afforded to the Industry (3/1/13 to 1/3/13) to consider the consumption based Methodology i.e. 42 business days as opposed to 42 calendar days as outlined within Section 7.1.3 of the AUG Guidelines Document.
- The implementation of this MOD, or MOD442A, will ensure that there is no prolonged cross subsidy between the SSP and LSP markets
- It would be detrimental to domestic consumers if neither of these modifications is implemented
- The implementation of this MOD, or MOD442A, would ensure that should the AUGE recommend the adoption and implementation of the consumption based AUG Methodology that this Methodology is implemented at the earliest opportunity.
- Implementation would provide ensure that SSP Shippers are not being subject to additional costs and risks as a result of failings in the contract between the AUGE (GL Noble Denton) and Xoserve

The AUGE has been preparing an AUG methodology for AUG Year 1/4/13 – 31/3/14 in line with the requirements and timetable set out within the UNC Section E 10.4 and the Allocation of Unidentified Gas Document. The process of preparation and consultation with the Industry is required to commence by 1st May each year with the initial preparation of a draft AUG methodology. At the meeting of the UNCC held on 22/5/12 the AUGE set out their intention to improve on the RbD bias Methodology, which was used in the previous AUG Year (2012/13) by preparing a more robust consumption based Methodology using site specific consumption data (meter reads and metered volume).

An interim draft of the AUG Methodology was subsequently prepared analysing data from one LDZ. This Interim Report was issued for consultation with the Industry for a 4 week period commencing on 31/8/12. Following a meeting of the UNCC held on 17/9/12, the AUGE was requested to prepare a consumption table for each LDZ. It is clear from communications received from the AUGE (letter dated 23/11/12) that the consumption based AUG Methodology was in their view a more robust Methodology intended to replace the RbD Bias AUG Methodology, which applied in the previous AUG Year. It was regarded as a contingency arrangement that the previous year's Methodology could be rolled over. Due to delays in receiving and thereafter processing information from Xoserve, and due to internal resourcing issues within GL Noble Denton, there was a delay in the AUGE producing, publishing, and thereafter issuing for consultation, the final draft AUG Methodology until 3/1/13. This was however only 10 days later than expected. The consultation period on this Methodology will close out on 1/3/13. The AUGE has allowed a 42 Business Day consultation period as opposed to the 42 Calendar Days as outlined within Section 7.1.3 of the AUG Guidelines Document.

The AUGE publicly described the consumption based Methodology which is currently out for consultation with the Industry thus "The AUGE believes the proposed methodology provides an improvement over the 2011 methodology for the previous year in terms of the accuracy of the estimation of Unidentified Gas and allocation to market sectors, and provides improved stability of the estimates going forward". The Industry

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has been fully engaged with the AUGE and understand the AUGE rational for preparing a consumption based AUG Methodology. At an early stage, it was communicated by the AUGE that the consumption based Methodology would produce a more accurate calculation of unidentified gas and contribution to each market sector.

When Mod 229 was implemented Ofgem stated "The introduction of the AUGE is intended to enable an appropriate methodology to be developed, using the best evidence available to determine which market sector is likely to have contributed to Unidentified Gas and how these costs should be apportioned". Delays in adopting and implementing the consumption based methodology have been out with the direct control of SSP and LSP Shippers, indeed it is subject to a contract between GL Noble Denton and Xoserve, which we would have expected to include liabilities in this regard. We have asked for a copy of this contract, but been told by Xoserve that they are unwilling/unable to provide it to us.

The AUG Methodology should not be considered in terms of which market sector is viewed to "win or lose" from its implementation but based on its merit of appropriateness and suitability in calculating the level and contributory factors of unidentified gas. ScottishPower therefore believes that it is entirely unacceptable that the adoption and implementation is delayed for a further year (AUG Year 1/4/14) due to a minor technicality and a 10 day delay in publication. In particular we find it disturbing that a contract relating to such significant sums of energy allocation has been agreed without liabilities included or for the parties who are subject to issues with the process being able to scrutinise the contract itself. If liability clauses had been included, as would normally be the case, it might have resulted in more/addition resources being employed by the contracted parties (Xoserve/GL Noble Denton) to ensure that the methodology was presented to industry as expected.

0442A

Scottish Power fully supports the implementation of this Modification for the same reason that the company supports MOD442. However we recognise that the timescales suggested within Mod 442 are tight although in our view they are fully achievable, given that the Methodology publication was only delayed by 10 days. Mod 442A allows additional time for the AUGE to finalise the AUG Methodology, for them to produce an AUG Table and for Gas Transporters and Xoserve to implement this AUG Table.

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

When Mod 229 was implemented, which introduced a mechanism for correct apportionment of unidentified gas and the appointment of the AUGE, with the objective of retaining a level playing field between all shippers, whether LSP or SSP, by ensuring there are no

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unintended cross subsidies between market sectors or customers. However, the AUGE consumption based Methodology has concluded that for as long as the RbD bias Methodology is allowed to remain, a continued cross subsidy will result. The UNCC are bound to consider AUG Methodology based on its merits and suitability.

Through the modification process ScottishPower raised concerns about the role of the UNCC particularly in relation to voting on the implementation of Modifications and matters relating to the AUG process. As we raised in our response to MOD229 our concerns centre on the fact that, unlike other Code Agreements, UNC/UNCC members are not elected to directly represent a specific market constituency or group of Shippers/Transporters, and as such do not need to take guidance or the views of constituent members into account.

We are also concerned that Transporters have voting rights on matters relating to the AUGE when there is no consequence to them. When comparing with other governance arrangements this is unusual, for example within the MRA, on matters only affecting Suppliers, DNOs will record an abstention from voting by declaring "no interest" or will cast a neutral vote. Ofgem commented in their direction on Mod 229 "We note the concerns around the current composition of the UNCC and influence this may have upon its decisions in relation to the AUGE and the allocation methodology. However, we would expect members of that committee to act impartially, in a manner best suited to fulfilling the relevant objectives of the UNC".

ScottishPower believe that the constitution and voting rights of the UNC and UNCC require to be reviewed urgently and that no one party or group of parties should be able to apply undue influence over proceeding and decisions.

Relevant Objectives:

How would implementation of either of these modifications impact the relevant objectives?

d) the securing of effective competition

ScottishPower consider that the aims and objectives of these Modification proposals are to promote effective and efficient competition between parties and to facilitate a more equitable distribution of unidentified gas charges between market sectors.

If either Mod 442 or Mod 442A are implemented they will facilitate the introduction of the consumption based AUG Methodology, which the AUGE believes is an improvement over the 2011 Methodology. This will allow for greater accuracy of the estimation of Unidentified Gas and allocation to the correct market sector and should provide improved stability of the estimates going forward. This is in line with what the AUGE believed the consumption methodology would deliver.

Implementation of this Modification will prevent consumers connected to SSPs from being further exposed to another year of inappropriate Unidentified Gas costs.

ScottishPower believes in these tough economic times that it is essential that any known and demonstrated cross subsidy from the mainly domestic SSP market to the mainly LSP non-domestic market is addressed at the earliest opportunity. We also believe that it is Ofgem's duty to ensure that where there are proven benefits to an independently proposed methodology from

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the expert contracted to address the unidentified gas issue that this is taken up as soon as possible.

Competition between Shippers and their Suppliers is affected by the cross-subsidy of costs. The AUGÉ has rightly been appointed as an independent body to develop a Methodology which seeks to identify the level of unidentified gas and address this cross-subsidy by estimating and assigning the volume of energy attributed to the LSP and SSP market sectors. It is therefore appropriate that the AUG Methodology deemed as being the most accurate is implemented at the earliest opportunity.

Impacts and Costs:

What analysis, development and ongoing costs would you face if either of these modifications were implemented?

There are no material additional costs for ScottishPower if this change is made.

Implementation:

What lead-time would you wish to see prior to either of these modifications being implemented, and why?

As directed within the individual Modification Proposals

Legal Text:

Are you satisfied that the legal text will deliver the intent of each of these modifications?

Yes we are satisfied that the legal text reflects the intent of these Modifications.

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.