

Representation - Draft Modification Report UNC 0831 0831A

0831 – Allocation of LDZ UIG to Shippers Based on a Straight Throughput Method

0831A - Allocation of LDZ UIG to Shippers (Class 2, 3 and 4) Based on a Straight Throughput Method

Responses invited by: **5pm on 19 October 2023**

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	James Knight
Organisation:	Centrica
Date of Representation:	19/10/2023
Support or oppose implementation?	0831 - Support 0831A - Oppose
Alternate preference:	0831
Relevant Objective:	d) 0831 Positive 0831A Negative f) 0831 Positive 0831A Negative
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

0831 Support

Removing the variability in weighting factors reduces the uncertainty around UIG allocations. This will facilitate more effective competition between suppliers and could lead to lower overall bills by reducing the risk premium associated with changing weighting factors.

We do not believe that applying the “Polluter Pays” approach is fair because it largely centres around the allocation of gas theft where, by definition, the polluter is not paying: the approach places the cost of theft increasingly on those who are not stealing gas simply because theft detection rates have been higher for Consumers with similar meter types. Socialising the cost of UIG evenly across the market is a fairer treatment.

Under the current methodology the weighting factors used to allocate UIG change in October each year but the allocation of UGR doesn’t fully align to updated weighting factors until 12 months later. Using static weighting factors will better align UIG and UGR allocations.

We agree that the removal of the AUGÉ will lower industry costs, promoting efficiency in the administration of the Code.

0831A Oppose

We do not believe that certain customer types should be excluded from the allocation of UIG. If UIG is to be socialised it should be socialised across all Shippers based on the same weighting factor (as in the original mod 0831). Currently the AUGÉ impartially creates the weighting factors to split UIG between End User Categories and Product Classes. If there is to be a differentiation between the UIG allocation of Consumer categories then there should be a data driven rationale for doing so and the AUGÉ are the industry expert appointed to impartially calculate that differential.

Referring at the Xoserve “Reconciliation by Month” report¹, so far in the current gas year there has been over 480 GWh of reconciliations for sites in Product Class 1. Also, in recent years we have seen large LDZ metering errors such as the Alrewas MTD Metering Error (EM009). These examples underline the fact that there are material errors in the settlement of large daily read meters, and setting the allocation to 0 for Product Class 1 is inconsistent with these sites contributing to UIG.

Furthermore, we believe 0831A has a negative impact on relevant objective d because it creates an unjustified distortion in the allocation of UIG, and this cannot be overcome by relying on a future modification to also exclude daily metered sites in Product Class 2. The modification should be judged on its own merits.

While we agree that the removal of the AUGÉ will lower industry costs, we would argue that distortions created by the differential weighting factors would represent an overall inefficiency in the administration of the Code.

¹ <https://www.xoserve.com/help-centre/demand-attribution/unidentified-gas-uig/>

Implementation: *What lead-time do you wish to see prior to implementation and why?*

We believe that any change to the weighting factors should be made in accordance with the current timelines (October 2024 at the earliest) as pricing decisions will have been made based on the current weighting factors being in place until at least that date.

Ofgem will potentially need to reflect these changes in the price cap allowances, as October is the start of a price cap period this should minimise potential for a differential.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

There would be no direct implementation costs, but there will of course be impacts to trading positions and pricing as a result of the changing UIG allocations.

The AUGE should be asked to do analysis on the potential impacts of the UIG allocation to different Consumer groups, especially the impacts on prepayment Consumers.

Currently data from the AUGE is used to create the UIG allocation percentage in the price cap calculation, a change to the price cap methodology would likely be required. Ofgem should assess the impact of this on Consumers.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes

Modification Panel Members have requested that the following questions are addressed:

Q1: Do you have views on the effect of these two alternatives on end consumers?

Analysis on the impacts to different Consumer groups especially the impacts on prepayment customers and interplay with the price cap should be conducted.

Q2: Is the process in electricity comparable? (please explain)

No, in electricity the distribution network operators must recalculate loss adjustment factors once every two years in a way which would have resulted in an average group correction factor of 1.0 (i.e. no correction over the year). Therefore, whilst half-hourly sites are not allocated energy volumes through the group correction factor, they are allocated losses in a way that includes an allocation of both technical losses (pure electrical losses) and non-technical losses (theft, metering error, modelling error) over the long term. The most equivalent thing to losses in gas is shrinkage, but this is not systematically updated like electricity with the aim of getting UIG to zero, so it is appropriate for larger sites to pick up a share of UIG.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

NA

Please provide below any additional analysis or information to support your representation

NA