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:	George MacGregor
Organisation:	Utilita Energy Ltd
Date of Representation:	19/10/2023
Support or oppose implementation?	0831 - Oppose 0831A - Oppose
Alternate preference:	NA
Relevant Objective:	d) Negative – Encourages poor behaviours from Shippers and disincentivises effective competitive customer focussed efforts f) Negative – Removing attempts to fix problems cannot be deemed to improve the efficiency/ease of their implementation.
Relevant Charging Methodology Objective:	Not Applicable

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

The regulator must recognise that implementing these proposals would disincentivise positive Shipper behaviours and subsequently undermine various key industry programmes. This is being done not because certain matrix positions are deemed responsible for a higher contribution to UIG, but to ease the implementation of UIG allocation and to avoid year-on-year price fluctuations. The regulator must not disincentivise the shift to smart meters and the tackling of actual contributors to UIG for the sake of administrative simplicity.

These proposals decrease incentives to fulfil the aims of several key industry initiatives, such as the Smart Metering Rollout, and various Net-Zero contributing projects. We believe that Shippers should be rewarded for productive behaviours and that the

completion of industry initiatives offer significant consumer benefits – on this basis, we strongly oppose these modification proposals.

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

We do not believe either proposal should be implemented.

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

We do not believe either proposal should be implemented.

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

We do not believe either proposal should be implemented.

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?

These proposals will have long term negative effects on end consumers, as they disincentivise competitive and innovative behaviours from Shippers. These modifications propose a Vanilla Smear approach, which diverges from the Polluter Pays principle, and proposes to distribute UIG to all classes on throughput alone, thus removing incentives from Shippers to fit smart meters, submit accurate reads into settlement and target known sources of UIG. In the long term, this will drive prices up for *all* customers, as Shippers are not rewarded for behaviours which benefit end consumers.

The Request Group (781R) which preceded this modification assessed Options against seven criteria. The group recognised that a vanilla smear, as proposed by both modifications, has a LOW rating against meeting the Polluter Pays dynamic. Against the same seven criteria, a straight throughput method was proposed on merits of being easily implemented, explained and in not being open to continual challenge. Therefore, the vanilla smear approach has been proposed as it offers simplicity on the Shipper Side of the process and proposes to sacrifice end consumer benefits to capture these Shipper side benefits.

The current AUGE approach offers significant benefits to end consumers. Installing Smart Meters offer consumers significant benefits and are a key enabler for various key industry programmes. Shifting consumers to Class 3 is one of the key benefits of fitting Smart Meters for Shippers. For Smart Meters to reduce consumer bills, UIG burden on Class 3 consumers must be lower. Flat throughput methods remove the Shipper incentives to fit smart meters. Incentives are more important than ever for the Smart Metering Rollout, as the remaining 45% are harder to convert consumers which remain at the tail end of the programme.

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

The process is not comparable.

GSP Group Correction Factors are not applied equally to all SVA metered volumes. Each Consumption Component Class (CCC) is assigned a different Scaling Weight, which defines how much of the group correction should be applied to it. This different treatment in CCCs shows that the electricity process is not comparable to UIG allocation based on flat throughput, as proposed by these modifications.

The electricity process already accounts for, and rewards, the application of more accurate metering methods. This can be seen by the aggregate weightings applied to HH vs NHH groups, explicitly recognising that HH sites are less responsible for the GSP GCF requirement. The closest comparator to this for gas is DM vs NDM (where Class 1,2 and 3 sites are all effectively DM for the sake of UIG contribution). In this sense, the existing AUGE table is more reflective of the GSP GCF system, applying proportionally more unallocated gas to the NDM sites, equating to the higher GSP GCF weighting factor applied to NHH sites through their CCC.

The GCF is, in fact, a good example of why 0831 and 0831A should be rejected, demonstrating a comparable system whereby the industry applied adaptive measures to incentivise parties to improve their settlement performance, without financially impeding them. When considering the implication of elective half-hourly settlement, Ofgem correctly identified that the growth of unmetered Feed-in Tarff generation had resulted in GCF providing a net benefit to suppliers' NHH allocation, amounting to negative demand, which HH-metered allocation did not receive (Here, Paras 5.1-12). To ensure suppliers would not lose this benefit by electing to upgrade their smart sites to an elective HH standard, Ofgem introduced additional CCCs to identify small HH sites, to which NHH-weighted GCFs would still be applied (subject to continued review). This approach was implemented despite the process being theoretically 'incorrect', and further complicating the system with additional CCCs; however, priority was given to providing the proper incentive and market signal to suppliers to improve their performance, meet national targets, and realise the full technological benefit, without being impeded by the anomalies of an imperfect system (NHH allocation coupled with unmetered FIT generation). A similar approach should be followed within the UIG allocation process with shippers properly incentivised to improve settlement performance and reduce overall UIG by moving small sites into Class 3, without being penalised with a one-size-fits-all solution which vanilla smearing represents, or an inconsistent standard that arbitrarily rewards Class 1 daily metering, without recognising Classes 2 and 3.

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.*

If it is factors other than theft which account for UIG, we must prove this before we opt to redistribute UIG. If this proposal is implemented, we would be exchanging one batch of challenged assumptions for another. If the industry view is that UIG attributable to theft is overestimated, effort should be put into investigating the other stated sources of inaccuracies, such as shrinkage calculations, temperature assumptions, pressure issues or metering inaccuracies. The current AUGE process incentivises industry to resolve these issues, reduce the amount of unaccounted for gas, and thus seek to reduce end-consumer bills.

831A states that Daily Metered consumers do not contribute to model error. This is the primary justification for their alternate proposal. Whilst we agree Daily Metered sites are

less likely to be contributors to UIG, for the stated reasons, this is true of all Classes other than Class 4. Class 1,2 and 3 sites all submit accurate daily readings – any of the metering advantages of Class 1 are also present into these two categories. It is unclear why the proposer did not seek to extend the exclusion to Class 2 and 3 sites – as their core justification is equally applicable to these two classes.

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

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