

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:	Mark Jones
Organisation:	SSE Energy Supply Limited
Date of Representation:	19 October 2023
Support or oppose implementation?	0831 - Support 0831A - Support
Alternate preference:	<i>If either 0831 or 0831A were to be implemented, which would be your preference?</i> 0831
Relevant Objective:	0831 d) Positive f) Positive 0831A d) Positive f) Positive
Relevant Charging Methodology Objective:	Not Applicable

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

Since the implementation of Project Nexus, UIG has become a lot more visible, and it has become apparent that a large proportion of UIG is due to settlement errors and unexplained losses of gas from the system, including, what is largely perceived by the industry to be an under allocation of gas for shrinkage and other losses on the system. The current AUGE is allocating a large amount of UIG based on detected theft levels by stating that all unexplained UIG is largely theft, and that it should be allocated to those sectors where theft has been detected. This is at odds with the REC theft analysis which shows theft to be approximately one seventh of the level of theft that is being allocated by the AUGE. Also, by allocating all unexplained UIG to the sectors where theft has been detected, this is a disincentive to finding theft. Furthermore, theft is a matter for suppliers and so it could be argued that it is unfair to allocate UIG to shippers based on theft, when it is suppliers who manage theft.

Given that most UIG cannot be attributed to any cause or causes, or to any particular type of customer, we believe that UNC 0831 is the fairer modification because, in reality, most of the losses are likely to be on the network itself with no customer or customer types at fault. Therefore, class 1 sites should pick up a proportion as the losses are largely due to transporting the gas to all customers rather than there being a large amount of theft in a particular sector or sectors. The costs of UIG can, therefore, be seen as a 'cost to operate in the market', and as UIG is measured as a percentage of gas consumption, its allocation should be based on throughput. If UIG could be accurately allocated to each of its causes and allocated accordingly, then class 1 sites would pick up a much larger share of UIG. UNC 0831 should be seen as a modification which allocates UIG fairly, rather than being seen as a modification which unfairly penalises Class 1 sites, as these sites have been picking up a much lower amount of UIG than they should have been since the implementation of Project Nexus, and they are losing this unfair advantage they have had over the past number of years.

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

We believe the modification should be implemented in line with the earliest timescale stated in the modification, which is the first of the month that is at least 6 weeks after an Authority decision to implement.

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

None identified.

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

Yes, we are satisfied the legal text will deliver the intent of the solution.

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?

Both of the modifications will reduce the uncertainty in UIG allocation and so lower the risks to shippers and suppliers. This in turn will reduce wholesale costs and so provide a benefit to consumers. Whilst implementation of either modification will see a reallocation of UIG from the current UIG table that could be seen to create winners and losers, future UIG tables could allocate UIG in a very different manner, especially if there was a change in the AUGE. We saw this at the last change of AUGE, where the previous AUGE's tables allocated a much higher proportion of UIG to domestic customers compared to the current AUGE's allocation methods.

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

We believe that the process in electricity is comparable to UNC 0831 in that electricity losses are apportioned based on the GSP group correction factor, which allocates the electricity equivalent of UIG to suppliers based on throughput. The GSP group correction factor is a stable arrangement, has been in place for many years as it was introduced at the start of competition and there has been very little discussion or change to it over the past few decades, which is totally different to the situation in gas where UIG has been discussed for decades.

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.*

No.

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