

Representation

Draft Modification Report

0456 (Urgent): - Revision to the treatment of Allocation of Unidentified Gas for the 2013/14 AUG Year

Consultation close out date: 11 June 2013

Respond to: enquiries@gasgovernance.co.uk

Organisation: DONG Energy Sales (UK) Limited
("DONG Energy")

Representative: Lorna Lewin

Date of Representation: 11 June 2013

Do you support or oppose implementation?

Not in Support

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

DONG Energy opposes Modification 0456 (Urgent) on the basis that it would: (i) fundamentally undermine industry certainty and the legitimate expectation of DONG Energy and other shippers/suppliers that the established AUGGE procedures should be adhered to; (ii) undermine the authority and independence of the AUGGE by subjecting its processes to urgent modification procedures; and (iii) have a severe financial impact on DONG Energy's business given the inadequate notice period for shippers to react appropriately to the re-allocation of costs. Further to commissioning an independent report, DONG Energy is aware of significant and persistent errors with regards to the supporting data provided by the AUGGE, and therefore considerably more time is required to ensure the accuracy of the underlying data required for calculating the relevant UG volumes. In addition, DONG Energy believes that there are insufficient grounds to argue that there would be a 'significant commercial impact' upon parties or consumers if the current AUG Methodology and Table are observed until the end of the 2013/2014 AUG Year. However, we submit that a significant commercial and financial impact would be felt by shippers/suppliers such as DONG Energy who would have insufficient time to put administrative and contractual measures in place to appropriately reallocate costs.

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

No.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

The modification would have a negative impact on relevant objective d)(i) "**securing of effective competition between**

0456 (Urgent)
Representation

11 June 2013

Version 1.0

Page 1 of 3

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relevant shippers and suppliers” on the basis that its implementation would result in an unacceptable adverse financial impact on shippers. The modification would entail a large increase of unidentified gas costs allocation to certain shippers/suppliers such as DONG Energy and the short notice period (i.e. implementation by 1st October 2013) would not allow DONG Energy sufficient time to implement the requisite changes to customer contracts to fairly absorb an acceptable proportion of the increased costs allocation. Such a result would place DONG Energy at a substantial commercial disadvantage to its competitors. In addition, the inaccurate data-set proposed to be used by the AUGER would result in significant inaccuracies in calculating the volumes of UG attributable to industry parties, and this would unacceptably expose DONG Energy to the risk of incurring excessive and unreasonable costs.

The modification would also have a negative impact on relevant objective f) **“Promotion of efficiency in the implementation and administration of the Code”** on the basis that the proposed modification undermines the legitimate expectation of code parties that the UNC should be administered in an efficient, consistent and reliable manner.

Impacts and Costs:

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

As noted above, the short timeframe proposed for implementation of the modification would result in a severe financial impact on DONG Energy since this provides insufficient time to implement appropriate administrative and contractual measures to appropriately reallocate costs.

We also envisage that to the extent that DONG Energy is able to reallocate increased UG costs to its customers, this would result in an unsatisfactory financial impact on our customers who will not have anticipated or budgeted for such costs increases prior to 1 April 2014.

In addition, pursuant to an independently commissioned report, we are aware of substantial inaccuracies within the dataset proposed to be used by the AUGER under the proposed new AUG Methodology, and such inaccuracies pose a real risk that DONG Energy (and its customers) would be exposed to disproportionately high costs in respect of UG.

Implementation:

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

Not applicable – DONG Energy opposes this Modification.

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.

DONG Energy, together with other industry parties, has a legitimate expectation that the established AUGER procedures, as set out in the UNC and the AUGER Guidelines, should be adhered to. On a business and operational level, we have been working on the assumption that the established AUGER timetable must be followed for the remainder of the current AUG Year, and have placed a legitimate reliance on the underlying

0456 (Urgent)
Representation

11 June 2013

Version 1.0

Page 2 of 3

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regulation that supports the AUGÉ process. It would be entirely contrary to maintaining industry certainty and ensuring the efficient implementation of the UNC if implementation of this modification was to be permitted, notwithstanding the adverse financial and commercial impact that the modification would have on DONG Energy and its customers.