

**From:** Wood, Graham, British Gas  
**To:** Cottam, Fiona  
**Subject:** RE: 2013 AUG Review Invitation Letter

Hi Fiona,

Please find below our comments on the 2013 AUG process:

- The success or otherwise of any AUGE year should be measured by the output – the UNCC approved methodology for application in the forthcoming AUGE formula year. In 2013 there was no output and therefore the year should be viewed as nothing other than a complete failure.
- The process is designed to be iterative on an annual basis and for there to be no advancement in the applied methodology despite the time, cost and resources that have been applied to the process is unacceptable.
- The failure to advance the applied methodology has been caused by the AUGE. Their acceptance that all LDZ outcomes must be published prior to UNCC approval being sought was a fatal error and this along with unspecified 'operational issues' is the primary reason for there being no advancement within the formula year.
- The AUGE need to focus on the task at hand and deliver against scope, and not be concerned as to how any given issue may ultimately impact one market sector or the other. Their independence means that they should simply get to the right answer. This issue will always polarise market participant views and this should be of no concern to the AUGE.
- The AUGE ought not to be making recommendations as to changes in the guidelines but should restrict their efforts in this regard to adherence, too often the guidelines have been selectively applied. If changes are required to the guidelines then this will be achieved via the industry and adopted by the AUGE.
- The AUGE should apply the guidelines and adhere to them.
- For clarity the AUGE was engaged in December with regard to the raising of Mod442 and timeframes there-in, this led to their letter dated 8 January 2013 being issued, on the request of Ofgem.
- No arrangements established by the UNC have ever been, or should ever be ring-fenced from change. All arrangements established under the UNC are open to modification providing, on balance, the relevant objectives are better facilitated.

Thank you for the extended period for response. If you require any further information on the above points please let me know.

Regards.

Graham

Fiona Cottam  
31 Homer Road  
Solihull  
West Midlands  
B91 3LT  
26<sup>th</sup> April 2013

Dear Fiona Cottam,

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy appreciates the opportunity to provide feedback on the AUGE process 2012/2013. We are disappointed that whilst an AUGE table was produced using the improved methodology it was not published in accordance to the timescales set out in the guidelines document, and therefore was not implemented. EDF Energy believes the revised methodology is more accurate because it contains smaller confidence intervals and an updated estimate of theft of gas. We feel that delays of several weeks should not have jeopardised the process.

We would like assurance from the AUGE that they will be able to publish a table for 2013/2014 which accurately reflects the total unallocated gas within the timescales documented. We would welcome changes to the guidelines document adding clarity to the process and timescales. Additionally we would appreciate greater guidance from Ofgem on the process and implementation of a revised table.

EDF Energy believe that with the implementation of the AUGE the industry has made significant steps to fairer allocate gas usage between domestic and business customers. We believe implementation of an AUGE table that most accurately reflects the true allocation of gas is paramount. Any cross subsidy between domestic and business markets we consider to be unacceptable and will have to be passed onto customers.

Should you wish to discuss any of the issues raised in our response or have any queries please contact my colleague Naomi Anderson on 07875111432 or myself.

Yours sincerely,





**Mark Cox**  
**Head of Transmission & Trading Arrangements**



Fiona Cottam  
Performance Manager  
Customer Operations  
Xoserve Ltd

Response by e-mail: [as.billing.commercial@xoserve.com](mailto:as.billing.commercial@xoserve.com)

24<sup>th</sup> April 2013.

Dear Fiona,

RWEnpower welcomes the opportunity to comment on the activities and performance of the AUGE.

There have been a number of issues that have impacted the 2012/2013 AUGE calculations and invoicing. These have been of great concern to RWEnpower first and foremost because of the impact on our customers. In difficult financial times it is imperative that costs are allocated accurately and fairly across the industry to those to whom they are attributable.

Whilst we appreciate that robust governance is necessary, being unable to use more accurate data has significant impacts for industry settlement as a whole. The AUGE's inability to provide this new data within governance timescales has been very disappointing and has significant customer impacts.

The contract agreed with Gas Transporters that details the role, performance and legal requirements of the AUGE has not been shared with the Shipper community. Without this transparency, the Shipper community has to rely on the Gas Transporters to ensure performance under that contract, even though the consequences of failure to perform has no material impact on the Gas Transporters but can have a material impact on Shippers and their customers. This is clearly far from ideal. In addition to this RWEnpower has a concern that the contractual liabilities may not be representative of the risk that Shippers may be exposed to through this arrangement. To address this we would welcome a review of this contract including the arrangements for the procurement of data from Xoserve with input from Shippers.

I hope this letter details our concerns and if you require any further clarification please do not hesitate to contact me.

Yours sincerely

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26 April 2013

(Send by email)

Dear Fiona

### **Allocation of Unidentified Gas – Request for Feedback**

We welcome the opportunity to respond to your letter requesting feedback on “the activities and performance of the AUGÉ and the industry for the creation of the AUGS”

ScottishPower has been proactively involved within Industry discussions and the consultation process to develop the consumption based methodology for application within the AUG Year 2012/13. As a Shipper/Supplier operating within the SSP market sector, we are extremely disappointed and concerned that the Methodology which has been under development for the best part of 2012 and into 2013 has failed to be approved and adopted in sufficient time to allow implementation on 1<sup>st</sup> April 2013.

The principle objective of the AUGÉ is to develop a Methodology to estimate the volume of unidentified gas and the contribution made to this volume by the SSP and LSP market sectors. However there is no scope within the current Terms of Reference of the AUGÉ to identify and communicate root causes contributing to the error. We believe that this is a fundamental flaw in the process.

In our opinion, we believe that the work of the AUGÉ has been delayed and frustrated by a number of factors including:

- Lack of clarity within the business rules outlined within the AUGÉ Guidelines,
- Delays in Xoserve providing data requested by the AUGÉ and the quality of data provided,

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- Internal operational delays in the AUGE,
- The complexity and scale of the work in analysing large volumes of data.

In addition to the above we believe that the governance and decision making process in relation to the adoption and implementation of the AUG Methodology and AUG Table need to be reformed.

We have responded in more detail to the issues noted above and provided our view of where improvements to the process can be made in the attached Appendix.

If you require any further information regarding aspect discussed, please do not hesitate to contact me on the above contact details.

Yours sincerely

Marie Clark  
Energy Commercial Manager  
ScottishPower

## Appendix

### Current Role of the AUGE

Current Gas Settlement arrangements through the application of the Reconciliation by Difference regime result in all un-reconciled gas volumes being allocated directly to the SSP market sector even though a percentage of the error is caused by the LSP market sector. The AUGE was introduced via the implementation of UNC Mod 229 for the specific reasons of developing a methodology to estimate the volume of unidentified gas and to calculate the contribution made by the SSP and LSP market sectors to this value.

The development, approval and adoption of the AUG Methodology and AUG Table which serves to re-apportion a volume of unidentified gas to the LSP market sector was always going to be a complex and somewhat contentious issue. The AUGE has now developed a methodology which in their view "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". As yet this Methodology has failed to be implemented and continues to remain in development by the AUGE.

It is our view that a fundamental failure of the AUGE concept and process is that the key objective is apportionment of error with no clear focus or objective on identifying and resolving root causes contributing to error.

Notwithstanding the difficulties and delays that have been experienced in producing an AUG Methodology which is acceptable to the Industry, we believe that the AUGE has completed some valuable work in relation to identifying and understanding contributing factors to the scale and volume of unidentified gas. The AUGE through their work has had the opportunity to scrutinise and examine large volumes of data. Through the course of this work it could be concluded that the AUGE has been in an advantageous position to be able to identify, to some degree, why errors have occurred and are prolonged either through technical failures, data submission errors or lack of appropriate governance controls. In addition the Shipper data analysed will also provide evidence of not just the degree to which each market sector is contributing to the error but the contribution of individual Shippers within market sectors.

We believe that the Industry should consider extending the Terms of Reference of the appointed AUGE to include the identification of root causes, the communication of contributing factors and proposals on how the situation can be improved/resolved. The Industry is currently discussing proposals for the introduction of a Performance Assurance regime within Gas. Where settlement error is recognised, Parties overseeing/involved in the process should be empowered to take proactive measures to assist in rectifying the situation, be it through reporting, corrective action or incentive measures.

The benefits case for Project Nexus rests on the delivery and utilisation of accurate settlement data. Failure to adequately improve the quality of settlement data and contributing components such as meter reading and meter asset data information will only result in the volume of unidentified gas being smeared across all Meter Points through the Scaling Factor when Project Nexus goes live. Taking proactive measures now to cleanse data prior to Nexus go-live will go a long way to improving the accuracy of Settlement, delivering Nexus benefits and potentially reducing the volume of unidentified gas.

### **AUGE Guidelines**

While drafting the Business Rules for Mod 442A it became evident that the AUGE Guidelines document, in its current form, is not fit for purpose and is open for misinterpretation. We welcome the proposals by the AUGE to review the document in order to introduce increased understanding of the stages and timescales that are required in preparing, consulting and querying the AUG Methodology. We also believe that in tandem a review of the legal text set out within the UNC Section E10.4 (Establishing the AUG Methodology and AUG Table) and the AUGE Guidelines requires to be undertaken to ensure that no further inconsistencies exist in terms of obligations and clarification of terms.

We agree with the majority of the proposals suggested by the AUGE however we believe that some aspects of the proposals require further consideration.

It has been highlighted by the AUGE that the approval of the AUG Methodology has either been delayed or in the case of 2012/13, the previous year's AUG Methodology and AUG Table has been rolled over. It has been suggested by the AUGE "that a facility is put in place such that in the event of a delay to the approval of the AUGS or production of the Interim/Final AUG Tables that the process can be deferred by an agreed period (e.g. 3 months up to a maximum of 6 months)". Mod 442A which was proposed by ScottishPower sought to implement a similar solution. We support the proposal that AUGE should be given sufficient time to develop and finalise the AUG Methodology and that the recommended AUGS is implemented at the earliest opportunity to avoid the continued cross subsidy between SSP and LSP market sectors. Similar to Mod 442A we would suggest that following conclusion of the AUGS and AUG Table that implementation occurs within 2 calendar months. Where the final AUG Table is adopted on any calendar day other than the 1st of the month, then it shall be deemed to be completed on the 1st calendar day of the following month and the final AUG Table will be implemented two calendar months thereafter.

A further consideration is that any deferment should not affect the timescales for the creation and adoption of AUGS and AUG Table applicable for the following AUG Year.

The AUGE has also suggested that they should have some involvement within the UNC Modification process where specific proposals relate to the requirement for the AUGE to adhere to specific timescales which they deem may not be achievable. In principle, we have no objection to this dialogue taking place, however the AUGE should not be able to adversely impact whether a Modification Proposal is implemented or not. The Modification will be judged against whether it positively contributes to the achievement of the UNC Relevant Objectives. The Contractual Terms in place between the AUGE and the Gas Transporters should consider such instances and as such include appropriate safeguards to ensure no adverse risk or liability is assigned against the AUGE for failure to discharge their responsibilities in this regard.

### **AUGE Contract Terms**

Gas Transporters are required to contract with the AUGE in accordance with Section E 10.2 for the development of the AUG Methodology and preparation and recommendation of the AUG Table to the UNCC. Xoserve as the Gas Transporters Agent has discharged this obligation by contracting with the AUGE. Shipper Parties have paid the set up costs in relation to the procurement of the AUGE and also the annual running costs for the AUGE via charges which are applied through the Agency Charging Statement. As Shippers are paying for this Contract and as such, should at the very least have sight of the Principle Terms of the Contractual



Agreement. ScottishPower has on several occasions requested a copy of the Contract from Xoserve in order to establish what terms have been agreed for failure by any Party to the Agreement adhering to or delivering within prescribed timescales the obligations therein. This request has been declined and we can only conclude from this response the absence of any such terms. We do not believe that this is an acceptable situation.

UNC Section E 10.3.2 states "The Transporters may enter into an AUGE Expert Contract on terms which:

(a) Limit of exclude liability (as to such matters as may be provided in such contract of the AUGE Expert"

This section goes on to talk about indemnifying claims made against the AUGE Expert and the Transporter, however we do not believe that this Clause excludes the insertion of liabilities which relate to the provision of information by Xoserve/Transporters to allow the AUGE to develop and prepare the AUGE Methodology and the delivery of the Methodology to the Industry in line with required timescales.

It has been recorded within AUGE communications, that delays were experienced in the provision and quality of data provided by Xoserve which resulted in the AUGE being required to undertake a degree of rework. In addition the AUGE experienced internal operational issues which resulted in a delay in the production of the AUGE Methodology (AUGE Letter dated 11<sup>th</sup> December 2012). In addition the AUGE has issued several communications which have inferred the production and delivery of the proposed AUGE Methodology and the subsequent submission of the Methodology for UNCC approval within a predetermined timetable. However the timetables set out within the individual AUGE communications have not always been adhered to with no clear reasons given for such delays.

The consumption based Methodology has estimated the value of unidentified gas as being between 10-11TWH. While we accept that liabilities for failure to deliver specific terms of the Agreement cannot be representative of the risks associated with the failure to deliver the AUGE Table and the overall estimated value of unidentified gas, appropriate liabilities and performance measures should be in place to ensure that Parties deliver their obligations in line with contract requirements. Liabilities should therefore be commensurate to the value of the contract which has been agreed.

In addition, it has not been communicated to Shipper's, the specific contractual period agreed with the AUGE and as such when a revision to the current terms and conditions can be re-negotiated. We would request that this information is communicated to the Industry and that we are consulted on proposed changes to the Agreement including the potential to extent the Terms of Reference for AUGE services.

### **Role of UNCC**

ScottishPower believe that the role of the UNCC requires to be considered in relation to the AUGE. Within the consultation process for UNC Mod 229, ScottishPower raised concerns about the role of the UNCC particularly in relation to voting on the implementation of Modifications and matters relating to the AUGE process. We raised in our response our concerns regarding 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.

Amendments to the AUGE guidelines can be made by majority decision by the UNCC. We would expect the UNCC to consult on any proposed changes with the wider Shipping community and other interested parties. Elected members of the SSP and LSP Shipping community vote on AUGE issues that will directly affect the volume of unidentified gas allocated to their individual companies via the AUG Table. We do not believe that this situation promotes voting preferences which are aligned with a wholly unbiased view particularly when issues of such material value are to be considered. In the interests of impartiality, when considering AUGE recommendations, we would suggest that an independent body/experts are engaged to adjudicate on matters relating to the AUGS and AUG Table and that they should use their expertise and judgement to assess whether the AUGS and AUG Table should be adopted and implemented for a given AUG Year.

We are also concerned that Transporters have voting rights on matters relating to the AUGE when there is no commercial or financial consequence to them. When Mods 442 and 442A were issued for consultation, Transporters declined to make any representation on whether either Modification should be implemented or not. However Transporters, as members of the UNC Panel had exercisable votes on whether UNC Panel approval was given. All Transporters failed to submit a vote for the Modification however as they were in attendance at the UNC Panel Meeting in which the Mods were considered, their presence was counted as an exercisable vote and as such resulted in negative outcome for both Modifications. Transporters should have excluded themselves from the UNC Panel vote or should have declared a "no interest" in the outcome.

When comparing this scenario against voting rights present within other Industry governance arrangements this situation 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.



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Date : 26 Apr 13

Dear Fiona,

**Allocation of Unidentified Gas – Feedback**

Thank you for the opportunity to comment on the events for the AUGÉ year 2012/13.

From our experiences of the AUGÉ year 2012/13, SSE would like to see a number of changes made to the AUGS process for 2013/14. However, all of our issues identified have been captured by GL Noble Denton and suggested in the appendix attached to your feedback request. Our specific issues are around the consultation and query processes, clarification of the timing of meetings and, most importantly, avoiding a repeat of the situation of 2012/13 which resulted in a rollover for the AUGS for 2013/14 for the whole year due to a minor delay in the process. The suggestions put forward by GL Noble Denton as improvements seem very appropriate and, given their level of expertise in this process, we are unable to put forward at this stage, without having engaged in any industry discussion on these suggestions, any improvements to them.

SSE strongly supports the AUGÉ's view that a number of the suggestions that have been put forward are discussed further by the industry and developed before implementation. The development of the AUGS each year is a very complicated process that was very likely to be able to be improved with experience, both in the data used in its development and the actual procedures and timetable within it. It is, therefore, essential that these improvements that have been recognised as being able to be made are implemented in time for the 2013/14 AUGS for 2014/15 so that the process is as workable and clear as possible, and allows the AUGÉ to be able to develop an AUGS that is as accurate as possible which results in as fair and optimal a reallocation of energy from the SSP sector to the LSP sector that can be achieved.

Yours sincerely,

Mark Jones