

Representation - Draft Modification Report UNC 0758

Temporary extension of AUG Statement creation process

Responses invited by: 5pm on 04 June 2021

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:	04 June 2021
Support or oppose implementation?	Support
Relevant Objective:	<p>d) Positive</p> <p>f) Positive</p>

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

We believe that the new AUGE has not had sufficient time to fully develop their new methodology which is a fundamental change to the methodology employed by the previous AUGE. This has been the situation in the past, as when AUG statements using a new methodology have tried to be developed in one year by the relevant AUGE, it has not proven to be successful and the previous table has been rolled over into the following year. This is because AUG statements developed using a new approach were not able to be fully analysed in one year, and so we believe that more time is required in order for the new AUGE to fully develop their alternative approach.

From the above past experiences, we do not believe that the current AUG process allows a new AUGE sufficient time to develop a new methodology during the first year of their appointment and that this issue should be looked at by the industry in time for the next AUGE appointment.

Therefore, we agree with the proposer that more time is needed to fully develop the new AUGE's approach and that if this time is not granted and the proposed table goes live on 1st October 2021 then it will lead to a misallocation of UIG within the gas industry.

Also, due to the governance structure around the whole AUGE process, we agree that there is no alternative to the raising of a modification in order to prevent the new table, that is based on under developed data, going live in October 2021.

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

We would like to see this modification implemented as soon as possible in order that clarity can be obtained on the UIG factors effective from October 2021.

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

We would not face any costs.

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: Please provide your views on whether the 2021/22 AUG Statement production process has been robust.

We do not believe that the 2021/22 AUG statement process has been robust as the AUGE has not addressed a number of shortcomings in their analysis which have been published by parties in response to the draft AUG statements during the development of the 2021/22 AUG statement. ICOSS have asked a number of fundamental questions, including some on more than occasion, which have effectively been ignored and not responded to by the AUGE. We believe that the Framework Document has not been complied with.

Q2: Please provide your views on whether the 2021/22 AUG Statement production process has delivered a robust result and provide an explanation to support your response.

Due to the fact that the AUG Statement production process has not been robust, as a direct consequence it has not delivered a robust result. There are a number of very serious shortcomings in the process including an incredulous assumption that 14% of gas in EUC 1 in the I&C sector is stolen, without any evidence to suggest that the truth is even close to this figure. This is hard to comprehend when compared to the overall theft of gas figure, which is assumed by the AUGE to be 1.5%, as the mid-point of their estimate of between 1.25% and 1.75%, which is itself largely based on theft data from other non-energy industries. Assumptions such as these, which have no credible foundation, have a significant bearing on the UIG factors that will be used to allocate millions of pounds worth of gas in an inequitable manner across the gas industry.

Q3: With reference to the existing governance arrangements, please provide your views regarding the effectiveness of the governance of the AUG Statement approval process, including, (but not limited to), the UNC and CDSP contracting arrangements, and the application of the Framework Document, including the UNC Committee stages.

The production of the most recent AUG statement has highlighted a number of points of failure in the whole industry governance process surrounding it. Whilst a number of shortcomings have been identified, and in the opinion of a number of parties the AUGE

Framework document has not been complied with, there is no legal route to challenge these shortcomings and so we fully support this modification. The CDSP contract with the AUGE is confidential and is not available to the wider industry to scrutinise. The whole AUGE process, including the timings of the various stages of the process within the gas year, needs to be reviewed, but in the meantime the implementation of this modification will give some time for this to happen and will implement the previous table which had detailed statistical analysis at its foundation

Q4: Please provide a reasoned opinion as to whether the request for a direction on this Modification could be seen as placing a validation role of the AUG Statement on the Authority.

We do not believe that a request for this modification to be implemented places a validation role of the AUG statement on the Authority.

This validation role is being performed by the industry and it is for this reason that this modification has been proposed, recognising that the industry does not consider the revised table to be based on valid assumptions. Accordingly, the modification invites the Authority to consider whether the current process has delivered a better outcome than could be achieved by providing the industry a further 12 months to ensure the industry is provided with adequate time to ensure the revised tables are robust, and can be adequately validated. It is our view that rolling over the existing table provides a better outcome for the industry and consumers by ensuring greater stability and confidence in pricing.

In this context, we consider that it is possible for Ofgem to approve this modification without any expectation that it has performed a validation role.

We consider that the 'changeover' between AUGEs is likely to provide insufficient time for an incoming AUGE to adequately prepare a suitable robust methodology for the forthcoming year, although we recognise that industry expectations mean that any new AUGE is likely to believe that producing something is better than nothing, especially as they are not impacted by the UIG factors they produce and so have no direct commercial consequences for any shortcomings in the analysis. The decision that Ofgem is being asked to make is whether to allow a set of UIG factors based on an incomplete analysis by a new AUGE to go live or to keep the factors based on a full analysis by the previous experienced AUGE. We would see this decision as being a one-off and not something that would be repeated in future years under this AUGE.

We do, however, consider that further consideration must be given to the AUGE process to mitigate the risk of this occurring in future periods when there is a changeover between AUGEs.

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