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Sent by email only to: [jonathan.dixon@ofgem.gov.uk](mailto:jonathan.dixon@ofgem.gov.uk)

Dear Jon,

**UNC642 and UNC642A: 'Changes to settlement regime to address Unidentified Gas issues': and UNC643: 'Changes to settlement regime to address Unidentified Gas issues including retrospective correction'**

We welcome the publication of Ofgem's minded-to position on the above urgent modification proposals and agree with the current Ofgem view that none of the proposals would reduce the overall volume and volatility of unidentified gas or provide greater certainty to the market as a whole.

We continue to have concerns relating to the intentions of the three urgent proposals and remain of the view that:

- we do not believe the modification proposals provide robust, evidence-based benefits to improve competition or protect consumers;
- we believe focus should be on identifying the causes of unidentified gas, not simply its allocation;
- we believe that prudent parties should have anticipated and appropriately planned for the changes and given the transparency of the new arrangements should not now be permitted to reform such fundamental change due to making inappropriate risk decisions; and
- we are particularly concerned about the proposed retrospective application within two of the modification proposals.

We recognise the difficulties that industry participants may be having in predicting and managing exposure to unidentified gas costs, however any solutions to address the current issues must be evidence based and be in the interests of all consumers and the promotion of competition.

Our responses to the questions posed are detailed below.

***Q1. Do you consider that we have appropriately identified and where possible quantified the impacts of the proposals;***

We agree that Ofgem have appropriately identified and quantified the impacts of the three proposals.

***Q2. Do you consider that there are additional impacts that we should take into account in our decision-making process;***

We have not identified any additional impacts that should be considered.

***Q3. Do you agree that the current gas allocation arrangements should be assessed during a period in which all UNC obligations are being fully discharged and/or input processes are working as intended, before a conclusion can properly be made that further fundamental modification is appropriate; and***

We are disappointed to see a series of urgent modification proposals raised by parties, which seek to substantively reverse the new arrangements that were only introduced by Project Nexus on 1<sup>st</sup> June 2017. We concur with Ofgem that the current gas allocation arrangements appear to be operating in accordance with the intent of the UNC modifications that introduced them and therefore agree that the current arrangements should be independently assessed once a suitable period of full operation has occurred.

We agree that it is premature to conclude that the arrangements introduced by Project Nexus are inherently flawed. The progression of piecemeal modification proposals by industry participants does not form a coherent strategy to address the volume and volatility of UIG currently being seen.

A more strategic approach is required to ensure that any future changes proposed to reform the existing arrangements work are evidence-based and in the interest of all consumers and support competition in the market.

***Q4. Do you consider that the AUGE terms of reference should be amended such that it has the explicit objective of developing a methodology that incentivises shippers to reduce unidentified gas?***

We believe that consumers would be better served by industry stakeholders focussing on identifying and addressing the sources of unidentified gas, rather than on modification proposals that continue to address issues of its allocation. There needs to be a concerted, industry effort on the development and introduction of effective incentives to reduce the overall volume of unidentified gas, which we continue to believe will be far more than historical estimates once the current arrangements have bedded in.

Careful consideration should be given to how best incentivise the reduction of unidentified gas and this may require progression on several fronts. Whilst an amendment to the AUGE terms of reference is an option that could be considered, the introduction of any reform to the existing AUGE arrangements will take time to agree and implement and will most certainly polarise

industry views. Other options should also be considered, for example reviewing the effectiveness and structure of the Theft of Gas Detection Incentive Scheme. According to the AUGE, theft of gas continues to be a large contributor to unidentified gas volumes, however we have not witnessed a considerable shift in industry wide theft detection activity since Supplier Licence obligations to 'detect, investigate and prevent gas theft' were introduced in 2013.

We agree that industry efforts should focus on tackling the causes of unidentified gas, and that further industry consultation is required to determine how best to achieve this. Any activity will need to be centrally managed in order to prevent multiple, competing ideas or proposals being progressed.

We would be happy to discuss our response and thoughts with you in more detail. Should you have any immediate questions please contact me at [graham.wood@centrica.com](mailto:graham.wood@centrica.com) or 07979 567686.

Yours sincerely,

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