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Dear Gareth

Thank you for your letter dated October 4th 2011 regarding the second draft of the AUGS published at the end of September. We welcome this feedback and will be addressing the issues you raised in due course. This letter responds to the specific points you raised and provides an update on progress to address them.

- 1) With regard to the data used by GL Noble Denton in preparation of the AUGS we can confirm that Xoserve have collated and prepared a summary document of all data provided and this, along with the various data sets used, is in the process of being posted on to the UK-Link system and is expected to be in place early w/c 10th October.
- 2) With regard to the explanation of the calculations we will also be posting further worked and annotated calculations, with reference to the source data (by field) to help the industry follow the calculations from the raw data through to the final totals. The example will be based on one LDZ, with the rest following the same pattern. We expect to post this on UK-Link early w/c 10th October. We believe this, alongside the descriptions of the methodology described in Section 6 of the second draft AUGS, will be sufficient. We will also be running through the methodology at the UNC meeting on 17th October. If further explanations/details are required at that point we can look to provide further formulae and/or details in a further revision of the AUGS.
- 3) With regard to the change in methodology, the most significant update is the move to a top down approach to estimate theft. This is explained in more detail in the annexe document containing the responses to the issues raised against the first draft AUGS (issues 1, 2, 41, 42, 52), and is also referred to in section 4.3(d) of the second draft AUGS. We also noted the wide range of issues/views from the responses to our questions regarding theft (section 6.6) and the lack of real data to provide a robust bottom up theft figure. This may need to be made more explicit in the main body of the AUGS and is something that could be addressed, if requested, in any further re-drafts. Fundamentally, from the information available a robust bottom up method of calculating theft is not viable and we have provided what we believe is a much improved method of estimating this top down. This approach is, in very broad terms, similar to that proposed in Mod 228, but addresses its shortcomings by completely updating the calculation methods.
- 4) With regard the high levels of UG, particularly in the LSP sector, please note that the figures provided in the 2nd draft AUGS are interim values based on data provided to date, and are subject to change. We understand that for NW and SC LDZs the "unregistered sites <12 months" estimate of UG is significantly higher than other LDZs. We have identified that these LDZs each contain one large unregistered site that dominates the UG estimate for these networks. We have queried this with Xoserve, who have confirmed that the AQs used are correct. However, as these are unregistered sites they may be operational, part operational or under

construction, and at this stage the AQs have not been confirmed by a shipper. Xoserve are now contacting the relevant network operators to visit the sites to determine whether they are flowing gas or not. With regards to the largest unregistered site in NW LDZ we have been informed today that it has recently been “confirmed” and is no longer unregistered – this will be accounted for in the next shipperless/unregistered sites snapshot we receive and will feed into the revised AUGS table.

In the methodology we do apply a scaling factor based on initial meter reads for new LSP sites, which represents the proportion of these sites that are actually flowing gas. This ensures that estimates are reasonable where site AQs are of a relatively similar magnitude. Where the AQ from a single site (or a small subset of sites) dominates the total, however, the scaling factor approach is inadequate. In such cases, the large site(s) must be either included or left out of the calculation dependent on its actual situation in order to make results accurate.

We have therefore made arrangements with Xoserve whereby we will provide details of any such sites that appear in the unregistered/shipperless summary, and they have undertaken to check whether the AQs provided are correct and to determine from the network operator whether they are flowing gas or not. The results of this will be fed back into the data set feeding the Unregistered Sites <12 months calculation. This process currently applies only to this type of unregistered site, but we have requested data to allow us to apply it to other types of unregistered site in addition to this.

We have also noted that the AQs for some of the largest sites were in excess of the mandatory DM threshold of 58.6M kWh and would therefore fit in the DM LSP category, which is discussed in the next point (5). If these sites (and the further list of sites we have requested information on) are not flowing gas then the portion of UG against the LSP sector would reduce. If they are all found to be flowing gas then the estimate will remain unchanged.

- 5) With regard to the split of LSP UG between NDN and DM demand, analysis to date indicated that the DM contribution to UG was negligible (although we would need to add this to the final AUGS table even if it was zero). However, the issue highlighted above (4) could give rise to some contribution from unregistered DM sites. Our view with regard DM sites is as follows
- DM sites are daily metered and evidence/discussions in previous mods (e.g. 228) propose theft to be zero.
 - There are no unknown DM sites on CSEPs.
 - There may be unregistered DM sites taking gas, although if feedback from a site visit shows the large sites identified as being unregistered are not in fact flowing gas then there would not be a contribution to UG.
 - There may be DM UG associated with meter error although this is expected to be small. This calculation for the final AUGS table is ongoing.

Overall, the DM element of UG is likely to be small, although this may change in light of the investigations regarding large unregistered sites.

We trust these responses and the additional annotated calculations (once available and posted) address your concerns. Please do not hesitate to contact us with any further comments/queries you may have.

Yours sincerely

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