

Non Confidential

Re: Interim 2012 AUGS for 2013/14

Following the meeting on the 17th September and the update of actions received on the 21st September we would like to thank you for providing the opportunity to respond to the Interim Calculations provided on 31 August and then subsequently re-issued on 21st September.

As you are no doubt aware Gazprom Energy (GE) is a supporter of the AUGS process and believes that it is the most appropriate mechanism to ensure accurate targeting of Unidentified Gas costs.

GE are also acutely aware of the adverse impact on our customers of unpredictability & volatility in energy costs. We have repeatedly highlighted to Ofgem the impact on confidence in the energy market if we are unable to provide customer with predictable, stable and transparent products.

Currently it is unclear if the impact of the AUGS on our customer is going to be charges on a par with the previous year or whether our customers are going to experience a material change in charges. We therefore believe it would be helpful if the AUGS could provide an estimation of the potential Energy Volume and estimated allocation of energy between SSP & LSP at the earliest possible opportunity to provide both ourselves and our customers with as much notice as possible to help manage the impact.

While we welcome the AUGS's recognition that the existing approach may be subject to potential manipulation by parties targeting a particular area of their business and thus potentially exaggerating theft in this area we do not see that inappropriate behaviour by a party should be a valid reason for a change of approach. Instead we would see the AUGS taking into account such behaviour and reporting its concerns to Ofgem.

It is critical that the underlying calculations are fully understood by the industry and the resulting outputs are accepted to be an accurate estimation of downstream gas losses. At present we have concerns that the AUGS process does not fully achieve this. GE are concerned that the AUGS process does not seem to be stabilizing and is instead seeking to radically alter its methodology each time the process is undertaken leading to an unpredictable outcome.

The latest proposals are proposing to effectively start again from scratch regarding theft calculation and determining the total of Unidentified Gas in the market. The result of this is unpredictable annual swings in the estimation of the proportion of Unidentified Gas attributable to each market sector. And yet by its nature, the total volume of Unidentified Gas in the market is relatively constant. We believe these variations in calculating Unidentified Gas are undermining the credibility of the whole process.

We are also concerned that at present there is simply not enough information being provided in each iteration of the AUGE Statement to allow Shippers to truly understand how the values are derived. While the information that is provided is very high level and is difficult if not impossible to verify. Added to this we have also had instances where incorrect information has been provided to the industry (evidenced by the reissuing of this report). Clearly the lack of transparency prevents Shipper from ruling out the possibility of further errors existing in the calculations, as well as preventing an understanding of the methodologies used while errors in published tables of a magnitude of 1,000 times damages credibility.

This lack of information and relatively short timeframe for review, particularly in light of the change of approach means GE are not in a position to provide a detailed response to this consultation. Instead we wish to make it clear that we are not convinced by the proposed new process for either determining overall UG in the market or the new theft methodology.

The former is relying on a single LDZ (EA) to demonstrate that the new process is in line with the previous methodology. As noted in the meeting on the 17th the choice of EA was solely based on the ability of Xoserve to provide data. It has therefore not been proven that this LDZ is a suitable proxy for the whole market and so believe that the new process should not be used unless its validity for the whole market can be demonstrated. It was also unclear to what extent comparable quality data could be provided for the other LDZ's and in what timeframe.

For Theft it seems counter-intuitive that the actual level of LSP theft in the market is three times what is currently reported. We question whether the information provided by Shippers when making these reports should be used to inflate AQ consumption where the calculation has failed – the process proposed seems to be skewed assigning sites to be LSP.

As we do not agree with the methodology we also question the proposal to use throughput as a mechanism for determining theft, which seems to purely be based on the current split being close to the results of the revised theft calculations.

We also question the assumption, highlighted in the report as a major assumption, that theft in the non domestic sector is consistent across the market. Unlike the SSP sector which is defined as from 0-2,500 Therms the LSP sector is from 2,500 – 2,000,000 Therms and encompasses a enormous range of businesses from small SME sites e.g. takeaway restaurants to large Industrial and Commercial users e.g. Combined Heat & Power (CHP) Plants.

The approach also fails to recognise the data granularity and monitoring which arises from the Monthly Read obligation (10,000 Therms and above), the Advanced Meter Obligation (25,000 Therms and above), Daily Metered Elective services and the wholesale roll out of Automated Meter Reading (AMR) in the non domestic sector.

As previously noted at this present time GE are unable to endorse the AUGÉ process. In order for us to do so , we would expect that the forthcoming AUGÉ statement will provide a clear and detailed explanation of the calculation activity undertaken by the AUGÉ that resulted in such a significant deviation from last year's values. In addition detailed information on the process undertaken must be provided to allow the new methodology to be reviewed.

We hope you find our comments useful and we would be happy to discuss our concerns further with you should you wish.

Yours Sincerely

Steve

Steve Mulinganie
Regulatory & Compliance Manager

Gazprom Energy
Bauhaus, 5th Floor
27 Quay Street
Manchester
M3 3GY
M: 07590 245 256
F: 0845 230 0022
E: steve.mulinganie@gazprom-mt.com
W: www.gazprom-energy.com

The information contained in or attached to this email is intended only for the individual(s) to whom it is addressed. It may contain confidential information. If you have received this message in error, please notify the sender immediately and delete the message from your computer. You must not use, disclose, copy or alter this message for any unauthorised purpose. Although we have taken steps to ensure that this email and its attachments are free from any virus, neither Gazprom Marketing & Trading Retail Limited nor any of its affiliates will be liable for any direct, special, indirect or consequential damages as a result of any virus being passed on, or arising from the alteration of the contents of this message by a third party. The views and opinions expressed in this email may not be those of Gazprom Marketing & Trading Retail Limited or any of its affiliates. Registered address: Gazprom Marketing & Trading Retail Limited, 20 Triton Street, London, United Kingdom, NW1 3BF
Company Number: 03904624