

Clive Whitehand
GL Noble Denton
Holywell Park
Loughborough
Leicestershire
LE11 3GR

DONG Energy Sales (UK) Ltd.
1-3 Strand
London WC2N 5EJ
United Kingdom

Tel +44 (0) 207 257 4655
Fax +44 (0) 207 257 3655

lollew@dongenergy.co.uk
www.dongenergy.com
Company no. 24 05 635

Dear Clive,

1 March 2013

Consultation Response on the Second Draft Allocation of Unidentified Gas Statement

We refer to the Second Draft Allocation of Unidentified Gas Statement published on 17 December 2012 (the “**AUGS**”) which (i) details the proposed methodology developed by the Allocation of Unidentified Gas Expert (the “**AUGE**”) for estimating the overall levels of unidentified gas to be allocated across the market and (ii) details the data used to support this analysis.

In collaboration with the Industrial and Commercial Shippers and Suppliers Group (ICoSS), we have jointly commissioned a report prepared by Waters Wye Associates and Phidex Consulting (the “**WWA Report**”) which analyses the AUGS, focusing primarily on the proposed methodology and the underlying data used to support it. Please find enclosed a copy of the Report for your information. We would like to draw your attention to the key conclusions of the Report which highlight a number of significant concerns with regards to the AUGS.

The Report establishes a number of fundamental issues relating to the poor quality of the data used, concluding that such data is not fit for purpose and that considerable further work is required to deliver the acceptable accuracy necessary for the methodology to work. The analysis further shows that the methodology relating to gas theft significantly overestimates the proportion allocated to Large Supply points. As a result, the Report recommends (amongst other things) that the approaches used for data selection and processing and the methodology relating to gas theft should be carefully reconsidered.

The above leads to the conclusion that the current AUGS is not yet ready for implementation and requires further detailed review to address the key issues highlighted in the Report. In order to address these issues appropriately, we consider it essential to follow the appropriate AUGE timetable (as provided under the AUGE Guidelines currently in force) which should provide sufficient time to the review and revise the AUGS.

It is our genuine concern however that a condensed timetable would hamper industry efforts to confidently achieve a stable and reliable methodology which provides for an objective, fair and thoroughly considered allocation of the costs of unidentified gas across the industry. We look forward to supporting the AUGE in the process of achieving this goal.

Please feel free to contact us should you have any queries or wish to discuss this matter further.

Yours sincerely,
on behalf of DONG Energy

Lorna Lewin
Industry Operations Analyst