

Dear Sir/Madam,

Thank you for providing the opportunity to respond to the Interim Calculations provided on 31 August and then subsequently re-issued on 21 September. As you are no doubt aware Corona Energy helped ICoSS develop the AUGE process, to introduce an independent process to ensure accurate targeting of Unidentified Gas costs.

It is imperative that the AUGE operates this process in a transparent manner so that consumers, suppliers and shippers can be confident that they are contributing the correct amount towards unallocated energy. This means that the underlying methodologies and calculations should be understood, allowing the resulting outputs to be accepted to be as an accurate estimation of downstream gas losses. At present we have concerns that the information published by the AUGE has failed to achieve this.

Firstly 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. We understand that it is sometimes difficult to publish data as it may be confidential in nature. Where this is the case we would still expect the AUGE to be publishing the data which is not confidential.

We are aware that this issue was raised last year during the previous AUGE process and that this resulted in the AUGE publishing more data. It is unclear, therefore, why this issue has occurred again this year?

The little information that has been provided is very high level and is difficult to verify. We have also had instances where incorrect information has been provided and this 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.

This lack of information and relatively short timeframe for review means we are not in a position to provide a detailed response to this consultation. Instead we wish to make the comment that we are unconvinced 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 to demonstrate that the new process is in line with the previous methodology. It has 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.

For the latter, 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 based on the current split being close to the results of the revised theft calculations.

Secondly we are concerned that the AUGE process is not being refined each year, but instead seeking to radically alter its methodology each time the process is undertaken. The latest proposals are proposing to effectively start again from scratch regarding theft calculation and determining the total of Unidentified Gas in the market. This almost appears to suggest that GLN's conclusions last year were substantially wrong.

The result of this approach is wild annual swings in the estimation of the proportion of Unidentified Gas attributable to each market sector. By its nature, the total volume of Unidentified Gas in the market is likely to be relatively constant. These variations in Unidentified Gas is therefore undermining the credibility of the AUGE process.

We would have hoped that the experience of last years statement would have meant that by now we could explain the AUGS to our consumers and be confident that the calculations were robust. Instead we are faced with telling our customers that these costs will double with little/no explanation of why/how and/or confidence that the calculations are correct.

We hope that the forthcoming AUGE statement will provide a clear and detailed explanation of the calculation activity undertaken by the AUGE that resulted in such a significant deviation from last year's values and a justification for the change in process. In addition detailed information on the process undertaken must be provided to allow the new methodology to be reviewed. In particular, considering the small number of sites involved, it would seem reasonable that detailed information is provided on each LSP threshold crosser.

We look forward to positive, constructive dialogue on these issues shortly.

Regards,

Richard