

Mr Clive Whitehand
GL Noble Denton
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Sent via e-mail: AUGE@gl-group.com

19 December 2012

Dear Mr Whitehand,

Allocation of Unidentified Gas Expert (AUGE) letter to the Uniform Network Code Committee (UNCC), 11 December 2012

Energy UK is the trade association for the energy industry. Energy UK has over 70 companies as members that together cover the broad range of energy providers and supplies and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes and last year invested £10billion in the British economy.

Energy UK is pleased to respond to your communication of 11 December 2012, updating the industry as to progress made on the 2013/14 Allocation of Unidentified Gas Statement (AUGS). Whilst it is disappointing to learn of process issues at this stage, Energy UK does not share your concerns that this will impact upon the application of the revised, significantly more accurate, methodology within the final 2012 AUGS for 2013/14.

We have since seen the 2nd draft 2012 AUGS for 2013/14, published on 17th December. Upon summary review, it is clear that this represents a major step forward toward a fairer allocation of costs within the industry. Indeed, the Consumption Method of Unidentified Gas (UG) calculation has been proven to be statistically more accurate. It also negates some of our previously held concerns regarding the Reconciliation by Difference (RbD) Bias method.

Furthermore, it is also clear that the RbD Bias methodology will not produce an accurate outcome. It does not cater for UG initially assigned to the Smaller Supply Point (SSP) sector. The Allocation of Unidentified Gas Expert (AUGE) has previously held the opinion that UG assigned to the SSP sector initially is 'negligible'. We are pleased to note that the AUGE now accepts that this is not the case.

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In addition, the sector theft allocation contained within the 2011 AUGS for 2012/13 has since been shown to be highly inaccurate, which has a significant overall effect. Sector theft is responsible for the allocation of around 75% of the total UG under the 2011 AUGS for 2012/13 methodology.

Overall, it is clear that the 2011 AUGS methodology is no longer fit-for-purpose and will yield an inaccurate output; it would be unacceptable to retain it in knowledge of this fact. The effect of doing so would be to perpetuate a cross-subsidy from the mostly-domestic SSP sector to the mostly-commercial Larger Supply Point (LSP) sector. We have seen significant pressures on household incomes and, given the impact of recent energy prices, any opportunity to more correctly and equitably allocate costs should be realised.

We therefore conclude that the Consumption Method 2012 AUGS for 2013/14 should supersede the RbD Bias method and will provide a more accurate reflection of sector costs. To reiterate, we would find any 'roll over' of the previous 2011 AUGS unacceptable.

We have taken the opportunity to review the options put forward in your communication of 11 December with our members. Our members agreed that they did not recognise or accept the concerns raised by the AUGE on their behalf. Each confirmed that there is sufficient time for them to review and comment on the latest AUGS prior to implementation. Each member additionally confirmed that they had no concerns that customer contracts could not be updated (where appropriate) in sufficient time to meet the required AUG implementation timeframe.

We therefore thank the AUGE for presenting options and recommendations but do not recognise the concerns with respect to the issues of process. Furthermore, we would find the retention of the previous, less accurate methodology, a retrograde and unacceptable outcome.

We recognise that the AUGE has stated its preference to move to the Consumption Method, with the only perceived constraint being industry timeframes. We hope that this communication allays any concerns the AUGE may have. Our members are very clear that the fair allocation of cost within the industry is of primary importance and whatever action is required in order to achieve this universal aim will receive their full cooperation and commitment.

Yours sincerely,

Frances Williamson
Head of Policy and External Relations