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Dear Clive,

12 June 2013

**Consultation Response on the First Draft Allocation of Unidentified Gas Statement 2014/2015**

We refer to the First Draft Allocation of Unidentified Gas Statement published on 1 May 2013 (the “**AUGS**”). We write to you to provide our consultation response in relation to the AUGS and in particular to draw your attention to our underlying concerns regarding the data used to support the AUGS.

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In collaboration with the Industrial and Commercial Shippers and Suppliers Group (ICoSS), we have jointly commissioned a report prepared in May 2013 by Phidex Consulting Limited (the “**Phidex Report**” – please find enclosed a copy for your information) which conducts detailed analysis on the data set proposed to be used to support the AUGS. The Phidex Report builds upon the findings of an earlier report<sup>1</sup> published in February 2013 which outlined significant errors in the data proposed to be used in support of the 2013/2014 AUGS. We would like to draw your attention to the key conclusions of the Phidex Report, specifically with regards to the accuracy of the proposed data set supporting the AUGE process.

**Key Findings of the Phidex Report**

Whilst we invite you to review the full detail of the Phidex Report, the following points highlight some of the key findings in the report:

- Phidex indicate a firm belief that the data set provided to the AUGE by Xoserve is not the best available and is not fit for purpose, given the unacceptably high error rate (around 20%) that Phidex have identified. It is noted that the data set does not take into account the sophisticated validation processes used across the industry to correct data errors. Xoserve should therefore provide a new data set which contains fewer errors and which can reasonably be deemed ‘best available’ and ‘fit for purpose’;
- There are genuine concerns over the existence of incorrect asset details in the supporting data, which is unacceptable. Furthermore, meter reads relating to actual and cosmetic meter exchanges were not provided to the AUGE and were not therefore included in calculating metered consumption;

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<sup>1</sup> “Review of Allocation of Unidentified Gas Statement for 2013/14 and Supporting Data” published by WWE and Phidex Consulting Limited.

- Given the extent of such inaccuracies in asset details and meter read information, Phidex have shown that the supporting data used by the AUGE contains “*significant and persistent errors*”. The scale of such errors is inconsistent with the levels of data accuracy otherwise achieved across the industry and is therefore unacceptable for the purposes of supporting the AUG process;
- The current AUGE approach to data accuracy is unacceptable, and a more stringent approach should be adopted to guarantee that only the most accurate data available is used for the AUGE process. The data for future AUG processes should align with the data used to reconcile the LSP shippers to their actual energy usage in each period;
- It is noted that the AUGE process is largely un-audited, and that there is no independent expert review of the AUGE’s calculations before it is released for approval. Given the large monetary value of the calculated sums, there is a distinct lack of verification procedures which exposes industry parties to the risk of miscalculation and the inaccurate allocation of UG costs.

As outlined above, the Phidex Report presents a number of substantial concerns relating to the poor quality of the data used, concluding that such data is not fit for purpose. The implication is therefore that considerable further work will be required to deliver an acceptable level of data accuracy and that the current methodology should be revised at the earliest opportunity.

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