

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

27 September 2012

Dear Mr Whitehand,

Allocation of Unidentified Gas: Consumption Analysis and Theft Interim Report

Energy UK has been formed by merging the Association of Electricity Producers, the Energy Retail Association and the UK Business Council for Sustainable Energy. With over 70 members we cover the broad spectrum of the energy industry and include companies of all sizes working in electricity generation, energy networks and gas and electricity supply, as well as a number of businesses that provide equipment and services to the industry. Our members generate more than 90% of UK electricity, supply up to 26 million homes and last year invested £11 billion into the economy.

Energy UK is pleased to respond to the consultation on the Allocation of Unidentified Gas: Consumption Analysis and Theft Interim Report. This is a high level industry view and our members may also provide individual responses. We would be happy to discuss any of the points made below in further detail with if this is considered to be beneficial.

Use of consumption to estimate total Unidentified Gas (UG)

We welcome the Allocation of Unidentified Gas Expert (AUGE)'s use of consumption data to derive the total quantum of UG. Indeed, the use of consumption data negates our previous concerns regarding the calculation of the total quantum of UG and specifically the omission of Smaller Supply Point (SSP)-assigned UG.

The AUGE has concluded that direct measurement of UG utilising meter-read data for both SSP and Larger Supply Point (LSP) sectors is more accurate than the approximate method employed in the 2011 Allocation of Unidentified Gas Statement (AUGS). We welcome this move towards greater accuracy and agree that, since this method has proven to be statistically more accurate, it should be adopted in place of the previous approximate method for 2012/13 and subsequent AUGS years.

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It is the accuracy of the methodology and its application that is of primary concern rather than the outcome, which is also the basis on which the AUGE's proposed method is assessed. The 95% Confidence Interval associated with the estimate gives us the necessary assurance that this methodology is fit-for-purpose and will yield an appropriate outcome. We would recommend that appropriate comparative statistical confidence (including the sources of potential error) be the decisive factor in the adoption of one methodology over another.

We wish to clarify as to whether the AUGE has taken into account the existence of known Local Distribution Zone (LDZ) off-take error measurements when deriving the total LDZ allocation. A single large known off-take measurement error (estimated to be 3,223GWh) is currently under investigation in the SC LDZ, for example. These measurement errors distort the allocation total; typically under-measuring actual throughput. In the interests of accuracy we would request that the AUGE take account of all significant measurement errors when deriving the total allocation for any given LDZ, should they not already do so.

The AUGE's use of meter-reads for the purpose of consumption calculation appears to be a sensible application.

It may be that the acceptance criteria for reads could be improved upon; for example we acknowledge that the AUGE has agreed to review the exclusion of certain data points as they fail the "Annual Quantity (AQ) x 5 rule" and the implication for AQ = 1 sites.

We also acknowledge that the outcome published for EA LDZ contains extrapolated data for 2011/12 formula year and that this will be replaced by actual data as this becomes available and for use in the final AUGS. The accuracy of the method used for extrapolation is not particularly concerning since this was designed to be illustrative of method.

We would recommend that the 'Best Estimate' figure is derived by summing the total UG measured in all three years and representing this as a percentage of the total allocation in all three years. Currently a simple average of three percentages is taken. We acknowledge that any potential variation in outcome may be small but feel that the proposed approach has more mathematical integrity.

We would request that the AUGE ensures any process of 'scaling up' for sites with no applicable meter-read data does not attribute consumption to non-consuming sites. Vacant sites, for example, will often not have meter-read data since access to read the meter is restricted. The portion of the population with no meter-read data may well contain more instances of vacant sites by definition. There may well be other reasons for a lack of available meter-read data that the AUGE may need to take account of in order to produce the best estimate.

Overall, the new methodology has fewer potential sources of error within the estimate of UG. It is our belief that the methodology benefits from the removal of key weaknesses contained within the previous methodology.

Split of Theft by Market Sector

The existing method of theft allocation is based on detected theft levels. The AUGE has identified that this creates a disincentive for all shippers to detect theft in the future.

We believe that the AUGE (in the 2011 AUGS) failed to take into account the lack of uniformity of effort in the detection of theft across sectors. This has led to an uncorrected bias within the historical theft detection statistics utilised by the AUGE for extrapolation purposes. This has the undesirable

outcome of future penalisation of the sector historically most active in proactive theft detection. This cannot be a satisfactory outcome.

The AUGE has also concluded that the use of AQ to derive sector in a theft instance is not reliable.

Any method of allocation of theft that is reliant upon historically-observed detection rates that are not corrected for bias is an unsatisfactory outcome. Neither is it desirable for this method to create a new disincentive for subsequent theft detection.

'Alternative method 2' seeks to 'lock-in' the bias contained within the theft detection statistics indefinitely – this is an unacceptable outcome and we can see no reasonable rationale for this approach.

The ideal-type classification would be to allocate theft to only those sites that steal gas. Since this is not possible, an alternative must be sought. Allocation to sector by throughput is the only reasonable outcome.

We do not accept that the observed LSP percentage of throughput necessarily represents a trend. The period over which the data is taken has been significantly impacted by economic downturn. As we exit such a period it is likely that the (largely commercial) LSP sector increases production and it is reasonable to assume that this will have an effect on proportion of throughput.

AQs for SSP sites decreased by a greater proportion than LSP sites during the 2011 AQ review, additionally the outcome of the 2012 AQ review could be made available to the AUGE by Xoserve. This could provide further evidence that this 'trend' may well not continue. By factoring in a continuation of this perceived 'trend' the AUGE has introduced an unnecessary potential source of error. The AUGE confirmed that any error in the actual LSP proportion of throughput versus the assumed level would not be retrospectively corrected.

Notwithstanding the above observation, the proposed forecasted decline in LSP proportional consumption of throughput seems excessive in 2012 (even assuming a 'trend'). The observed proportion reductions in each year are:

2008	1.19%
2009	0.56%
2010	0.57%
2011	0.80%

Firstly, these results do not imply a 'consistent set of LSP percentages'. Secondly, the proposed reduction of 1.51% in 2012 is significantly out of line with these observed data points. The average reduction over these years is 0.78% and the more statistically relevant latter three years is 0.64%. We would therefore request that if the AUGE persists with this assumed 'trend' then the forecasted reduction in LSP proportion of throughput for 2012 ought reasonably to be within the boundaries of these two numbers.

In addition, we would request that the AUGE publishes a clear methodology to be utilised to perform this forecast of future LSP proportion of throughput. As such, industry participants can then have confidence that should this 'trend' reverse, then the forecast for future LSP proportion of throughput would necessarily increase.

Any under-measurement of UG or under-allocation to the LSP sector by default prolongs the unfairness of cost allocation faced by the (mostly domestic) SSP sector.

Conclusion

In summary, we broadly support the AUGE's latest proposals and we acknowledge that these proposals represent a step towards accurate measurement and allocation of UG. We look forward to the AUGE's response to Energy UK's remaining concerns and recommendations, which if implemented we believe would further improve the outcome.

Yours sincerely,

Alun Rees
Policy and External Relations Manager