

AUGE
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Shrinkage error

22nd June 2017

This letter is on behalf of Wales & West Utilities, Cadent Gas, SGN and Northern Gas Networks. (“GDNs”).

The GDNs note the discussions regarding Shrinkage Error in relation to the 2017/18 AUGE Statement which are based on the report (“the Report”) commissioned by Energy UK from Imperial College.

The actual wording in the report is ‘For example, it could easily be argued that the shrinkage estimate error is at least 20%.’ but the report offers no direct evidence to support this claim. The report mostly reviews worldwide studies that are generally based on much smaller sets of sample data than the UK study and uses results of these studies to question the UK model. There is no attempt to demonstrate the other approaches studied are in any way superior to the UK approach or in fact comparable to the UK given differences in age, material, maintenance history, pressure etc. of the gas networks

The view of the GDN’s shrinkage experts is that the Report does not contain evidence that, taking one year with another, suggests that Shrinkage Error is different from zero for Shrinkage from GDN networks. As stated in the document “Shrinkage Error History” dated 30th May 2017 published on the Joint Office website:

“The Imperial College analysis was on the agenda at several Shrinkage Forum meetings in 2015 and 2016, and following discussions between the relevant parties the gas Transporters conducted their own analysis and responded to the Imperial College document in November 2016. They pointed to a number of issues that could cause some of the Imperial College conclusions to be incorrect and themselves concluded that there was insufficient evidence to infer a non-zero Shrinkage bias.”

The GDNs have not subsequently changed their view and as such cannot support a recommendation to apply an error to shrinkage that is no more than a hypothesis.

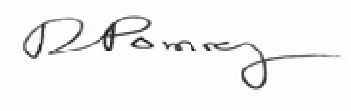
Link to the Energy UK Report and the GDN Response –
<http://www.gasgovernance.co.uk/Shrinkage/Retail-Study>

The GDNs have license obligation (Special Condition 1F) which states

'The Licensee must review annually The Shrinkage and Leakage Model in order to assess how it can better achieve the objective – [The Shrinkage and Leakage Model must be designed to facilitate the accurate calculation and reporting of gas Shrinkage and gas Leakage in or from each Distribution Network operated by the Licensee]'

We take this requirements seriously and keep all aspects of the model under annual review. Changes to the model are made on the basis of evidence and after appropriate consultation.

As stated we disagree with the AUGE's current proposal to include a non-zero Shrinkage Error in the 2017/18 AUGE statement.

A handwritten signature in black ink, appearing to read 'R Pomroy', enclosed in a thin black rectangular border.

Richard Pomroy
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Wales & West Utilities

On behalf of:
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