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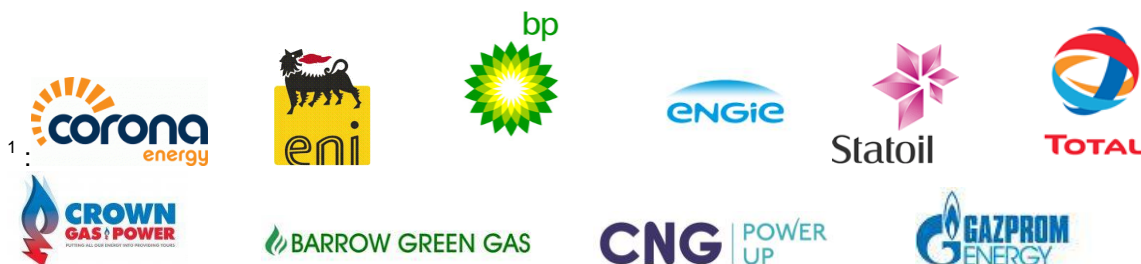
AUGE proposals regarding potential shrinkage error and allocation of UAG in AUG year 2017/2018.

The Industrial and Commercial Shippers and Suppliers (ICoSS) group is the trade body representing non-domestic industrial and commercial (I&C) suppliers in the GB energy market. Members collectively supply three-quarters of the gas needs of the non-domestic sector as well as half of the electricity provided by non-domestic independent suppliers¹.

I am writing to highlight ICoSS members' significant concerns regarding the proposals and material changes presented at the industry meeting on 13th April 2017 to utilise a third party report into the shrinkage model commissioned by Energy UK in October 2015, as the basis for determining the shrinkage error present in Unidentified Gas for 2017/18.

The Energy UK report examines the shrinkage model in detail and makes a number of suggestions as to how this model may be improved. We note however that the Shrinkage Forum considered this report and its proposals in its review in 2016. The Shrinkage forum concluded that there is not a case for a significant change in the shrinkage values currently in place and this was accepted by the industry and Ofgem. The following extract of the conclusion made in the Joint GDN Shrinkage and Leakage Review Consultation Report Published: 31 December 2016:

"The GDNs reviewed the Gas Retail Group study into the impact of shrinkage on domestic customers and have addressed and clarified some of the key findings from the report. Based on the review of the report and source material referenced, the GDN's believe that the current methodology and leakage rates utilised within the SLM remain valid and the most accurate current methodology for assessing shrinkage and leakage."



Energy UK Report

<http://www.gasgovernance.co.uk/sites/default/files/Energy%20UK%20GRG%20shrinkage%20study%20FINAL.pdf>

GDN Response

http://www.gasgovernance.co.uk/sites/default/files/Joint%20GDN%20Response%20to%20Energy%20UK%20GRG%20Shrinkage%20Study_0.pdf

As such it is clear that the relevant established industry forum has considered the matters set out in the report in a process overseen by Ofgem and made a determination against them. It is therefore concerning that the AUGE appears to be used to reopen the current assessment of Shrinkage.

It is also deeply concerning that there are now proposed to be two materially different mechanisms to assign shrinkage volumes; one to assign all shrinkage directly to transporters, the other to split it between shippers and transporters, with Unidentified Gas scaling factors being set to smear a fixed value attributed to shrinkage losses across all customers. If allowed this would bring Transporters directly into the AUGE process to pick up a share of UAG in downstream processes where it should correctly be addressed in the shrinkage mechanism.

We therefore believe that the proposed amendments to the AUG's associated with shrinkage are removed and any concerns relating to the shrinkage forums determinations are dealt with in the relevant forum and under the appropriate Governance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'G. Evans', is positioned above the typed name.

Gareth Evans
Chair ICoSS

[cc. Ofgem (Jonathan Dixon)
UNCC (via Joint Office)]