

Roy Malin  
Commercial Specialist  
National Grid Gas Distribution  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

23<sup>rd</sup> February 2012

Dear Roy,

**National Grid Gas Distribution Network Shrinkage Consultation**

1. Thank you for the opportunity to respond to the Leakage Model Consultation No. 2; the proposed revision of low pressure service leakage calculation for NGGD LDZs. This is a non confidential response on behalf of British Gas. Our main points are covered in this letter with answers to your specific questions in the appendix.
2. British Gas believes that the shrinkage calculations and incentive targets are too low, as the amount of unaccounted for gas is considerable and the gas networks need to pay their share of this cost and be incentivised to help the industry improve.
3. British Gas also feels the leakage model is not fit for purpose given the age of the assumptions (all linking back to at least the leakage survey of 2002/03, if not 1992, when the model was created or older) and the use of national averages which are no longer relevant following DN sales. We urge a wholesale review of shrinkage, including the leakage model and incentives on theft.
4. Whilst British Gas welcomes improvements to the leakage model we cannot support an asymmetric change to the leakage calculations, which will only reduce the shrinkage measured by the GDNs, effectively transferring cost from the networks to shippers. Particularly knowing that the AGI venting assumptions are much older (dating back to the 1970's) and should increase the leakage calculated.
5. British Gas also wants to ensure consistency with the other GDNs and the incentive regime is aligned with any methodology or model changes. With this in mind, we expect any changes to the leakage model will not commence before all GDNs have carried out their regional

analysis, discussed with Shippers at the Shrinkage Forum and updated the incentives. Just to clarify, the incentive targets must move on a consistent basis with the changed model output to ensure consumers are not overcharged, i.e. from windfall gains by the GDNs in the allowed revenue.

6. We thank the GDNs for the improved visibility of the leakage model over the past year and consider the processes outside of the leakage model to be robust. However there are significant assumptions within the leakage model that are at least ten years old and based on national averages, which are no longer appropriate following DN sales in 2005 as they do not enable benchmarking or challenge the GDNs to improve.
7. Whilst we understand NGGD wanting to update the service pipe material mix assumptions, it is just one of many assumptions within the leakage model that is based on the national leakage tests carried out in 2002/03. If any assumptions are changed to regional characteristics we would expect all national assumptions to be regionally set, thereby giving each GDN and their individual LDZs the most accurate picture of leakage.
8. We consider using the last three years of mains replacement data to calculate the proportion of metallic services as reasonable and expect all GDNs to use the same years, namely 2008/09, 2009/10 and 2010/11 and the equivalent source of data.
9. British Gas welcomes the updating of assumptions of the Above Ground Installations venting methodologies and urges all the GDNs to investigate their portfolios and present their findings at the next Shrinkage Forum. This is another example where the national averages (and significant assumptions) from the 2002/03 shrinkage survey are now inappropriate. We expect significant improvements in leakage measurement could be made in the next price control, GD1, from decommissioning the beyond use AGIs which still vent and leak gas.
10. We are disappointed that the AGI changes have not progressed further within this consultation as we would expect all assumption changes to occur simultaneously with the impact of each assumption made clear.
11. We hope the comments prove useful and please do not hesitate to contact me if there are any queries, my telephone number is 07789 571365.

Yours sincerely,

Rochelle Hudson  
Network Regulation Manager  
British Gas  
[Via email]

## Appendix 1 – NGGD specific questions

- i. Should data from the latest three years of mains replacement be used to determine the mix of service populations for a new base year?
  - a. *Yes, all GDNs must use the same data and source report.*
- ii. Should the Low Pressure Service Leakage model reflect the impact of service transfers to improve the accuracy of the leakage calculation?
  - a. *Yes as long as this figure is measureable and robust and not an assumed proportion of all services.*
- iii. Are the revised allowed leakage volumes appropriate to maintain the incentive properties of the environmental emissions incentive at current levels?
  - a. *The movement in the incentive target must be equivalent to the movement in leakage volume assessed in the assumption changes.*
- iv. Should the above changes be made so to apply for the 2011/12 leakage assessment and for future years for National Grid Distribution networks?
  - a. *No, consistency needs to be kept with the other GDNs and the incentive targets need to be adjusted so consumers are not over charged through increased incentive payments from no real decrease in leakage. British Gas would prefer a wholesale review of all the assumptions within the leakage model and all national averages to be converted to updated regional figures.*
- v. Is it appropriate to engage GL Noble Denton as an Independent Expert to review the Leakage Model and proposed allowed leakage volumes and then provide a report of that review?
  - a. *No, we believe GL Noble Denton is not independent as they wrote the original leakage model and therefore not suitable. We would expect an independent expert to be able to give an unconflicted evaluation.*