

John Morrison
Northern Gas Networks
7 Camberwell Way,
Moorside Park,
Sunderland SR3 3XN.

Regulatory Affairs
Ground Floor, Lakeside West
30 The Causeway
Staines
Middlesex
TW18 3BY

16 December 2016

Dear John,

2016 Shrinkage Leakage Model Review

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

We welcome the GDNs' efforts to increase stakeholders' understanding of the Shrinkage and Leakage Model (SLM). However, it is difficult to comment on the appropriateness of the proposed commitments without further detail of the findings of the review and how each proposed commitment is intended to address an area of weakness of the SLM. For future reviews, we ask the review findings are discussed and it is explained in sufficient detail how each commitment is intended to improve the accuracy of the modelling within the SLM.

The inclusion of annual performance in the 2016 review aids transparency. In future reviews we suggest performance is included for each year of the GD1 price control and a comparison of annual performance against regulatory targets is also published.

We continue to be concerned that several of the assumptions relied upon in the SLM are outdated and require reassessing given their age. We recommend:

- analysis of the materiality of the potential error associated with the use of outdated assumptions is conducted and the cost of reassessment is estimated so SLM improvements can be targeted, and
- a 'lifetime' for each key assumption is agreed with stakeholders so that the industry can be confident that such key assumptions will be reviewed at appropriate intervals.

We note it has been suggested the reassessment of the National Leakage Test (NLT) will be discussed with stakeholders in the context of the RIIO GD2 price control¹. We do not believe such a delay is appropriate. Delaying the reassessment to the next price control means the assumptions will be almost two decades old before updated assumptions are considered for the SLM. We are not convinced that such a delay properly facilitates the accurate calculation and reporting of gas shrinkage and gas leakage. We also consider that if, following assessment, it is concluded that it is appropriate to re-do the NLT, then in the context of a

¹ Joint Gas Distribution Network (GDN) Response to the Energy UK Gas Retail Group Study into the effect of shrinkage on domestic customers, page 2
(http://www.gasgovernance.co.uk/sites/default/files/Joint%20GDN%20Response%20to%20Energy%20UK%20GRG%20Shrinkage%20Study_0.pdf)

totex approach to expenditure there has been sufficient funding provided in RIIO GD1 to re-do the test.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

George Moran
Transmission & Distribution Forecasting Manager