

Matt Marshall
Cadent Gas Ltd
Block 4, Brick Kiln Street,
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22 August 2018.

Dear Matt,

Proposed Revision to the Shrinkage and Leakage Model in respect of the Interference Damage calculation applied for incentive purposes Version 3.0

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

Our views are unchanged from when the proposed revision was consulted upon in 2016. We continue to believe emphasis on the reduction in gas transport losses should be maintained.

We recognise licensees were invited to propose modifications to the Shrinkage and Leakage Model (SLM) to mitigate the impact of performance in the last year under the 'roller' mechanism. However, the proposed revision goes beyond this and also, by placing emphasis on the reduction in the number of large release incidents, changes the scheme itself and may result in a change in focus of the behaviours the Shrinkage Incentive was designed to encourage. Deviation from the original policy objective goes beyond the scope of Ofgem's direction. We recommended the RIIO-GD1 Mid-Period Review was the appropriate route through which changes to incentive mechanisms could be investigated.

In our response to the previous consultation, we suggested volumes of gas lost through large release incidents (when those volumes can be estimated) in the final year of the price control are replaced with the eight-year annual average. Contrary to the claim in the consultation, this approach will reflect performance improvements (or deteriorations) in the latter years of the price control, albeit muted compared to the current approach.

For completeness, we attach our previous response. We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Andy Manning
Director - Network Regulation, Forecasting and Settlements
Centrica Regulatory Affairs, UK & Ireland

Responses to consultation questions

Q1. Do you agree that it is appropriate to amend the leakage volume calculation in the Interference Damage methodology, used for determining incentive performance, to be based always on the numbers of incidents at the existing predefined leakage rates?

We do not agree because we are concerned the proposed revision may result in a change in focus from the behaviours the Shrinkage Incentive was designed to encourage. Further, it may result in a deviation from the original policy objective the Shrinkage Incentive was designed to achieve.

Q2. Do you agree that the proposed revisions to the incentive baselines in Appendix A are appropriate?

We do not agree that the baselines should be revised. We recommend volumes of gas lost through large release incidents (when those volumes can be estimated) in the final year of the RIIO-GD1 price control are replaced with the 8-year annual average to mitigate against the effect of final year performance on the 'roller' mechanism.

In the interest of transparency, we recommend the methodology and data used to calculate baselines are included in future modification proposals and for revised baselines to be subjected to external scrutiny.