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Re: National Grid 2012/13 Initial Shrinkage Proposals - Representation

Dear Bob

In accordance with the Uniform Network Code Transportation Principal Document Section N 3.1.5(a), National Grid Gas Distribution (NGD) has reviewed representations made by Users (Shippers) in relation to our Initial Proposals for LDZ Shrinkage in 2011/12.

One representation has been received in respect of this year's proposal. This was a response to all of the LDZ Shrinkage Proposals for this year.

The respondent's representation raises one issue directly related to the Initial Shrinkage Proposals and a number of other comments regarding the shrinkage incentive process in general.

Response to representation on NGD's Initial Shrinkage Proposals

1. The representation requests consistency across the Distribution Networks in the use of the 0.0113% Own Use Gas factor.

   NGD has applied an OUG factor of 0.011% throughout the current price control period. Ofgem indicated[1] that a factor of 0.031% of throughput was used to determine the OUG and Theft of Gas elements of the shrinkage baselines for the current price control period; this is consistent with the use of an OUG factor of 0.011% in addition to the current Theft of Gas factor of 0.02%.

   However, for consistency, NGD is prepared to adopt the 0.0113% factor for the 2012/13 shrinkage proposal.

Response to respondent's comments on the shrinkage incentive and model

2. The respondent believes that the shrinkage incentive plays an important role in protecting consumers' safety from theft and ensuring each industry party pays their fair share of costs.

   NGD believes that the purpose of the shrinkage allowance within the GDN Licence is to provide an incentive for the accurate assessment and efficient procurement of shrinkage. With regard to Theft of Gas specifically, NGD believes that this issue is best addressed through other industry

[1] In the 'Leakage and shrinkage baselines for GDPCR 2008-13 – October Update Consultation' dated 24 October 2007

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forums and initiatives and, as such, has been and is extensively engaged in industry ToG/Illegal Connections/Shipperless and Unregistered sites related developments, in particular:

- We have responded to Ofgem's Consultation/draft Impact Assessment and have taken the lead in assisting Ofgem in preparing this by responding to Ofgem's Theft of Gas Questionnaire, fielding numerous Ofgem queries and leading the way in clarifying industry responsibilities and obligations for theft of gas investigation.
- We are fully involved in the Supply Point Administration Agreement (SPAA) Theft of Gas Codes of Practice Review Group
- We have participated in development of a number of Theft of Gas related UNC Modification Proposals and Review Groups.
- We have had contributed extensively to addressing Shipperless and Unregistered sites issues including regular attendance at the Xoserve Workgroup including:
  - production of an industry paper 'National Grid Distribution View in respect of Relevant Legal Rights and Responsibilities of Transporters';
  - production and delivery of presentation material to facilitate industry discussion and respond to issues raised by Ofgem;
  - raising UNC Modification Proposal 0369 0369A - Re-establishment of Supply Meter Points – measures to address Shipperless sites; and
  - engagement in the development of Total Gas Marketing's UNC Modification Proposal 0410 - Responsibility for gas off-taken at Unregistered Sites following New Network Connections

3. The representation requests 'a clear understanding of how Other Losses are calculated'.

   Other Losses refers to gas lost through interference damage and represents, for NGD, 0.2% of the total leakage. The methodologies employed in estimating this has been shared at the Shrinkage Forum held 27 June 2011.

4. The representation requests an 'analysis of the above ground installations and their leakage / venting rates'.

   In 2002/03, National Grid carried out a leakage survey of AGIs and the leakage rates determined from this survey are used to estimate the leakage from AGI assets. NGD has identified a methodology for improving the estimation of venting from AGIs, which has been raised with the industry via a draft consultation and which we intend to progress through the formal leakage model modification process when sufficient data has been collected to provide a robust alternative to the current estimate.

5. The respondent indicates that they are pleased with the NGD's draft consultation proposing two modifications to the leakage model.

   NGD acknowledges the respondent's positive reception for its draft consultation on the two modifications to the leakage model. NGD remains committed to improving the accuracy of its leakage and shrinkage estimation where such improvements can be demonstrated to be both robust and cost effective.

We trust that this information is helpful in consideration of the issues raised.

Please contact me via the contact details above should you require any further information.

Yours sincerely,

Roy Malin