

Stuart Forrest
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27th April 2012

Dear Stuart,

Scotia Gas Network Leakage Model Consultation No.3

1. Thank you for the opportunity to respond to the Leakage Model Consultation No. 3; the proposed revision of low pressure service leakage calculation for SGN's LDZs. This is a non confidential response on behalf of British Gas. Our main points are covered in this letter which is consistent with our letter to National Grid in February as your consultation is broadly similar to NGGD's consultation number 2.
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 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 SGN 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]