

Colin Wainwright, Network Support Officer
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Sent by email to: colin.wainwright@sgn.co.uk.

Dear Colin,

Shrinkage and Leakage Model Review 2021-22 - Consultation

Thank you for the opportunity to respond to the above call for evidence. This is a non-confidential response on behalf of the Centrica Group. Our comments remain of the same substance as we have already made in responses to previous annual consultations.

We continue to encourage the gas distribution network operators (GDNs) to place focus on improving the shrinkage arrangements to reduce potential misallocation of gas volumes between shrinkage and unidentified gas (UIG). We remain concerned that UIG volumes are higher than necessary as a result of shrinkage being under-estimated during certain periods and across the year. Reducing the potential misallocation of gas volumes could also reduce the risk of wider market distortions in the energy market caused by that misallocation, which now assumes even greater significance given current concerns such as supplier failures, high commodity prices, etc. We recommend the following commitments should be prioritised:

- **A methodology for profiling shrinkage volumes across the year that better reflects the timing of losses should be developed.**
- **The materiality of the potential errors associated with the use of outdated parameters in the Shrinkage and Leakage Model should be assessed.**

Also:

- **Additional information should be provided.**

A methodology for profiling shrinkage volumes across the year the better reflects the timing of losses should be developed:

We are aware licensees currently assume a 'flat' shrinkage profile i.e. it is assumed an equal amount of gas is lost through shrinkage in each day across the regulatory year. Given shrinkage volumes are influenced by factors that vary across the year (such as system pressures and demand), a 'flat' shrinkage profile is unlikely to reasonably represent the profile of actual losses. This may lead to the misallocation of gas volumes between shrinkage and UIG over shorter time periods, which gives rise to the risk of market distortions.

Licensees should endeavour to reduce to the risk of market distortions, so as to fulfil their legal obligation to establish transportation arrangements that secure effective competition between relevant shippers and between relevant suppliers. We recommend that a methodology for profiling shrinkage volumes to reasonably represent actual losses be developed. Profiling already occurs in other areas of the energy sector so profiling shrinkage should not present unique challenges.

The materiality of the potential errors associated with the use of outdated parameters in the Shrinkage and Leakage Model should be assessed:

The information presented in the consultation does not allow us to independently assess whether the proposed commitments are focussed on those areas which should be treated with priority. For example, we continue to be concerned that several of the assumptions relied upon in the Shrinkage and Leakage Model (SLM) are outdated and require reassessing given their age. We are unaware of any evidence to suggest those leakage rates have not changed materially since the tests were conducted. We continue to recommend a targeted approach to improving the SLM, based on an assessment of the materiality of the potential error associated with each existing assumption. The GDNs should produce:

- analysis of the materiality of the potential error associated with the use of outdated assumptions and the cost of reassessment is conducted 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 that the GDNs state repeating the National Leakage Tests (NLT) "represents poor value for money for the customer".¹ It is unclear why the GDNs' view should prevent them from producing the above information we suggested: the materiality of potential errors, costs of reassessment of individual parameters and the 'lifetime' of key assumptions. For clarity, recommending this information is produced and shared with the Shrinkage Forum (SF) is not the same as recommending a wholesale re-run of the NLT. We recommend this information is presented to the SF at the earliest opportunity during 2022.

Cost information relating to a targeted approach to improving the estimation of some parameters within the SLM would clearly be helpful to stakeholders other than the GDNs. The debate about the value for money of a targeted approach to improving the estimation of some parameters would benefit from contributions from other stakeholders that operate in different segments of the energy market. However, cost information would need to be shared with stakeholders other than the GDNs for an informed debate to occur. In addition, the debate about value for money necessarily needs to be widened to take account of the impact on UIG and other market arrangements given the significant value at risk at any point in time.

Additional information should be provided:

As explained above, the information in the consultation does not allow us to independently assess whether the proposed commitments are focussed on those areas which should be treated with

¹ Page 6 of the consultation document.
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priority. Additionally, the information presented does not allow us to provide feedback on each individual area of focus. We explain below.

Medium Pressure Leakage:

It appears the second phase of this project has been ruled out because of cost considerations. It has not been made clear whether the project has been closed or additional steps will be taken and will remain as an area of focus. We are also unable to comment on whether closing or continuing the investigation is appropriate because cost information has not been included in the consultation. These clarifications should be provided at the earliest opportunity.

Capture of Remediated Mains:

SGN will again engage with the other GDNs to seek approval before submission to the Authority and wider industry. We suggest that engaging with the wider industry ahead of submission would be better, so as to keep stakeholders abreast of developments and, potentially, to improve the submission. We recommend SGN's engagement with other GDNs ahead of seeking approval be widened to include other stakeholders.

Other:

Project costs should be included in future consultations, especially in those instances in which actions will not be progressed because costs are considered to be prohibitive (as explained above).

We are aware of concerns about the degree of engagement with the SF from stakeholders other than the GDNs. Acting upon the recommendations in our response could increase engagement from other stakeholders. We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Gregory Edwards
Network Regulation Manager
Centrica Regulatory Affairs & Policy