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Your Reference 0203V

Re: Modification Proposal 0203V - Revision to DN Shrinkage Regime

Dear Julian,

Thank you for your invitation seeking representations with respect to the above Modification Proposal. National Grid Gas (Distribution) ("NGD") fully supports implementation.

Background

The recently concluded 2008-13 Gas Distribution Price Control Review made changes to the Allowed Revenue provisions for LDZ Shrinkage. Ofgem have now set DNOs fixed volumetric allowances for LDZ Shrinkage whereas in previous years, revenue allowances were based on ex-ante target Shrinkage Factors (percentages of throughput). This Modification Proposal therefore identifies the necessary changes to the Uniform Network Code (UNC) to ensure alignment with the revised licence provisions.

The following describes the key elements of the proposal that provides justification for implementation:

▪ **Move from Shrinkage Factors to Flat Daily Quantity**

The majority of Shrinkage, c95%, is attributable to leakage. 80% of leakage is from the Low Pressure (LP) system and is directly proportional to the Average System Pressure (ASP) that it has been operating at throughout the year and, due to pressure control systems, does not vary significantly on either a daily or seasonal basis. The remaining 20% of leakage is predominantly from the Medium Pressure (MP) system and AGI leakage to which neither pressure nor demand is a contributing factor and hence MP leakage can be considered to be flat across the year.

Ofgem determined that the seasonal profile of leakage was insignificant, which led to the flat daily regime that was finally incorporated within the licence and subsequently advocated in this proposal. The following is the specific extract from the Final Proposal Document:

"7.12. The evidence available shows that there is little correlation between shrinkage and throughput for the existing networks." ... "We do not accept that there is currently a measurable correlation between leakage and throughput."

- **Change to Industry Notification Processes**

Relatively minor changes to the content of the industry notifications (Initial and Final Proposals) are required to reflect the move to a fixed volume regime, as opposed to the current Shrinkage Factor. No change is proposed to amend the timescales associated with such notifications.

- **Reclassification of Vented Gas**

As part of the 2002/03 leakage tests, as presented to the Shrinkage Forum, an estimate of venting from AGIs was identified and subsequently factored into the leakage model calculations. Inclusion of AGI venting within the leakage model is consistent with the argument that vented gas is 'unburnt' and hence should be classified as unaccounted for gas (which includes theft and leakage) as opposed to Own Use Gas. This element of the proposal therefore merely reclassifies how LDZ vented gas is treated, consistent with the approved Leakage model calculations; however, this does not impact on the volume of Shrinkage gas being procured.

- **Assessment Process Information**

There are a number of inputs to the leakage model that vary year-on-year. The input that has the most effect is the average system pressure, which is why it is currently specifically referred to within Section N of the UNC. However, in order to ensure a fully reflective and transparent Shrinkage Assessment & Adjustment process we strongly support the principle that all variables associated with the Shrinkage assessment process are taken into account.

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

We conclude that the proposed changes would ensure efficient discharge of licensee obligations through alignment of UNC to prevailing licence conditions (Special Condition E8) whilst ensuring a more accurate assessment of LDZ Shrinkage throughout the year.

6. The high level indication of the areas of the UK Link System likely to be affected, together with development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

Amendments to UK Link system functionality are being progressed (via Change Request COR1092) which would enable the DNOs to nominate a fixed daily quantity as opposed to a Shrinkage Factor and contingency 'manual workarounds' have been developed in the event that the change request cannot be processed in time for 1 October 2008. No implications to User systems are envisaged.

15. Proposed implementation timetable

We strongly support an implementation date of 1 July 2008. As described in the proposal, this is due to the fact that there is a UNC requirement (Section N3.1.4) to publish Initial Proposals prior to the start of the Gas Year. If the implementation were to be delayed, the DNOs would be obligated, under Section N3.1.4, to produce a document specifying estimated LDZ Shrinkage Factors, as opposed to LDZ Shrinkage Quantities. For clarity, the implementation date of 1 July 2008 would have no impact on the Shrinkage processes for the current 2007/08 Gas Year.

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We trust these comments will be useful for compilation of the Final Modification Report.

Please contact me on 01926 655437 (kerri.matthews@uk.ngrid.com) should you require any further information with respect to the above.

Yours sincerely

(by email)

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