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13 May 2008
Ref: 0203V

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

Note of Clarification in respect of the Reclassification of Vented Gas

Dear Julian,

Having read the representations submitted in respect of Modification Proposal 0203V, National Grid Gas (Distribution) ("NGD") would like to provide some clarity with respect to the "reclassification of vented gas" as we are concerned that this element of the Modification Proposal has been potentially misunderstood.

Firstly, we would acknowledge the point that discussion within the Shrinkage Forum may have been beneficial to provide clarity on certain elements of the proposal however, we would also note that this proposal was on the Distribution Workstream agenda at both January and February 2008 meetings, which we believe provided adequate opportunity for discussion.

The *reclassification of vented gas* element of the proposal is incorporated purely as a 'housekeeping change' to align the UNC with actual analysis and calculations undertaken within the industry approved leakage model.

Currently UNC defines vented gas as *own use gas*, whereas in practice vented gas is accounted for within the leakage element of *unaccounted for gas*. An extract from the National Grid 2007/08 Initial Shrinkage Factor Proposals document is attached in Appendix 1, which makes is clear that vented gas is calculated as an element of AGI Leakage. Although routine equipment venting at AGI installations could be said to be *own use gas*, for the purpose of the Shrinkage Factor proposals, since 2003/04, vented gas has been included in the AGI leakage category.

This element of the proposal therefore merely reclassifies how LDZ vented gas is accounted for, consistent with the approved Leakage model calculations however it does not impact of the volume of Shrinkage gas being procured.

Historically, prior to the 2002/03 AGI Leakage Tests, vented gas was not specifically identified; it being considered to be included within the general, nationally applied, own use gas (OUG) factor. The OUG factor that has been agreed with the Shrinkage Forum, and applied for the last two years, is based solely on the level of gas usage for pre-heating; this national OUG factor is also that which is included within the DN price control settlements.

We recognise the impact that methane emissions have on the environment however NGD is committed to operating in a responsible way. There is a big difference in the environmental impact of vented gas and of pre-heat gas in that vented gas is un-burnt, and is therefore more akin to leakage. We believe that

considering vented gas as leakage, rather than OUG, is beneficial from an environmental aspect. Vented gas is included within the leakage volume baselines within Special Condition E9 of the DN and RDN licences and, as such, falls under the leakage element of the Sustainable Development incentives; there is no equivalent incentive covering OUG.

We trust that this clarification is helpful however please do not hesitate to 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

Kerri Matthews
Customer Contract Manager

Appendix 1: AGI Extracts from National Grid Gas 2007/08 Shrinkage Factor Initial Proposals

3.1 Leakage

Leakage represents the largest component of the LDZ Shrinkage Factor.

For the purpose of analysis, leakage may be conveniently split into three categories:

- Distribution Mains (including service pipes),
- Above Ground Installations (AGIs) and
- Other losses

Distribution mains and services leakage is a feature of normal system operation.

AGI leakage includes the routine venting of control equipment. Routine equipment venting at AGI installations could be said to be Own Use Gas; however, for the purpose of this proposal, it is included in the AGI leakage category.

Other losses include gas lost as a result of interference damage and broken mains. These losses are caused by specific events and are not continuous

3.1.2 AGI Leakage

The figures for leakage from Above Ground Installations have been taken from the findings of the 2003 Above Ground Installation Leakage Test programme.

Information relating to the programme has already been shared with Users and Ofgem; consequently, it is not proposed to include significant detail in this paper.

The table below shows AGI leakage on an LDZ basis:

LDZ	AGI Emissions[7]	
	Tonnes	GWh
Eastern[3]	2,693	40
East Midlands	2,743	41
North Thames[3]	2,429	36
North West	3,493	53
West Midlands	3,004	45
Total	14,362	216