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8<sup>th</sup> May 2008

## **Re: UNC Modification Proposal 0203V “Revised DN Shrinkage Regime”**

Dear Julian

Thank you for the opportunity to comment upon this Modification Proposal, I can confirm that we are fully **supportive** of its implementation.

### ***1. The Modification Proposal***

The Modification Proposal has been raised following Gas Distribution Price Control Review for 2008-13. In this Ofgem have acknowledged the need to move away from a throughput dependant regime and have set fixed shrinkage volume allowances for each Distribution Network (DN). The fixed volumes for each DN are contained within Special Condition E8 of the Gas Transporters Licence.

In recognition of the potential impacts on UNC TPD Section N ('Shrinkage'), and the associated UK Link System changes, Ofgem have continued with the current shrinkage incentive regime for the first half the 2008 formula year. The new incentive regime will therefore come into force on 1<sup>st</sup> October 2008; however, we agree with the Proposer that an early implementation of this Proposal is desirable. We would suggest that 1<sup>st</sup> July 2008, at the latest, would be a suitable implementation date. If this is not achieved we may need to consider publishing both Shrinkage Factor and Shrinkage Volume information to the industry to cover existing and potential future UNC requirements.

Implementation of this Proposal would not only align the UNC and the DN Licence requirements but it may also lead to a more stable allocation and, potentially, assessment and adjustment process. With the removal of throughput as a variable the daily LDZ Shrinkage allocation within UK Link will be known by D-1 (at the latest) and is likely to remain constant for the entire Gas Year. DNs would no longer be impacting on monthly energy balancing volumes and any financial adjustments required in the subsequent year (as per UNC TPD N 3.1.4) may be of lower value (dependant on the accuracy of the estimated LDZ Shrinkage Volumes).

24 hour gas escape number  
Rhif 24 awr os bydd nwy yn gollwng

**0800 111 999\***

\*calls will be recorded and may be monitored  
caiff galwadau eu recordio a gellir eu monitro

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The Proposal also introduces an updated account of the factors that are used within the Shrinkage assessment process and within the leakage model. It also seeks to correctly update the classification of LDZ vented gas from own use gas to unaccounted for gas. We are supportive of these additions and amendments and believe they serve to add greater clarity within the UNC.

As the shrinkage regime is based on Gas Years it will become out of step with the Shrinkage incentive mechanism as this is based on DN formula years (April to March). We believe that implementation of this Proposal would be the first phase of beneficial changes that are required to UNC TPD Section N. We are in discussions with the other DNs with regards to a further Modification Proposal later in the year to move the regime from Gas Years to formula years. Such a change may also allow for more timely Assessment and Adjustment processes to be carried out which would be of benefit to both Shippers and Transporters.

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

***Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;***

We do not believe that implementation of this Proposal will better facilitate this relevant objective

***Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;***

We do not believe that implementation of this Proposal will better facilitate this relevant objective

***Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;***

Implementation of this Modification Proposal will align the requirements of Special Condition E8 with those contained within UNC TPD Section N; we therefore believe that this will better facilitate this relevant objective.

***Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;***

Implementation of this Proposal will allow for a more accurate allocation of Shrinkage gas throughout the year and therefore better allocation of costs. We therefore believe that implementation will better facilitate this relevant objective by helping to secure effective competition between shippers / suppliers.

***Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;***

We do not believe that implementation of this Proposal will better facilitate this relevant objective

***Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.***

We do not believe that implementation of this Proposal will better facilitate this relevant objective

***4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including:***

***a) Implications for operation of the system***

We do not believe that implementation of this Proposal will present such implications

***b) Development and capital cost and operating cost implications***

Changes to UK Link Systems are required to allow for Daily Shrinkage Volumes to be utilised instead of the current LDZ Shrinkage Factors. The DNs are progressing the necessary changes in order to meet the proposed October implementation date.

***c) Whether it is appropriate to recover all or any of the costs***

We do not believe any cost recovery is necessary

***d) Analysis of the consequences (if any) this proposal would have on price regulation***

We do not believe there would be any consequences on price regulation from the implementation of this Proposal.

***6. The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users***

Changes to UK Link Systems are required to allow for Daily Shrinkage Volumes to be utilised instead of the current LDZ Shrinkage Factors.

***10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal***

***a) Advantages***

- Alignment of Special Condition E8 with UNC TPD Section N
- Greater clarity within UNC on the information sources used in the Shrinkage assessment process
- Correct allocation of LDZ vented gas

***b) Disadvantages***

- We have not identified any disadvantages

***15. Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)***

Early implementation of this Proposal is desirable; in line with Proposal we would suggest that the 1st July 2008, at the latest, would be a suitable date.

***19. Legal Text***

We believe that the suggested legal text that has been provided accurately reflects the nature and intent of the Proposal.

Hopefully these comments have been helpful, if you have any questions relating to this Representation then please do not hesitate to contact me.

Yours sincerely

Simon Trivella  
Commercial Analyst  
Wales & West Utilities