

AUG Expert responses to issues raised by ICoSS in their letter titled “AUGE Proposals Regarding Potential Shrinkage Error”, 19 April 2017.

Below are the issues raised by ICoSS. Following each issue is the AUG Expert’s response in italics. Note that only the points made by ICoSS that require a response are shown here – their comments in full can be found in the original letter. Should you need any clarification regarding these responses or have further questions, please contact the AUG Expert at AUGE.software@dnvgl.com.

“I am writing to highlight ICoSS members’ significant concerns regarding the proposals and material changes presented at the industry meeting on 13th April 2017 to utilise a third party report into the shrinkage model commissioned by Energy UK in October 2015, as the basis for determining the shrinkage error present in Unidentified Gas for 2017/18.”

It should be noted that the Gas Retail Group Shrinkage study was published in October 2015, and the GDNs responded to it in a document published in November 2016. Both documents were therefore in the public domain and available on the Joint Office website during the entire Unidentified Gas consultation period. Against this background, two of the three respondents in the consultation period raised the issue of Shrinkage. These were British Gas and ICoSS, and both stated strong support for implementing the results of the GRG study.

British Gas stated:

“British Gas believe that the AUGE must take account of the probable error in the Shrinkage estimate and make an allowance for this element (and other non-theft elements) within the allocation of the balancing number. There is significantly more available evidence to suggest a probable under-estimate of Shrinkage than there is to support an assumption that the whole of the balancing number is theft.”

ICoSS stated:

“ICoSS disagrees with the assertion that the balancing factor can only be made up of gas theft that occurs downstream of the Emergency Control Valve, i.e. is shipper responsibility. Whilst we acknowledge that the shrinkage error is difficult to quantify, there are a number of mechanisms by which an estimate can be ascertained, in particular by reference to existing publicly available documents, such as the EUK shrinkage assessment that was commissioned by EUK and presented to the shrinkage forum in January 2016... The AUGE should undertake a true assessment of shrinkage error and report separately on its materiality using the sources identified above as well as any additional data sources it has identified.”

The AUGE therefore reacted to the concerns of the industry in this area and took the requested action of reviewing the GRG document, assessing its contents, and applying conclusions to the UG estimate as appropriate.

“The Energy UK report examines the shrinkage model in detail and makes a number of suggestions as to how this model may be improved. We note however that the Shrinkage Forum considered this report and its proposals in its review in 2016. The Shrinkage forum concluded that there is not a case for a significant change in the shrinkage values currently in place and this was accepted by the industry and Ofgem.”

The AUG Expert has not seen any evidence that the Shrinkage Forum or the wider industry endorses the GDNs’ response to the GRG document. The 2016 Shrinkage and Leakage Model Review mentioned the GRG study in passing, drawing attention to the original document and the GDNs’ response, but drew no conclusions about their relative validity. British Gas responded to the review

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document with continued concerns about the validity of the Shrinkage and Leakage Model (SLM) and about potential delays to any new leakage trial.

There have been two meetings of the Shrinkage Forum since the GDNs’ document was published, but the issue was not on the agenda at either of them. There is no mention of the Shrinkage and Leakage Model Review on the Ofgem website. In the absence of further information, we therefore conclude that whilst both Imperial College and the GDNs have made their opinions clear about the validity of the SLM, no official decision has been made. A document has been published and a response made (much as it would in the UG consultation period), but no final conclusion has been drawn.

It should be once again noted that on 14th March 2017 ICoSS stated strong support for the implementation of the GRG Shrinkage proposals, in the knowledge of the contents of the 2016 Shrinkage and Leakage Model Review and the GDNs’ response to the GRG report.

It would not be appropriate for the AUGE to make changes to the UG calculations based on a consultation response document at this point in the process, when no formal conclusion has been published, and particularly when there has been such strong support for the original GRG analysis. We are, however, committed to the improvement of the UG calculations and would welcome further input in this area in the form of such a final conclusion from the Shrinkage Forum and the wider industry.

“Energy UK Report

<http://www.gasgovernance.co.uk/sites/default/files/Energy%20UK%20GRG%20shrinkage%20study%20FINAL.pdf>

GDN Response

http://www.gasgovernance.co.uk/sites/default/files/Joint%20GDN%20Response%20to%20Energy%20UK%20GRG%20Shrinkage%20Study_0.pdf

As such it is clear that the relevant established industry forum has considered the matters set out in the report in a process overseen by Ofgem and made a determination against them. It is therefore concerning that the AUGE appears to be used to reopen the current assessment of Shrinkage.”

The above documents are the GRG Shrinkage study and a response from the GDNs (not the Shrinkage Forum). The Shrinkage Forum contains representatives from Shippers as well as Transporters, and the only response seen from this element so far has been support for the original document rather than the response. There has been no official communication from the Shrinkage Forum as a group giving a conclusion on this matter and hence it is not valid to say that the matter is closed or that the AUGE Expert is being used to reopen it.

“It is also deeply concerning that there are now proposed to be two materially different mechanisms to assign shrinkage volumes; one to assign all shrinkage directly to transporters, the other to split it between shippers and transporters, with Unidentified Gas scaling factors being set to smear a fixed value attributed to shrinkage losses across all customers. If allowed this would bring Transporters directly into the AUGE process to pick up a share of UAG in downstream processes where it should correctly be addressed in the shrinkage mechanism.”

The AUGE Expert share ICoSS’s concern about how Shrinkage error is dealt with in the UG calculations. Indeed, we raised the issue at the meeting on 13/04/2017 where we stated that any use of the UG process to catch errors in the Shrinkage estimate should be an interim measure only, and that the

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issue should ultimately be dealt with via the Shrinkage mechanism. We also raised the concern that dealing with the matter within UG might reduce any incentive for the Shrinkage Forum to address the issue themselves. The industry parties present, including ICoSS, agreed with our proposed approach and concluded that steps would be taken to ensure that the treatment of Shrinkage within UG would remain an interim solution only.

Regardless of whether Shrinkage error is included in the UG calculation, however, it remains the case that CSEP Shrinkage is not taken account of in the SLM and filters through into UG. Unless this situation changes, therefore, there will always be an element of Shrinkage within UG. This situation can be avoided by including CSEP Shrinkage in the SLM, but in the meantime both any potential Shrinkage bias and CSEP Shrinkage would both have to be addressed in the SLM in order for there to be no residual shrinkage error being present in UG.

Transporters are already involved in the AUG process as they provide the LDZ entry quantities and class 1 measurements. However, the AUG process produces a table of weighting factors to apportion UG between Shippers only. It does not provide a mechanism to allocate UG to Transporters. The AUG Expert agrees that any bias in Shrinkage estimates should ultimately be addressed via the Shrinkage mechanism.