



Mr Bob Fletcher  
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18<sup>th</sup> February 2011

Dear Bob,

**RE: GDN Initial Shrinkage Proposals**

In accordance with the Uniform Network Code Transportation Principal Document Section N 3.1.5(a), Wales & West Utilities have received one representation in respect of the 2011/12 Initial Proposals. This was a joint response to all of the LDZ Shrinkage Proposals for 2011/12. Following discussions between the Distribution Network Operators (DNOs), it is the intention of each DNO to reply individually to the representation. Wales & West Utilities intends to provide comments directly to the respondent and requests that this document be published on the Joint Office Website.

We address the main points raised by British Gas:

The respondent expressed concerns about the leakage model. The leakage model is based on an agreed methodology that is recognised as the best approach to take in calculating Shrinkage losses. We are happy to discuss with the respondent improvements which could be made to the methodology used to build the current model but believe even with the introduction of smart metering the model we currently use will still be required to calculate Leakage.

We agree that supporting evidence could be made available for future proposals and adjustments. Given the timescales associated with the current proposals we will not be able to include such details in the final proposals scheduled for release by the 1<sup>st</sup> March 2011 for the Formula Year 2011/2012.

The rate of 0.002% used to calculate the theft of gas is consistent with the baseline agreed with Ofgem and has not previously been challenged or questioned. We believe that this factor should be discussed and the level of data available from Shippers reviewed.

The respondent stated that there was a significant amount of theft committed from network owned equipment. We would be interested to see supporting data from British Gas and other Shippers to ensure that it is being accounted for correctly

The respondent also raised concerns about the levels of shrinkage quantities. The targets were set by Ofgem based on the information provided by the DN's during the consultation for this price control period. The Ofgem consultation sited that the forecasts were reasonable and

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\*calls will be recorded and may be monitored  
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reflective of the impact of the proposed mains replacement programme. We would be happy to make available supporting evidence for future proposals and adjustments.

Finally, in reply to the respondent's request for the Network Owners' performance against previous year's shrinkage targets, the final shrinkage quantities (after the annual adjustments) are published by all Distribution Networks (DNs) on the Joint Office website. WWU are committed to reducing Shrinkage levels as a commercial, regulatory and social obligation and are proud to report year on year reductions. These reductions are not only delivered by the replacement programme they are also due to improvements in network pressure control management.

It is evident that all the stakeholders for the DN's and Shipper community would benefit from reconvening the Shrinkage Forum. The DN's have requested the Joint Office to facilitate a meeting which is scheduled for 8<sup>th</sup> March 2011 in Solihull. This will be an opportunity to resolve any issues in time for the next price control.

Yours sincerely,

A handwritten signature in black ink, appearing to read "S. Edwards", with a long horizontal flourish extending to the right.

Steve Edwards  
Head of Commercial and Regulation  
Wales & West Utilities