

# Shrinkage Forum Minutes

## Wednesday 30 August 2017

### Lansdowne Gate, (Xoserve), 65 New Road, Solihull, B91 3DL

#### Attendees

Helen Cuin (Chair)	(HC)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Angela Love	(AL)	Scottish Power
Bob Fletcher *	(BF)	Joint Office
Colette Baldwin	(CB)	E.ON
David Simpson	(DS)	Scotia Gas Networks
Dean Pearson	(DP)	Northern Gas Networks
Gregory Edwards	(GE)	British Gas
Ian Dunstan	(ID)	Wales & West Utilities
Joanne Parker *	(JP)	Scotia Gas Networks
John Welch *	(JW)	Npower
Kirsty Dudley *	(KD)	E.ON
Kirsty Steel	(KS)	Scotia Gas Networks
Lauren Preston	(LP)	Cadent
Mark Jones	(MJ)	SSE
Matt Marshall	(MM)	Cadent
Steve Hanan	(SH)	Wales & West Utilities
Steve Mulinganie	(SMu)	Gazprom

*\*via teleconference*

Copies of all papers are available at: <https://www.gasgovernance.co.uk/sf/300817>

## 1. Introduction and Status Review

### 1.1. Approval of Minutes (28 March 2017)

The minutes of the previous meeting were approved.

### 1.2. Actions Outstanding

**SF0301:** MM to create a standard Shrinkage Timetable for future reference (to be published at <http://www.gasgovernance.co.uk/shrinkage/>).

**Update:** MM advised this had been provided and published. See item 3.0. **Closed**

**SF0302:** GE to provide a presentation (August 2017) on How Shipper are affected by Shrinkage (What impact Shrinkage has, how Shrinkage affects costs).

**Update:** See item 4.0. **Closed**

**SF0303:** Shippers to provide views on what they would like to see in the Shrinkage and Leakage report.

**Update:** See item 3.0. **Closed**

## 2. Smart Meter Data to calculate Shrinkage Update

SH provided an overview on the availability of Smart Metering data. He confirmed that SMET 1 meters were not presently transferrable when changing supplier, and that this would not be possible until 2019. This results in the meter reverting back to a standard meter as suppliers are not able to communicate with some meters due to the different standards.

SMu enquired how many SMET 1 meters had been set as “dumb”, during the change of supplier process as he understood it was a very high number and is likely to increase further as SMET 1 meter volumes would be increasing by 2018. He further added as British Gas Trading were the largest player in the market, why couldn't this data be obtained. ID explained currently that this data was not available. SH explained that it would require at least 50% of the market to have Smart Meters data to undertake the analysis, which was not currently available, which was the reason why the report would not be available until July 2018.

ID explained that Ofgem had asked the DNs to review the use of Smart Meters and that this had been looked at within the second and third specific reports which included the accessibility and coverage analysis. SH explained that currently there were circa 6 million dual fuel meters and that the suppliers continue to install SMET 1 Meters, due to the feedback regarding the SMET 2 Meters not being very positive, so these would not be fitted until early in the New Year.

AL asked why this proposal of gaining data could not be brought forward to enable access to the Shrinkage data. SH explained that the biggest issue was regarding the DCC and the associated contracts with the meter owners in relation to the SMET 1 Meters and that fact that the Gas Networks were not full DCC users. CB suggested that the readings would be provided to the CDSP and AL said that this matter needed to be resolved in an expedient manner. AL suggested the DNs could contract with DCC to obtain the data. SH explained the biggest issue is getting contracts with meter owners for unlimited access to SMET 1 Data. AL suggested that a new Modification should be raised to address this issue, to allow access to all the relevant data that was impacting the Smart Metering readings. SH explained the difficulty for DNs as they are not a party with the DCC. CB suggested Shippers could review the Terms and Conditions within their contracts to allow access to data.

A brief general discussion took place in relation to the Smart Metering and the Flow Metering, and the associated costs concerning the Flow Metering in respect of Shrinkage. ID said that presently a large amount of work was being undertaken in relation to the overall reporting. CBa asked DNs to consider Flow Metering an alternative solution to obtaining the necessary data.

SMu challenged why the Shrinkage rate was dropping, he suggested rather than this being a result of proactive industry changes this had been driven by changes to the methodology. ID explained that lots of work has been undertaken to replace mains along with other initiatives. SMu stressed the importance of having a reflective position on shrinkage.

ID explained that the DNs are keeping an open mind and they are looking at other means, however they are not in a position where Smart Metering data will provide meaningful data at this point.

SMu also challenged the recent response from the AUGIE in relation to the Shrinkage Model. ID understood there was a lot of questions around the process and what evidence was available for the 20% position made.

A lengthy discussion then took place surrounding how Shrinkage was presently measured, monitored and recorded and if Smart Meters would provide an alternative measurement means for assessing potential Shrinkage volumes. Both ID and SH reiterated that there needs to be sufficient numbers of meters and that Smart Meter data could not be used at the present time. Both SMu and AL proposed that there was a real business need for more granular data and what was the best resolution for gaining this required accessibility to this, and whether this model needed to consider regional variations and house types, with aggregated or anonymised data. Both ID and SH said they felt that regressing to property type by regional and postcode areas regarding granularity would be a huge ‘step back’ from the current position.

SMu proposed that this matter should be investigated and discussed in the Shrinkage Forum moving forward, to enable the required granular data to be accessed and subsequently discussed. SH stated that the next consultation report in July would include not just the Smart

Metering data, but also I&C information too. It was also agreed that the DNs would provide a link to the OXERA Report for information.

CB also enquired if iGT data would also be included. MJ understood that the iGTs had 'stepped away' from the Shrinkage arena. The group briefly discussed the iGTs obligations in relation to Shrinkage and the current levels of shrinkage on iGT networks. It was suggested that iGTs should be invited to attend the Shrinkage Forum. HC explained that iGTs are included on the invite to attend the Shrinkage Forum, that this was an open forum and that the iGTs are not precluded from participating. It was subsequently agreed that an invitation should be sent the AiGT requesting iGTs attend future Shrinkage Forums. It was also suggested that iGTs should be invited to explain their approach to Shrinkage. DS confirmed he would investigate the recent AUGE findings and the information quoted in the GL Noble letter in relation to the Leakage Tests and the Value compared to tests in other Countries.

**Action 0801: DNs to provide a link to the OXERA Report for information.**

**Post Meeting Update:** <https://www.gasgovernance.co.uk/Shrinkage/SLSM> (3 November 2016 Estimation of network leakage with smart meters (Oxera Report))

~~**Action 0802: DNs to consider the matter raised in reference to the GL Noble Letter and AUGE responses and to provide a view / narrative within the Consultation to allow responses.**~~

**Action 0803<sup>2</sup>: iGTs to explain their approach to Shrinkage for the next meeting.**

**Action 0804<sup>3</sup>: Shrinkage Forum to consider the Shrinkage Methodology and associated percentages with justification explanation, its accuracy and if it is capable of standing up to critique.**

### 3. Shrinkage and Leakage Report Consultation Update

DS provided an update of the Shrinkage and Leakage Timetable and confirmed that the DNs would be starting to engage for the Shrinkage and Leakage review in September with an aim to start the consultation on 02 October 2017 for 28 days. This will be reviewed in November and an update provided to Ofgem by 31 December 2017. It was suggested that the Timetable should incorporate when Shrinkage Forum meetings could be held to ensure meetings are scheduled to suit the timing of the process. It was agreed to update and republish the timetable.

SMu enquired if Shippers would be involved within the engagement process. MM explained that the DNs engage with each other to ensure there is the required collaboration and mutual agreement.

SMu expressed concern about the shrinkage model assumptions and that the AUGE had cast doubt on the model with a suggestion that leakage study tests might need to be revisited. He also wanted to understand views on the Imperial College report.

AL asked if the DNs were also engaging with Ofgem regarding the AUGE findings and following the report from the Imperial College Study which stated that there should be a change to the table and that the AUGE had agreed some changes were needed. Both SMu and AL said the Imperial College Study Report had cast a doubt on the efficiency of the model with regards to how shrinkage is dealt with and monitored and its potential knock on impacts to the AUGE process. AL also read out the extracts from the GL Noble Letter and said these AUGE responses should be included with the narrative for the consultation and she added, that the GL Noble Letter and the Imperial College Report should be looked at together, in relation to percentage validation and justification perspective. SMu added that a new Modification would soon need to be raised to restrict the AUGE when investigating and monitoring areas 'upstream' and that he did not agree with this practice, as this area should be addressed by the Shrinkage Forum and in particular Transporters, with the appropriate narrative as to how this would be resolved. He added that the Imperial College Study suggested that there were potentially some specific issues that needed to be discussed and addressed within the Shrinkage Forum. It was stressed by Shippers that they want the DNs to

address the methodology and that Ofgem needs to be involved. SMu challenged that there should be a methodology that stands up to critique. DS explained that with regards to the specific percentages referred to in the report, the 0%- 20% figure had not been validated. A lengthy discussion took place regarding the methodology, together with the respective percentages.

GE emphasised that the DNs have a licence obligation to maintain the model, that the model needs to be validated, the DNs are funded to validate the assumptions, and funded to meet the obligations

It was agreed that a new action should be raised for the DNs to identify what the Shrinkage percentage should be with the accompanying specific justification for this figure.

~~Action 0805: DNs to consider matter raised in reference to the GL Noble Letter and AUGE responses and provide a view / narrative within the Consultation to allow responses.~~

~~Action 0806: Shrinkage Forum to consider the Shrinkage Methodology, its accuracy and if it is capable of standing up to critique.~~

**Action 0807<sup>4</sup>: DNs to provide a response on the aspects highlighted in the AUGE Report and associated justifications and consider the matters raised in the GL Noble Letter and the Imperial College Study for inclusion in the consultation document and specific narrative.**

AL then asked what the options were for another test to be undertaken and if enquiries could be made to Ofgem in relation to funding. GE said he disagreed with this proposal as the DNs have obligations within their licence agreements and that no extra funding should be made available, as this was not deemed as innovation.

MJ asked about the governance of the Shrinkage Model and as there was one collective model for all the DNs, what would be the outcome if DNs had differing views, if there was a proposal was to change some of the percentages, what would happen in that scenario. DS explained that all the DNs used the same model and that it would have to be rationalised and approved by Ofgem, however, he said that perhaps that proposal could be explored, if Ofgem were in agreement.

DS asked if the Shrinkage and Leakage report consultation update could be added on to the agenda for the next meeting which would be rescheduled to November.

#### **4. How Shippers are affected by Shrinkage**

GE provided an overview in respect of British Gas Trading views on the how Shippers are affected by Shrinkage and explained that Unidentified Gas (UG) and Shrinkage were intrinsically linked to reconciliation and how the Customers have to pay for it. He said that he would not want any changes made to the process that would have an impact on the competition and commercial arrangements, which also encompassed how the split would be defined, as he did not want Customers to pay for more gas than they needed to. He then added that both Shrinkage and UG were issues, as these two were managed by the Networks and no other parties had any influence over this, and it ultimately affected both the 'baseline and incentive' revenues respectively, as linked to the performance target. GE said that British Gas Trading wanted the model reviewed with the publication of data, specially in relation to the 'baseline and incentive' aspects and that there was nothing precluding transparency of the data itself.

GE explained that it is difficult for Shippers understanding the baseline and what the forecast will be. He felt that the DNs are not being held accountable. He emphasised that the DNs are responsible for the risks and it is not appropriate to simply re-distribute models as a way to improve. He suggested that the DNs need to be transparent with the publication of models. He recognised that a generic model was published but this was without data.

DS and MM said that the generic model was already published on the Joint Office website and that the Shippers could populate this model with their own data and numbers to gain a greater understanding of how the calculations worked. ID added that none of the data could be manipulated within the model itself, with regards to the incentives. ID explained the model in its entirety contained commercially sensitive data, for example DN asset data and system pressures and this was one of the reasons it was not available in its 'raw' state. He said he was not sure what other information could be required, other than what was already published. SMu asked if the complete model with all DN data could be provided to Shippers upon request. ID suggested that if a Shipper were to request the populated model, this request would have to be considered on the basis of the request and what the Shipper was hoping to establish by having a populated model. A general discussion took place and the Shippers requested further explanations as to why the completed model could not be circulated. AL enquired if it would be possible for Shippers to sign confidentiality agreements to gain access to the data. DS asked if there would be any advantage in customers understanding how Shrinkage is calculated.

It was also suggested for the Consultation that the DNs should include the factors that contribute to Shrinkage and the distribution of assets. It was requested that the Incentive Shrinkage Volume, the Actual Shrinkage Volumes and the variance between 15/16 and 16/17 are captured within the Consultation Report.

**Action 08085: DNs to consider the provision of the Shrinkage Model including data (in an anonymised form) and provide a view on whether this could be provided upon request.**

**Action 08096: DNs to include within the Shrinkage and Leakage Report Consultation: the factors that contribute to Shrinkage of asset types; Incentive Shrinkage Values and Actual Shrinkage Volumes, illustrating the variance between 2015/16 and 2016/17.**

## 5. 2016/17 Shrinkage Error Management

MM provided an overview of the Cadent Shrinkage Performance presentation and drew attention to certain areas to provide clarification. GE asked if this was linked to weather variations and a general discussion took place surrounding the weather variations and insertions. MM confirmed that various different measurements had been undertaken regarding the 'Demand Path'.

SMu enquired if there was a correlation with ASP and Mains Replacement. It was explained that it is mainly demand that drives an increase in ASP. GE asked if there was any way to isolate ASP and understand elements that affect demand. MM explained there are many factors that impact ASP. It was challenged if there is a benefit in allowing ASP system pressure to increase for DNs.

DP then provided an overview of the Northern Gas Networks Shrinkage Performance presentation and provide background to the data and percentages discussed.

A general discussion took place and it was agreed that a new action should be raised stating that the DNs should provide an explanation of Pressure Management at the next meeting and that this should be a heading on the next agenda.

Wales & West Utilities and SGN presentations would be supplied in due course and published on the Joint Office Website.

**Action 08407: DNs to provide an explanation of Pressure Management for the November meeting.**

## 6. Any Other Business

None raised

## 7. Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Time/Date	Venue	Programme
10:30, Tuesday 31 October 2017	Rescheduled	
10:30 Monday 13 November 2017	Lansdowne Gate, 65 New Road, Solihull, B91 3DL	Shrinkage and Leakage Report Consultation Update  Shrinkage Methodolgy Accuracy  Explanation of Pressure Management  Terms of Reference
10:30, Tuesday 19 December 2017	Teleconference	<i>To be confirmed</i>

Action Table (as at 30 August 2017)					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
SF0301	28/03/17	2.0	MM to create a standard Shrinkage Timetable for future reference (to be published at <a href="http://www.gasgovernance.co.uk/shrinkage/">http://www.gasgovernance.co.uk/shrinkage/</a> ).	Cadent (MM)	Closed
SF0302	28/03/17	5.1	GE to provide a presentation (August 2017) on How Shipper are affected by Shrinkage (What impact Shrinkage has, how Shrinkage affects costs)	British Gas (GE)	Closed
SF0303	28/03/17	5.2	Shippers to provide views on what they would like to see in the Shrinkage and Leakage report.	Shippers	Closed
SF0801	30/08/17	2.0	DNs to provide a link to the OXERA Report for information.	DNs	Pending
<del>SF0802</del>	<del>30/08/17</del>	<del>2.0</del>	<del>DNs to consider the matter raised in reference to the GL Noble Letter and AUGÉ responses and to provide a view / narrative within the Consultation to allow responses.</del>	<del>DNs</del>	<del>Pending</del>
SF0803 <sup>2</sup>	30/08/17	2.0	iGTs to explain their approach to Shrinkage for the next meeting.	iGTs	Pending
SF0804 <sup>3</sup>	30/08/17	2.0	Shrinkage Forum to consider the Shrinkage Methodology and associated percentages with justification	All	Pending

			explanation, its accuracy and if it is capable of standing up to critique.		
<b>SF0805</b>	30/08/17	3.0	<del>DNs to consider matter raised in reference to the GL Noble Letter and AUGE responses and provide a view / narrative within the Consultation to allow responses.</del>	<del>DNs</del>	<b>Pending</b>
<b>SF0806</b>	30/08/17	3.0	<del>Shrinkage Forum to consider the Shrinkage Methodology, its accuracy and if it is capable of standing up to critique.</del>	<del>All</del>	<b>Pending</b>
<b>SF0807</b> <sup>4</sup>	30/08/17	3.0	DNs to provide a response on the aspects highlighted in the AUGE Report and associated justifications and consider the matters raised in the GL Noble Letter and the Imperial College Study for inclusion in the consultation document and specific narrative.	DNs	<b>Pending</b>
<b>SF0808</b> <sup>5</sup>	30/08/17	4.0	DNs to consider the provision of the Shrinkage Model including data (in an anonymised form) and provide a view on whether this could be provided upon request.	DNs	<b>Pending</b>
<b>SF0809</b> <sup>6</sup>	30/08/17	4.0	DNs to include within the Shrinkage and Leakage Report Consultation: the factors that contribute to Shrinkage of asset types; Incentive Shrinkage Values and Actual Shrinkage Volumes, illustrating the variance between 2015/16 and 2016/17.	DNs	<b>Pending</b>
<b>SF0810</b> <sup>7</sup>	30/08/17	5.0	DNs to provide an explanation of Pressure Management for the November meeting.	DNs	<b>Pending</b>