Final LDZ Shrinkage Factors Proposal for Gas Year 2007/08

Scotia Gas Networks
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Final LDZ Shrinkage Factors Proposal for Gas Year 2007/08

1 Purpose of Proposal

The purpose of this paper is to present our final proposed LDZ Shrinkage Factors for the Gas Year 2007/08 as required under Section N 3.1.7 of the Uniform Network Code.

2 Summary of Proposal

We propose to apply the Shrinkage Factors outlined in the table below for the Gas Year 2007/08, effective from 06:00 hrs on 1 October 2007.

This proposal is derived from the Initial Proposals that were circulated to Ofgem and Users on 1 July 2007.

LDZ Specific Shrinkage Factors

LDZ	Leakage Factor	OUG Factor	Theft Factor	Shrinkage Factor % [1]
Scotland	**0.458**	**0.011**	**0.02**	**0.490**
South East	**0.648**	**0.011**	**0.02**	**0.679**
Southern	**0.698**	**0.011**	**0.02**	**0.729**

[1] Shrinkage Factor is expressed as a percentage of anticipated annual LDZ throughput.

3 Development of Final Proposal

Scotia Gas Networks (SGN) initial proposals for LDZ Shrinkage Factors for gas year 2007/08 were issued on the 1 July 2007.

The Shrinkage Factors proposed within this document are derived using factors for leakage, theft of gas and operational usage (own use gas). A brief description of each of these elements is outlined below, with further detail contained within the Initial Proposal document.

3.1 Leakage

Leakage from the distribution system accounts for the majority of overall leakage within an LDZ and is attributable to gas leakage from mains and services. The leakage estimate has been derived from leakage rates obtained from the 2002/03 National Leakage Test programme (carried out by Transco) combined with the following network[1] specific information;

- forecasted mains replacement up to the end of March 2008;
- the annual average system pressure in each network for 2006;
- the measured concentration of Monoethylene Glycol (MEG) joint treatment chemical in the gas and
- forecast demand data for gas year 2007/08

In addition, leakage and operational venting may occur from Above Ground Installations (AGIs). During 2003, Transco completed a survey of these sites.

Leakage, in terms of cubic metres of gas, is converted into energy by use of the flow-weighted average CVs (measured in MJ / m^3) that are detailed within the Initial Proposals.

Since the publication of the initial proposals, an error in the leakage model provided by National grid to Scotia Gas Networks, at the point of sale, has been identified. Consequently SGN's LDZ Specific Shrinkage Factors have reduced from those contained within the 'LDZ Shrinkage Factors Initial Proposals – 2007/08' document. These changes are attributable to an identified error whereby incorrect leakage rates were used to calculate the MP mains leakage element.

The impact of this error correction has affected each LDZ differently given they have different MP pipe length, material and diameter distributions but has had the impact of reducing Shrinkage Factors by:

Scotland :	0.010%
South East :	0.006%
Southern :	0.004%

[1] Network in this context relates to physical interconnected pipe systems, not Scotia Gas Networks administrative structure.

3.2 Operational Usage (also known as Own Use Gas)

SGN's Own Use Gas (OUG) factor for 2007/08 will remain unchanged from the OUG factor for 2006/07.

This figure is the national factor calculated by the 2002 Advantica model which was verified last year – the results of this research being presented to the Shrinkage Forum on Thursday 22nd June 2006. This research stated that pre-heater efficiencies lie between 53-69%. This implies that the national factor calculated by their model is overstated, as this is based on a lower efficiency of 50%. However SGN's proposed OUG factor for 2007/08 will be this national factor of 0.0113%.

3.3 Theft of Gas

SGN proposes a theft of gas factor of 0.02% for 2007/08. This figure remains unchanged from the theft of gas factors for 2005/06 and 2006/07 which were proposed by Transporters at the Shrinkage Forum on 15th August 2005.

This proposal was based on the strong view among Transporters that the National theft of gas factor of 0.03% of throughput significantly overstates the amount of theft that is attributable to Transporters. This stems primarily from the belief that the assumption that 10% of all theft is associated with the Transporters network is incorrect – available statistics, and the fact that theft is much more likely to occur downstream of the Transporters network, support this view.

SGN recognise that the quantification of the level of theft and proportion attributable to Transporters remains under review – both in the Shrinkage Gas Forum and Theft of Gas Forum.

4 Scotia Gas Networks Opinion

We believe that the proposed Shrinkage Factors are consistent with the objective of using the best available information to estimate the LDZ Shrinkage for the period from 1 October 2007 to 30 September 2008.

5 Extent to which the Proposal would better facilitate the relevant objectives

The proposal provides SGN's best forecast of the level of LDZ Shrinkage for the Gas Year 2007/08. The proposal is based on robust methodologies, the best information available and takes cognisance of the feedback received from Users.

This proposal is intended to further the efficient and economic operation of the system through more appropriate cost targeting and also facilitates the comparison of Transporter performance.

6 The implications for Scotia Gas Networks of implementing the Proposal

Including:

a) Implications for the operation of the System:

SGN is unaware of any such implications that would result from implementing this proposal.

b) Development, capital cost and operating cost implications:

SGN is proposing a change to the LDZ Shrinkage Factors which will correspond to a reduction in operating costs.

c) Extent to which it is appropriate for Scotia Gas Networks to recover the costs, and proposal for the most appropriate method for Scotia Gas Networks to recover the costs:

Recovery of costs for shrinkage gas is part of SGN's operating costs as agreed for the One Year Price Control Period 2007 to 2008.

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

No such consequences are envisaged should this proposal be implemented.

7 The implications of implementing this Proposal for Users

This proposal improves the equitability and accuracy of cost targeting for Users.

8 Analysis of any advantages or disadvantages of implementation of the Proposal

Advantages: More reflective of the actual transmission and distribution system usage and losses with improved cost targeting.

Disadvantages: SGN is not aware of any disadvantages.

9 User Representations

Users have had the opportunity to comment upon our proposals during Shrinkage Forum meetings and in writing.

10 Programme of works required as a consequence of implementing the Proposal

The only required modification is to the LDZ Shrinkage Factors entered onto AT-Link.

11 Proposed implementation timetable (including timetable for any necessary information systems changes)

Under Network Code Section N 3.1.8., Users have until the 15 September 2007 to request that Ofgem issue a Condition 7 (4) disapproval of this proposal.

If the disapproval is not given, then the revised LDZ Shrinkage Factors detailed in this proposal will be implemented at the start of the Gas Day on 1 October 2007.

12 Recommendation concerning the implementation of the Proposal

We recommend that the proposed LDZ Shrinkage Factors be implemented with effect from 06:00 hrs on 1 October 2007.

13 Scotia Gas Networks Proposal

This report contains our proposal for the LDZ Shrinkage Factors for the Gas Year 2007/08. In summary, we propose that the LDZ Shrinkage Factors should be set at the levels indicated in the table on page 2 of these proposals.