

Mr Bob Fletcher  
Joint Office of Gas Transporters  
51 Homer Road  
Solihull  
B91 3LT

1<sup>st</sup> February 2011

Dear Bob

**RE: GDN Initial Shrinkage Proposals**

1. Thank you for the opportunity to respond to the initial proposals on shrinkage.
2. British Gas firmly believes that effective incentives can reduce the amount of gas lost from the network and are therefore supportive of a strong shrinkage regime. In particular we believe that shrinkage plays a key role in controlling the environmental impact of the industry, protecting the consumer from the safety impacts of both theft and leakage and ensuring the market is kept whole by each party paying their fair share of costs.
3. We have some concerns however that the initial Network Owner proposals for shrinkage in the period 2011/12 unnecessarily weaken these incentives and therefore place these benefits at risk. Specifically, and whilst we support a reduction in the level of shrinkage quantity where the evidence indicates that it is warranted, we consider that the rationale underpinning these proposals is weak.
4. The leakage survey used to estimate the amount of gas lost in leaks was completed in 2002/03, some nine years ago, and we believe that the age of this research calls in to question its ongoing suitability for calculating shrinkage quantity levels. Given the importance of this incentive in managing losses on the network, more up to date research is required. We consider that the Network Owners could have collected data in the intervening period about the impact of leaks on their network. How much gas, for example, do they estimate to have been lost through their analysis of recorded incidents?
5. We further consider that under most industry proposals of this magnitude, the supporting evidence upon which they are based would be made public so that interested parties such as ourselves could provide review, comment and challenge. The fact that this does not happen when shrinkage quantity levels

are set is a concern for us. We would, for example, appreciate confirmation that the survey completed on behalf of Transco in 2002/03 is based on national figures and not a sub-set of the country extrapolated out so that conclusions can be drawn.

6. We further believe the assumption that between 3% and 10% of theft is committed from the Network Owners equipment, i.e. everything before the Emergency Control Valve of a meter, to be questionable. Some of the initial Network Owner proposals appear to be based on a comparison with reported Shipper theft detections, a number which is undermined by the current lack of Shipper investment in theft detection, whereas as other proposals are based on unsubstantiated assumptions about the volume of theft in the course of conveyance.
7. Our own experience is that there is a significant amount of theft committed from Network Owner equipment, whether that is either through a “tee” off the mains supply to a property in order to bypass a meter or through an illegal connection. Again, we are concerned that there is little public information about theft in the course of conveyance, whether that be regarding the number of investigations made by Network Owners, the number of proven cases found, the amount of gas assessed as stolen and the amount of revenue subsequently recovered. All of this information would enable proper scrutiny of the effectiveness of shrinkage measures.
8. We also note that the proposed shrinkage quantity levels are lower than that contained within some of the Network Owners own licence. Northern Gas Networks licence for example states that for the maximum shrinkage volume should be 288 GWh whereas these initial proposals are for 264 GWh. This creates a benefit for the Network Owners for which the justification is not clearly demonstrated.
9. Finally, we would appreciate sight of the Network Owners’ performance against previous years shrinkage targets so that we could be reassured that they provided an adequately stretching target. The concern is that the poor quality data underpinning the proposals and the lack of empirical evidence supporting them may lead to targets which fail to properly incentivise the right behaviours and leave the industry unable to challenge the Network Owners assumptions.
10. Given these concerns, we call on the Network Owners to bring forward proposals for industry discussion about how more data can be shared so that this and future consultations can be a genuine two way process. This is a pre-requisite for the necessary reconsideration, and in our view, potential increase to the proposed level of shrinkage quantities for the period 2011/12. We would also welcome proposals from the Network Owners to update the research which is used to derive these figures for future years.
11. If you have any queries relating to this representation however, please do not hesitate to telephone me on (07789) 570501.

Yours sincerely

David Watson  
Regulatory Manager, British Gas