

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

15 February 2011

Dear Bob,

### **NGN's Initial Proposals for LDZ Shrinkage Quantity 2011/12**

NGN's initial proposals were published on the Joint Office website on 21 December 2010, consistent with the requirements of section N.3.1 of the UNC. The proposals were open to any representations from interested parties until 31 January 2011. One response was received which was addressed to all the GDNs from British Gas we address the main points raised in the response;

#### ***Data used in the leakage model***

The respondent expressed concerns that the last leakage survey was undertaken in 2002/03 and therefore questioned the suitability continuing to use this data for current shrinkage estimates. However whilst the 2002/03 test results are an important input as noted in our initial proposals our forecast is also determined using actual network data. Furthermore we continually validate the assumptions used in the leakage model including the data from the 2002/03 survey and confirm that they remain a robust basis for forecasting shrinkage. It should also be noted that Ofgem carried out its own independent audit of the GDN's leakage models following which Ofgem approved the models in November 2009<sup>1</sup>, this included the basis on which the previously national Transco model and the 2002/03 survey results were applied for each individual GDN.

#### ***Theft of Gas***

The respondent questioned the assumptions used by the GDNs regarding theft of gas [upstream of the ECV] suggesting that the scale of theft could be significantly higher. NGN's theft of gas factor is based on available data on reported theft on NGN's network to date. This is an area we continue to keep under review and we would be happy to discuss and consider any alternative data the respondent believes is relevant in this area. In particular we are open to views on theft of gas as part of our price control stakeholder engagement.

#### ***Performance against incentive and allowance***

The respondent specifically compared NGN's forecast 264GWh against the [Shrinkage] incentive baseline 288 GWh noting that the forecasts were significantly lower. It should be clarified that these numbers relate to NGN's North East LDZ. There should not be any concern regarding this difference as the objective of the shrinkage incentive and the environment emission incentive is primarily to drive this level of outperformance. As the respondent notes

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<sup>1</sup> [http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents1/NGN\\_LM\\_Approval\\_161109.pdf](http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents1/NGN_LM_Approval_161109.pdf)

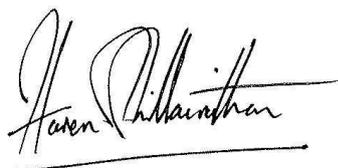
shrinkage is a key component of the industry's carbon footprint so any further reductions that can be achieved by the GDNs are to be encouraged, this level of performance equates to 8.3% which is within the +/- 10% cap and collar on the environmental emissions incentive so can hardly be regarded as excessive. The original baseline targets were produced by the leakage models which as mentioned were audited and approved by Ofgem, the baseline volumes were also subject to Ofgem's consultation process in the last price control review GDPCR 1. In terms of level of shrinkage NGN is forecasting for 2011/12 this is driven by a reduction in average system pressures delivered by a new pressure management system NGN is putting in place. This illustrates that the present incentives are delivering the desired outcomes by encouraging GDNs to invest in initiatives to reduce shrinkage.

Having considered the responses received we are not proposing to make any changes to our Initial Proposals.

We note the respondent's comments regarding future consultations and sharing data and to this end the GDNs have agreed to ask the Joint Office reconvene the shrinkage forum to give all stakeholders an opportunity to provide feedback and views on GDN shrinkage. Details of the forum should be circulated by the Joint Office shortly. NGN will also consider any views and input regarding its shrinkage forecasts for the next price control through its stakeholder engagement process..

Please let me know if you would like any clarification of any aspect of this letter. .

Yours sincerely

A handwritten signature in black ink, appearing to read 'Haren Thillainathan', with a horizontal line underneath.

**Haren Thillainathan**  
**Regulation Manager**