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16 February 2011

Re: LDZ Shrinkage Quantity Initial Proposals Formula Year 2011/12 (Scotia Gas Networks)

Dear Bob

In accordance with the Uniform Network Code Transportation Principal Document Section N 3.1.5(a), Scotia Gas Networks has reviewed representations made by Users (Shippers) in relation to our Initial Proposals for LDZ Shrinkage in 2011/12.

One representation has been received in respect of this year's proposal but covering each of the LDZ Shrinkage Proposals. Following discussions between the Distribution Network Operators (DNOs), it is the intention of each DNO to reply individually to the representation, with those responses published on the Joint Office Website.

In response to the specific areas of concern raised in the letter of 1<sup>st</sup> February, SGN have grouped the various issues under three headings and can respond as follows,

1. Current Incentive Regime

The respondent indicates it supports a strong incentive regime, but is concerned that the proposals for 2011/12 unnecessarily weaken those incentives.

In recent years SGN has made significant investment not only in fitting enhanced Pressure Management Systems, but also in the level of focus placed on the operation of those systems to achieve the full benefit available. In this way SGN have, and will continue to look to deliver continuous improvement in shrinkage and environmental performance

2. Existing Leakage Model

The respondent has indicated concern regarding certain elements of the current process, in particular, the suitability of the leakage rates utilised within the model, primarily as the last set of tests were carried out in 2002/03. Additionally, the Respondent questions whether those assessments were established on the basis of tests carried out on a localised area or a country-wide sample.

The leakage model has evolved over the years and no doubt will continue to evolve, where it can be demonstrated that the current philosophy can be improved. Previous improvements have been subject to full industry wide consultation prior to approval and implementation.



With regards the sample of mains utilised to support the 2002/03 National Leakage Tests, this exercise was centrally coordinated, with each LDZ being asked to carry out a range of tests on randomly selected mains, covering the various combinations of material type and diameter bands.

### 3. Theft of Gas

The respondent has indicated a concern that assumptions underpinning the 'theft of gas' allowances are not robust. Those assumptions have been subject to discussions in the past and current method of evaluation is based on an approach agreed at that time. The respondent has, however, indicated that in their experience 'there is a significant amount of theft committed from Network Owner equipment'. To assist any further consideration it would be beneficial if the respondent could share the basis for this view with the DNOs, thereby allowing a more informed discussion to take place.

With regards to SGN's 2011/12 proposals it is not considered that the issues raised demonstrably justify any modification to those proposals. However, with the Shrinkage Forum having been recently inactive, a number of issues which have been raised have possibly not been subject to discussion for some time.

As you may be aware, the DNOs have requested a meeting of the Shrinkage Forum be scheduled for 8 March 2011. It is suggested that, at that meeting it may be an opportunity to have a further discussion of a number these issues, with a view to considering their relevance to future Proposals.

Yours sincerely

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