

## SHRINKAGE FORUM

### Minutes

**Wednesday 14 December 2005**

**The Holiday Inn**

**1 King's Cross Road, London**

#### Attendees

Tim Davis	(Chair)	(TD)	Joint Office
Lorna Dupont	(Secretary)	(LD)	Joint Office
John Bradley		(JB)	Joint Office
Gareth Mills		(GM)	Northern Gas Networks
Brian Stoneman		(BS)	Northern Gas Networks
Phil Jeffries		(PJ)	Wales & West Utilities
Julian Bagwell		(JB)	Wales & West Utilities
Mo Rezvani		(MR)	Scottish & Southern Energy
Jonathan Dennett		(JD)	National Grid
Tony Brandi		(TB)	Statoil (UK) Ltd
Padraig O'Connor		(PO)	Bord Gais Networks
Melanie Everitt		(ME)	Ofgem
Peter Dickinson		(PD)	Ofgem
Mike Young		(MY)	BGT
David Osman		(DO)	RWE npower
Julian Skinner		(JS)	Scotia Gas Networks
Steve Courtney		(SC)	Scotia Gas Networks

#### 1. Introduction and Status Review

- 1.1 TD gave an introduction and set out proposed administrative arrangements for the Shrinkage Forum, which would be supported by the Joint Office of Gas Transporters.
- 1.2 The minutes from the LDZ Shrinkage Forum held on 15 August 2005 were accepted.
- 1.3 TD reviewed actions from the previous meeting – none were carried forward.

#### 2. Topics

##### 2.1 Treatment of Demand

There was discussion following a proposal by JS that the obligations within the Uniform Network Code Section N3.1.1, which explicitly look forward, rather than back, should drive a move towards forward looking demand forecasts. It was stated that looking at historical facts and taking account of known changes was generally accepted as the best way to predict the future demand. The Transporter's proposal was consistent with this, as it would use

the same demand forecast as that used for tariff setting. This is based on 17 years of demand data. This would also provide consistency with the tariff setting process. There were concerns that any movement should not be towards a less accurate forecast. JS stated that any incentive on Transporters to “over forecast” demand for the purpose of shrinkage factor determination would be mitigated by the adverse effect this would have on Transporters’ cash flows on transportation. Shippers could then have confidence that the Transporters would have no incentive to overstate demand if the practice were to use the same demand estimate for shrinkage factor determination and tariff setting. MY questioned whether the assessment adjustment would become less significant but JD commented that assessment adjustment does not necessarily bring one back to original demand. JS responded to the concerns expressed by pointing out that the annual shrinkage factor proposal process does allow for challenge by Shippers and that ultimately Ofgem has the right to veto the Transporters’ proposals.

The Transporters agreed they were in favour of the move to forward-looking forecasting. The Shippers stated agreement with the principle but wished to understand any potential commercial impacts, and how errors would be reconciled if they were to completely support the proposal.

**Action SF001:** Transporters to ascertain the potential commercial impacts had the approach been in place previously and present results to the March Forum.

## 2.2 Theft of Gas

The Transporters advised that they were still awaiting various reports and, until such time as these were received, their position remained unchanged.

**Action SF002:** MY to ascertain the status of the Theft of Gas Workstream and communicate this to the March Forum.

MY brought to the Forum’s attention that Theft of Gas (ToG) was being discussed from a different perspective in other areas of the industry. He advised that there was now a view that ToG should be looked at both from an active and a passive standpoint, and that there was a level of concern that passive ToG (eg gas passing through unregistered Supply Points) may be of greater commercial significance than any instances recognised under active ToG. Discovered instances are included in Shrinkage, but these other areas will require further analysis.

It was thought that the Transporters may be better situated to know how many registered Supply Points existed, and Shippers questioned whether the Transporters were aware of any sites that were not registered to a Shipper. JD advised that there was always a small number of Supply Points ‘in limbo’ for any period up to 12 months, between the vacation and reoccupation of a site, ie withdrawn and capped, ready to be reconnected. These could be

seen as potential passive ToG instances, as any gas used is currently unaccounted for and therefore within RbD; however National Grid thought that a very small percentage of this category, if any, could be construed as ToG.

National Grid commented that the Transporters should be able to provide statistics relating to the number of cut offs currently outstanding under Gas Safety Management Regulations.

**Action SF003:** The Transporters to provide the March Forum with statistics relating to the number of cut offs currently outstanding under Gas Safety (Management) Regulations.

MY questioned whether any finding of tampering was recorded when engineers went to disconnect/reconnect sites, as these statistics would also be of use in helping to ascertain the levels of passive ToG. JD briefly described the disconnection process and advised that in most instances where a service was disconnected after the 12 month period access was not required to the site itself as the service pipe was cut off outside the property boundary. It was pointed out that statistics for capped off meters may be useful, and that it was thought that some work might have been undertaken in this field within xoserve.

**Action SF004:** BS to discuss this topic with xoserve to ascertain whether they have undertaken any work in this field, and also whether any data is available that can be shared with the March Forum.

It was suggested that a survey had taken place in North London to compare postal addresses with meter points in order to establish ToG cases. JD was unaware of this exercise but pointed out that it was estimated that there were 26 million households in the country but only 21 million domestic Supply Points. Whilst much of the difference was households with no adjacent gas main, there would still be a huge number that could potentially be connected and it was impracticable to consider checking these to establish whether ToG had taken place.

### 2.3 Own Use Gas

In fulfilment of a previous action JD gave a presentation on Own Use Gas (OUG), comparing the pros and cons of the measuring options - Metering and Modelling. JD proposed that, "Transporters be allowed to cooperate to hire Advantica to create a detailed work proposal to create a revised OUG model" with the involvement of Shippers.

A discussion ensued concerning the number of sites involved (approximately 1500 within LDZs and 100 at the NTS/LDZ interfaces), whether any were currently metered, and how many could be considered to meet fiscal metering standards. There were concerns that any model should include audit checks and/or incentives to operate more efficiently, but further discussion clarified that these concerns were already effectively negated under the Transporters'

current obligations, and that there were disincentives to purposely increasing gas usage.

The Transporters maintained differing policies on the installation of meters - a further option might be to meter some installations.

To oversee any study, the Forum was in favour of a Steering Group that included Shippers, but some doubts were raised in respect of JD's proposed timescale, which looked tight, and was held to be insufficient to inform the annual shrinkage factor determination process. The Transporters were encouraged not to wait for the next Forum before initiating the study.

**Action SF005:** JD to approach Advantica or a similar organisation to discuss the work proposal, brief them on the feedback received including the discussion at Shrinkage Forums, and invite them to the next meeting in March 2006 (to present and discuss progress).

## 2.4 National Leakage Tests

MY sought the view of the Forum in respect of proposing a timescale for the next National Leakage Tests (NLTs), eg at a 10 year interval.

JD advised that NLTs were carried out in 1991. These were followed by the most recent NLTs, which took place from March 2002 – March 2003, giving a gap of 11 years, and at a cost of £9 million. The Tests are very expensive to carry out, and on this basis the next one would potentially be scheduled to take place sometime between 2012 and 2014.

The potential scheduling gave rise to some debate as the NLTs could then fall either at the end or the beginning of a PCR period. Ofgem commented that if it was not deemed to be efficient then it would not be allowed in the PCR.

MY questioned whether any NLTs were likely to be carried out and analysed by a single agency. It was agreed that the Transporters should consider/agree a joint approach, rather than undertaking a test in each network. On the grounds of efficiency, there was general agreement that a single series of tests was preferable.

## 3. Any Other Business

### 3.1 Independent Gas Transporters (iGTs) and Shrinkage

It is assumed that there is virtually no leakage within independent Gas Transporters' systems, but there was some concern that this assumption may need to be revisited given the increasing numbers of iGT supply points. This also led to recognition that perhaps iGTs should be invited to take part in this Forum.

MY commented that a UNC Modification could be raised to allocate costs to iGT Users, and that the Forum may need to address this sometime in the future.

### 3.2 Co-operation between Transporters

PD commented that Ofgem welcomed the level of co-operation between Transporters that had made itself apparent in the consistencies evident across the Shrinkage Factors put forward by all parties. He suggested that, if the Community required consistency the UNC might need to include more on shrinkage in order to support that.

TD affirmed that methodologies under current use are the same for all Transporters, but did not have to be.

MR believed that consistency was required, and that greater differences were not 'satisfying' or easily justified. An agreed process might therefore be welcomed.

Transporters commented that they would not want to be obliged to act in a common way, but did have an incentive to co-operate, and would therefore have to justify any significant differences that might arise.

### 3.3 Decimal Places

JD confirmed that Gemini would accept an extra decimal place, over and above that of AT Link.

## 4. Date and Content of Next Meeting

It was agreed that it would be appropriate to seek to arrange future Shrinkage Forum meetings to coincide (at the appropriate frequency) with the dates of the Distribution Workstreams. The Distribution Workstreams were generally held on the fourth Thursday of the month.

On this basis the next Shrinkage Forum meeting (Assessment and Adjustment) will be arranged for 14.00hrs on 23 March 2006 at the Elexon Offices, 350 Euston Road, London.

Shrinkage Forum	Date	Time	Venue
Assessment and Adjustment	Thursday 23 March 2006	14.00	Elexon Offices, 350 Euston Road, London
Initial Proposals	June 2006	tbc	tbc
Final Proposals	August 2006	tbc	tbc
Issues and Ideas	December 2006	tbc	tbc

**Action Log – Shrinkage Forum - 14 December 2005**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner*</b>	<b>Status Update</b>
SF001	14/12/05	2.1	Treatment of Demand/Forward Forecasting – The Transporters to ascertain the potential commercial impacts, and how errors might be corrected or mitigated.	Transporters	Due March 06
SF002	14/12/05	2.2	Theft of Gas - to ascertain the status of the required reports and communicate this to the Forum.	BGT (MY)	
SF003	14/12/05	2.2	Theft of Gas - The Transporters to provide statistics relating to the number of cut offs currently outstanding under Gas Safety Management Regulations.	Transporters	
SF004	14/12/05	2.2	Theft of Gas - statistics for capped off meters - Northern Gas Networks (BS) to discuss this topic with xoserve to ascertain whether they have undertaken any work in this field, and also whether any data is available that can be shared.	NGN (BS)	
SF005	14/12/05	2.3	Own Use Gas - National Grid to approach Advantica (or a similar organisation) to discuss the work proposal and invite to the next meeting in March 2006 (to present and discuss).	NG NTS (JD)	Due March 06

\* Key to initials of action owner

MY – Mike Young, BS – Brian Stoneman, JD – Jonathan Dennett