

# Initial Proposals of LDZ Shrinkage Quantity North East and Northern LDZs

## Formula Year 2018/19

Northern Gas Networks

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Shrinkage & Leakage Quantities from Initial Model Formula Yr. 2018-2019 SLM v1.4

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## LDZ Shrinkage Quantity Initial Proposal for Formula Year 2018/19

### 1. Purpose of Proposal

The purpose of this paper is to present NGN's proposals in respect of LDZ Shrinkage Quantities for the North East and Northern LDZs for the Formula Year 2018/19 as required under Section N of the Network Code.

In Section N of Network Code, Northern Gas Networks has an obligation to submit an estimated LDZ Shrinkage Quantity for each LDZ to provide for the gas that is used or is lost from its LDZ systems.

### 2. Summary of Proposal

The LDZ Shrinkage Quantity, set out within the table below, reflect the losses associated with leakage, theft of gas and gas used in the operation of the system. Details of how these Quantities have been determined are provided later in this paper. This report has been prepared in accordance with the UNC arrangements implemented from December 29th 2008 as a consequence of Mod 0225.

The document details Shrinkage Quantities and fugitive emissions of gas have been calculated on an LDZ basis using a forecasted mains population as at 31<sup>st</sup> March 2019 omitting NG Metering sites. NGN have used a figure for OUG supported by a review carried out by DNV-GL (formerly Advantica). NGN has considered Theft of Gas and propose using the same factor as last year. The calculations that were used to derive the Shrinkage Quantities and a summary of the underlying information are set out in this proposal.

The Shrinkage Quantity does not include pressure or temperature correction, in line with the agreed methodology. These Quantities are those proposed for the formula year commencing 1<sup>st</sup> April 2018.

Proposed LDZ Shrinkage Quantity values for the 2018/19 Formula Year

LDZ	Existing Shrinkage Quantities 2017/18 Formula Year (Gwh)				Proposed Shrinkage Quantities 2018/19 Formula Year (Gwh)			
	Leakage	OUG	TOG	Total	Leakage	OUG	TOG	Total
North East	183.96	4.22	7.47	195.65	163.67	4.34	7.68	175.69
North	144.98	3.61	6.40	154.99	138.67	3.71	6.57	148.95

The calculations that were used to derive the Shrinkage Quantity values and summary of the underlying information are set out in this proposal.

LDZ	Proposed Shrinkage Quantity (GWh) 2018/19	Proposed Daily Shrinkage Quantity (Kwh) 2018/19
North East	175.69	481,345
Northern	148.95	408,084
Total	324.64	889,429

### 3. Component Analysis

This section of the document presents an analysis of the components of LDZ shrinkage that make up the estimates for the formula year 2018/19 proposal.

#### 3.1 Leakage

Leakage represents the largest component of LDZ Shrinkage. For the purpose of analysis, leakage may be split into the following three categories:

- Distribution Mains (including service pipes);
- Above Ground Installations (AGIs); and
- Other Losses.

Distribution mains and services leakage is a feature of normal system operation. AGI leakage includes the routine venting of control equipment. Other losses include gas lost as a result of interference damage and broken mains. These losses are not continuous and are caused by specific events outside the control of NGN.

##### 3.1.1 Distribution Mains and Services Leakage

The leakage of gas from the distribution mains system (including service pipe leakage) is calculated by using the industry approved leakage rates in the Shrinkage and Leakage Model for different materials and diameters. These are derived from the results of the 2002/03 National Leakage Testing programme, with the following network<sup>1</sup> specific information:

- forecasted mains populations up to 31<sup>st</sup> March 2019
- forecasted annual average system pressure in each network;
- forecasted Mono ethylene Glycol (MEG) joint treatment chemical in the gas.

Leakage is calculated by multiplying the annual average mains pressure in each network by the Main and Service Pipe Leakage Factors determined by the 2002/03 National Leakage Test programme and the relative lengths of mains / numbers of services in each network. Where applicable (i.e. cast iron mains only) the Pipe Leakage factors are adjusted to take into account concentration and coverage of MEG.

Information relating to the National Leakage Test programme, the application of the results to calculate leakage and the external validation of the results has already been shared with Users and Ofgem; consequently it is not proposed to include additional details in this paper.

The table below shows the Low Pressure leakage on an LDZ basis.

LDZ	Proposed Low Pressure Leakage	
	Tonnes of Natural Gas <sup>2</sup>	GWh
North East	7,862	118.05
Northern	6,642	99.60
<b>Total</b>	<b>14,504</b>	<b>217.65</b>

<sup>1</sup> Network in this context relates to physical interconnected pipe systems.

<sup>2</sup> The tonnes figure is provided for information (it has no purpose in respect of calculating the Shrinkage Quantity). The conversion to tonnes is based on a Gas Density of 0.73

The table below shows the Medium Pressure leakage on an LDZ basis.

LDZ	Proposed Medium Pressure Leakage	
	Tonnes of Natural Gas	GWh
North East	1,076	16.16
Northern	606	9.08
<b>Total</b>	<b>1,682</b>	<b>25.24</b>

### 3.1.2 AGI Leakage

The figures for leakage from Above Ground Installations have been taken from the industry approved Shrinkage and Leakage Model and are based on the findings of the Transco 2003 Above Ground Installation Leakage Test programme.

Information relating to the programme has already been shared with Users and Ofgem; consequently, it is not proposed to include significant detail in this paper.

The table below shows AGI leakage and routine venting associated with these sites on an LDZ basis.

LDZ	Proposed AGI Emissions <sup>3</sup>	
	Tonnes of Natural Gas	GWh
North East	1,916	28.76
Northern	1,972	29.57
<b>Total</b>	<b>3,887</b>	<b>58.33</b>

### 3.1.3 Other Losses

Gas may be lost from LDZ equipment as a result of specific events, namely broken mains and interference damage to plant. These losses are known collectively as other losses. Statistics in respect of the number of broken mains and damages are used in conjunction with calculations of the amount of gas lost through each type of incident to derive the total amount of gas lost as a result of these events.

The table below shows the forecast amount of gas lost as a result of 'Other Losses' by LDZ based on a three year average of observed actual other losses for the period 2014-15 to 2016-17. This is because, despite continuous efforts to reduce such incidents, other losses are outside the control of NGN and therefore fluctuate somewhat from year to year and are difficult to forecast.

LDZ	Proposed Other Losses	
	Tonnes of Natural Gas	GWh
North East	46	0.69
Northern	28	0.42
<b>Total</b>	<b>74</b>	<b>1.11</b>

<sup>3</sup> Includes leakage and routine equipment venting

### 3.1.4 Total Leakage

The table below shows the total amount of leakage for formula year 2018/19 expressed in tonnes and GWh.

LDZ	Proposed Total Leakage	
	Tonnes of Natural Gas	GWh
North East	10,900	163.67
Northern	9,247	138.67
Total	20,147	302.34

### 3.2 Own Use Gas

Natural gas is a compressible fluid. As a direct result of this property, it experiences a drop in temperature when it undergoes an isenthalpic expansion. This means that when gas has its pressure reduced (at an NTS offtake or Local Transmission System regulator site) the gas on the downstream side of the pressure reduction apparatus is colder than the gas on the upstream side.

To avoid the gas leaving a site at below the freezing point of water, pre-heating may be applied. Pre-heating is only needed to maintain gas above 0°C and if the gas enters the site at a sufficiently high temperature (e.g. during the summer) or the pressure reduction is small, then pre-heating may not be required. Pre-heating requires a small proportion of the gas passing through the site to fuel the pre-heating equipment<sup>4</sup>.

A report published in 2002 proposed OUG figures of 0.0113% of throughput nationally and this represents the overall level of gas used by the GDN for purposes of pre heating at pressure reduction installations. The model used to assess the Own Use Gas component applies thermodynamic principles with a range of conservative assumptions. These include the supposition that all gas into an LDZ passes through one offtake, and is subject to a two stage pressure reduction process with a plant efficiency assumed to be 50%.

NGN propose the OUG factor for 2018/19 remains unchanged at 0.0113% which equates to the following Leakage figures:

LDZ	Proposed Own Use Gas Quantity (GWh) 2018/19
North East	4.34
Northern	3.71
Total	8.05

### 3.3 Theft of Gas

Network Code Section N1.3.2 states that; LDZ unaccounted for gas shall include, and Northern Gas Networks is therefore responsible for, gas illegally taken upstream of the customer control valve and downstream where there is no shipper contract with the end-user.

The available statistics imply that transporters are responsible for between 1% and 4% of theft. However, NGN recognising the limitations of the current methodology and the concerns of shippers considers that the proportion of theft attributed to the Transporter should remain at

<sup>4</sup> A minority of smaller pre-heaters use electricity instead of gas as the fuel.

6.67%, resulting in a theft of gas factor of 0.02% of throughput in line with the 2008 figure, this represents the overall level of Transporter Responsible theft as defined in UNC Section N1.3.2 which equates to the following Leakage figures:

<b>LDZ</b>	<b>Proposed Theft Of Gas Quantity (GWh) 2018/19</b>
<b>North East</b>	7.68
<b>Northern</b>	6.57
<b>Total</b>	14.25

#### **4 Extent to which the Proposal would better facilitate the relevant objectives**

This proposal provides an accurate estimate of LDZ leakage and a conservative estimate of LDZ theft of gas and own use gas for the Formula Year 2018/19. As a result, the gas usage and loss in transportation within the LDZs is expected be reflective of actual conditions. This facilitates the achievement of efficient and economic operation of the system, as NGN is incentivised to identify opportunities to reduce shrinkage in future years.

It will also lead to better targeting of costs to Users through the RbD process and this is consistent with securing effective competition.

#### **5 The implications for Northern Gas Networks of implementing the proposal including:**

**a) Implications for the operation of the System:**

We are not aware of any such implications that would result from implementing this proposal.

**b) Development and capital cost and operating cost implications:**

The proposed LDZ Shrinkage Quantities (which do not include Pressure and Temperature correction) lead to a fair allocation of operating costs between LDZ systems.

**c) Extent to which it is appropriate for Northern Gas Networks to recover the costs, and proposal for the most appropriate way for Northern Gas Networks to recover the costs:**

It is appropriate for each LDZ to incur a share of the overall Shrinkage Energy dependent upon the actual shrinkage in that LDZ.

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

The continued removal of Temperature and Pressure correction greatly facilitates the establishment and operation of Distribution Network specific transportation charging formula (which is an Ofgem objective). For this reason NGN propose to continue the regime that does not include Temperature and Pressure Correction.

In the longer term this proposal offers the prospect of real savings for consumers through the operation of the principle of comparative regulation.

## **6 The implications of implementing the Proposal for Users**

This proposal improves the equability and accuracy of cost targeting across all Users.

## **7 Analysis of any advantages or disadvantages of implementation of the Proposal**

- **Advantages:** Improved allocation of the actual system usage and losses with improved cost targeting and appropriate incentivisation for future shrinkage reduction.
- **Disadvantages:** Northern Gas Networks is not aware of any disadvantages.

## **8 Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the proposal)**

N/A

## **9 Programme of works required as a consequence of implementing the Proposal**

UK LINK system changes are required to enable NGN to nominate a fixed daily quantity.

## **10 Proposed implementation timetable (Inc. timetable for any necessary information system changes)**

When we publish our final proposals, Users have until the 15<sup>th</sup> of March 2018 to request that Ofgem issue a Condition 7(4) disapproval of this proposal. (This provision is in the Network Code Section N 3.1.8.)

If no disapproval notice is issued, it is our intention to implement revised LDZ Shrinkage Quantity from 05:00 hrs. on the 1<sup>st</sup> of April 2018.

## **11 Recommendation concerning the implementation of the Proposal**

We recommend the proposed LDZ Shrinkage Quantity be implemented with effect from 05:00 hrs. on the 1<sup>st</sup> April 2018.

## **12 Northern Gas Networks Proposal**

This report contains our proposal for the LDZ Shrinkage Quantity for the Formula Year 2018/19. The report is based on data sourced from the Shrinkage and Leakage Model (SLM) Version 1.4 which was approved by Ofgem in September 2014 (modification to low pressure service calculations). Because of the number of decimal places within the formula in the Shrinkage & Leakage Model (SLM), the rounding differences may result in immaterial changes to the overall values.