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11th December 2015.

Matt Marshall
National Grid Gas Distribution
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Dear Matt,

2015 Shrinkage and Leakage Model Review

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

Validation of existing assumptions:

We continue to be concerned and share other stakeholders' concerns that a number of assumptions relied upon in the Shrinkage and Leakage Model (SLM) are outdated, some by as much as over two decades. For example, assumed leakage rates for low pressure services have not been validated since the 2002/03 National Leakage Test and venting rates for above ground installations contained in a report published in 1994 are still used. It is important for stakeholders to be confident that the rates used within the SLM are fit-for-purpose and the output reflects actual losses. It is not credible that these assumptions can be used, without review, indefinitely. **Given their age, the key assumptions contained in the SLM now require reassessing.**

We are aware the cost of such a reassessment has been estimated to be in excess of £10million¹. We suggest this should be considered in the context of the approximately £75million per year that customers pay for shrinkage. Such an annual cost would suggest that customers have paid approximately £1billion in shrinkage costs since such key assumptions in the SLM were last reviewed. We support a reassessment exercise so that market participants have confidence that the costs associated with shrinkage remain accurate and appropriate. In terms of commitments for 2016, we recommend that analysis be undertaken which sets out for each key assumption:

- the current assumption;
- its source (including date of source);
- whether there are any more recent studies which could be used²;

¹ This is based on the cost of 2002/03 National Leakage Test, as stated most recently on page 6 of final report for the 2014/15 Shrinkage and Leakage Model review (<http://www.gasgovernance.co.uk/sites/default/files/2014-12-23%20Joint%20DN%20201415%20SLM%20Review%20Final%20Report.pdf>).

² For instance, we are aware that Energy UK has commissioned a report into the effect of shrinkage on domestic customers, which is due to be published in the near future.

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- the potential materiality of any error caused by the use of outdated sources; and
- the cost of any reassessment.

Such an analysis could be used to identify those assumptions on which the greatest focus should be placed and inform a targeted reassessment. Where the costs of reassessment are prohibitive, consideration should be given, through engagement with all interested parties, whether alternative methods of providing robust estimates are available. We also recommend that gas distribution network operators, through the Shrinkage Forum, should agree a 'lifetime' for each key rate assumption so that industry can be confident that such key assumptions will be reviewed at appropriate intervals.

SLM modifications:

We welcome the inclusion of the list of proposed and in-flight projects, the outputs of which may affect the SLM. However, we are unable to comment because insufficient detail has been presented in the consultation. For future reviews, **we recommend greater detail of each proposed or in-flight project is included in the consultation such as specific details on the proposals, the current status of each project and a timeline showing the expected milestones for each project leading to any SLM modifications.**

We hope you find our comments helpful. Please do not hesitate to contact me if you have any questions.

Yours sincerely,

Andy Manning
Head of Network Regulation, Forecasting and Settlements