



Shrinkage Leakage Model Review Consultation Report

31st December
2016

Gas Distribution Networks have an obligation under Special Condition 1F Part E of the License to review the Shrinkage and Leakage Model on an annual basis and to consult on the outcome of that review with other GDN operators, gas shippers and interested parties.

Joint Gas
Distribution Network
submission

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Background

Gas Distribution Networks (GDNs) have an obligation under Special Condition 1F Part E of the Licence to review the Shrinkage and Leakage Model (SLM) on an annual basis and to consult on the outcome of that review with other GDN operators, gas shippers and other interested parties.

The purpose of the SLM Review is to assess how the SLM can better achieve the objective set out in Special Condition 1F.13 of the Licence. This requires the SLM to be designed to facilitate the accurate calculation and reporting of gas shrinkage and gas leakage in, or from each, GDN operated by a Licensee.

A joint distribution network report¹ was published on 18th November 2016 for industry consultation, and we are pleased to receive a representation from British Gas.

As part of our ambition to increase stakeholder engagement and understanding of shrinkage related matters, we initially invited comment at the August and October Shrinkage Forums on areas that could be considered in the initial review document.

We would like to take the opportunity to assure interested parties that whilst the SLM review process represents a positive opportunity for wider industry review and comment, we are also committed to understanding the views of our stakeholders via the Shrinkage Forum. We consider that the Shrinkage Forum presents a useful vehicle for interested parties to understand the elements of the shrinkage assessment process of most interest to them, and importantly, also provides an opportunity for our stakeholders to share their views with distribution network representatives.

Our licence obligation is to review the SLM to increase reporting accuracy however, as a result of the stakeholder feedback; we have incorporated additional elements to supplement understanding, increase awareness, and to deliver on our stakeholder requests. As a result of stakeholder feedback in 2015/16 we extended the publication to include extra elements. For the 2016/17 review, we have included additional information by way of a dashboard of measures by LDZ, Shrinkage Forum review, review of previous commitments and a review of the joint GDN workshops held during 2016.

¹ The 2016/17 joint distribution Shrinkage Leakage Model Review is accessible from the Joint Office website <http://www.gasgovernance.co.uk/sites/default/files/Joint%20GDN%20Shrinkage%20and%20Leakage%20Model%20Review%20V1.0.pdf>

The consultation process has raised specific areas for attention, identified below, to which we offer our response within this document:

- i) “For future reviews, we ask the review findings are discussed and it is explained in sufficient detail how each commitment is intended to improve the accuracy of the modelling within the SLM”
- ii) “The inclusion of annual performance in the 2016 review aids transparency. In future reviews we suggest performance is included for each year of the GD1 price control and a comparison of annual performance against regulatory targets is also published”
- iii) “analysis of the materiality of the potential error associated with the use of outdated assumptions is conducted and the cost of reassessment is estimated so SLM improvements can be targeted”

“A ‘lifetime’ for each key assumption is agreed with stakeholders so that the industry can be confident that such key assumptions will be reviewed at appropriate intervals”
- iv) “We note it has been suggested the reassessment of the National Leakage Test (NLT) will be discussed with stakeholders in the context of the RIIO GD2 price control². We do not believe such a delay is appropriate. Delaying the reassessment to the next price control means the assumptions will be almost two decades old before updated assumptions are considered for the SLM. We are not convinced that such a delay properly facilitates the accurate calculation and reporting of gas shrinkage and gas leakage. We also consider that if, following assessment, it is concluded that it is appropriate to re-do the NLT, then in the context of a totex approach to expenditure there has been sufficient funding provided in RIIO GD1 to re-do the test”

We thank those individuals who have reviewed the document and also those that have shared their views.

² Joint Gas Distribution Network (GDN) Response to the Energy UK Gas Retail Group Study into the effect of shrinkage on domestic customers, page 2

(http://www.gasgovernance.co.uk/sites/default/files/Joint%20GDN%20Response%20to%20Energy%20UK%20GRG%20Shrinkage%20Study_0.pdf)

Outcome of Consultation

Representation Information

The consultation document set out the findings of the joint GDN review of the Shrinkage Leakage Model and detailed our future commitments.

Responses to the consultation were received from one respondent, British Gas, the details of which, and our responses, are outlined below.

Representation from British Gas

This section presents the British Gas representation to the consultation and the joint GDN response. We have captured the salient points from the representation for the purposes of this review paper; the full representation can be accessed on the Joint Office website.³

- i) “For future reviews, we ask the review findings are discussed and it is explained in sufficient detail how each commitment is intended to improve the accuracy of the modelling within the SLM.”

GDN response

As a result of discussions at Shrinkage Forum meetings, we summarised our annual outputs in the SLM consultation. We take the feedback on board that more detail is useful and we will include this in next year’s consultation.

For information, the GDN commitments outlined in the 2016/17 SLM review have been discussed at Shrinkage Forum meetings. Further to this, at the Shrinkage Forum on 25th October 2016, GDNs provided a detailed presentation on each element of the SLM, together with potential areas for improving the model.

We will continue to utilise the Shrinkage Forum meetings to increase industry awareness of our 2016/17 commitments outlining how these will improve the accuracy of the SLM and include details in future SLM reviews.

- ii) “The inclusion of annual performance in the 2016 review aids transparency. In future reviews we suggest performance is included for each year of the GD1 price control and a comparison of annual performance against regulatory targets is also published.”

GDN response

We will review the request to include annual performance information at Shrinkage Forum meetings during 2017. If the consensus is that it would be of benefit, we will publish this information in future SLM reviews.

³ British Gas full representation

(<http://www.gasgovernance.co.uk/sites/default/files/Shrinkage%20and%20Leakage%20Model%20Review%20Consultation%202016-17%20Representation%20-%20British%20Gas.pdf>)

For the information of readers, the GDN's regulatory targets for shrinkage and leakage are published on the OFGEM website under each respective GDN's business plan. Each GDN's annual shrinkage and leakage performance is published on the Joint Office of Gas Transporters website.

GDNs continue to assess the content of the annual SLM reviews and we have regularly engaged with shippers and other interested parties at Shrinkage Forum meetings during 2016, requesting details of the type of information they would like included in the annual SLM reviews. Feedback has, generally, been limited, however, GDNs remain committed to reviewing the content of the annual SLM review through the Shrinkage Forum meetings.

- iii) "analysis of the materiality of the potential error associated with the use of outdated assumptions is conducted and the cost of reassessment is estimated so SLM improvements can be targeted"

"A 'lifetime' for each key assumption is agreed with stakeholders so that the industry can be confident that such key assumptions will be reviewed at appropriate intervals."

GDN response

GDNs do not consider that the assumptions and data used in the SLM are outdated. The GDNs believe that the current methodology and leakage rates utilised within the SLM remain valid and are the most accurate methodology for assessing shrinkage and leakage.

In the GDN's response to the Energy UK Retail Group Study into the Effect of Shrinkage on Domestic Customers we compared the findings of the National Leakage Tests (NLT) against the methodologies from other countries and we consider that this demonstrated the strength and legitimacy of our modelled assumptions.

Energy UK Report

<http://www.gasgovernance.co.uk/sites/default/files/Energy%20UK%20GRG%20shrinkage%20study%20FINAL.pdf>

GDN Response

http://www.gasgovernance.co.uk/sites/default/files/Joint%20GDN%20Response%20to%20Energy%20UK%20GRG%20Shrinkage%20Study_0.pdf

GDNs will continue to work with shippers and other interested parties through the Shrinkage Forum meetings to prioritise those elements of the SLM which will provide greatest benefit to the consumer. We do not believe applying a 'lifetime' mechanism is appropriate or necessary as the GDNs continuously review the SLM with a view to improving the accuracy of its measurements.

GDNs have made changes to the SLM during RIIO-GD1 to better reflect service replacement activities and are currently reviewing AGI Venting, Interference Damage and Own Use Gas. We have also committed to investigate the assumptions and

calculations underpinning Theft of Gas and MP Leakage, whilst also committing to reviewing the methods available for determining leakage rates of metallic and plastic pipes.

It should be recognised that the measurement of shrinkage and leakage in the SLM is based on a number of assumptions but utilising accurate asset data. Each GDN updates its own SLM on an annual basis to reflect the actual asset population within their networks. Due to the nature of the regulatory reporting framework, all updates are subject to significant scrutiny and assurance activities to ensure they are an accurate representation of reality.

- iv) “We note it has been suggested the reassessment of the National Leakage Test (NLT) will be discussed with stakeholders in the context of the RIIO GD2 price control⁴. We do not believe such a delay is appropriate. Delaying the reassessment to the next price control means the assumptions will be almost two decades old before updated assumptions are considered for the SLM. We are not convinced that such a delay properly facilitates the accurate calculation and reporting of gas shrinkage and gas leakage. We also consider that if, following assessment, it is concluded that it is appropriate to re-do the NLT, then in the context of a totex approach to expenditure there has been sufficient funding provided in RIIO GD1 to re-do the test”

GDN response

The GDN’s RIIO-GD1 business plans were developed utilising a bottom up approach where any significant request for allowances was accompanied by a well justified business case. No requests for funding to repeat the NLT were made and as such, no allowance was made to fund a repeat of the NLT during this period.

The subject of repeating the NLT was discussed in detail as part of the response to the Energy UK Retail Group Study into the Effect of Shrinkage on Domestic Customers.

http://www.gasgovernance.co.uk/sites/default/files/Joint%20GDN%20Response%20to%20Energy%20UK%20GRG%20Shrinkage%20Study_0.pdf

The 2002/03 NLT cost approximately £10m and GDN's believe that there is no demonstrable benefit to the consumer from repeating these tests due to the decreasing metallic mains/services population as a result of the GDN's repex programme. In our Shrinkage Leakage Model Review document we are committing to reviewing alternative methods for leakage measurement. We would consider that repeating the NLT without further investigation into other methods of determining leakage rates is not in the best interests of the customer. The findings would allow stakeholders to understand the best approach but also provide justification for future funding for this exercise.

⁴ Joint Gas Distribution Network (GDN) Response to the Energy UK Gas Retail Group Study into the effect of shrinkage on domestic customers, page 2

http://www.gasgovernance.co.uk/sites/default/files/Joint%20GDN%20Response%20to%20Energy%20UK%20GRG%20Shrinkage%20Study_0.pdf

GDNs business plans for the RIIO-GD1 period include agreed outputs with Ofgem and the HSE. Since the NLT is not funded in RIIO-GD1, undertaking the leakage tests during this period has a number of practical and resourcing implications which may put at risk the delivery of our agreed RIIO-GD1 outputs.

We thank British Gas for the valuable input as a key stakeholder. To ensure we consider the views of a wide range of stakeholder groups we plan to consult and also explore options to determine the most appropriate method of leakage assessment. This will assist in determining if a repeat of the NLT can be justified and is the right method of approach for the determination of leakage rates.

The GDN's are confident the methodology and leakage rates utilised within the Shrinkage and Leakage Model (SLM) remain valid and is the most accurate current methodology for assessing shrinkage and leakage.

Summary of Consultation

The annual SLM review process is a formal opportunity for all interested parties to engage with the distribution networks on matters relating to shrinkage modelling. We would like to thank British Gas for supporting the process with their representation. It is apparent from the response that there is some appetite to validate the key assumptions used within the SLM, provide greater detail of future initiatives and provide more transparency to the interested parties.

Our response details our joint commitment to:

- i) Continue to work with shippers and other interested parties through the Shrinkage Forum meetings to prioritise those elements of the SLM which will provide greatest benefit to the consumer.
- ii) We will continue to utilise the Shrinkage Forum meetings to increase industry awareness of our 2016/17 commitments and outline how these will improve the accuracy of the SLM.
- iii) Continue to listen to our stakeholders and encourage participation at future Shrinkage Forum meetings.

We would like to take this opportunity to thank all those who have reviewed and inputted into the SLM review document.