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Sent by email to: [shahin.ali@wwutilities.co.uk](mailto:shahin.ali@wwutilities.co.uk)

Dear Shahin,

## **Shrinkage and Leakage Model Review 2018**

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

We welcome efforts to improve the estimation of overall shrinkage volumes. Improvements could reduce any potential misallocation of gas volumes between shrinkage and unidentified gas, which, in turn, could reduce the risk of market distortions caused by misallocation. To maintain focus on reducing any potential misallocation of gas volumes, the following commitments should be prioritised:

- **A methodology for profiling shrinkage volumes across the year should be developed.**
- **The estimation of Medium Pressure mains leakage should be improved.**
- **The materiality of the potential errors associated with the use of outdated parameters in the Shrinkage and Leakage Model should be assessed.**

### ***A methodology for profiling shrinkage volumes across the year should be developed:***

We are aware some licensees currently assume a 'flat' shrinkage profile i.e. it is assumed an equal amount of gas is lost through shrinkage in each day across the regulatory year. Given shrinkage volumes are influenced by factors that vary across the year (such as system pressures), we suggest a 'flat' shrinkage profile might not reasonably represent the profile of actual losses. This may lead to the misallocation of gas volumes between shrinkage and unidentified gas over shorter timer periods. We recommend a methodology for profiling shrinkage volumes to reasonably represent actual losses is developed.

### ***The estimation of Medium Pressure mains leakage should be improved:***

It has been highlighted that the estimation of Medium Pressure (MP) leakage is less sophisticated than that for Low Pressure (LP) leakage. LP leakage rates have been applied to MP assets since MP-specific leakage rates do not exist and on the basis that the number of public reported escapes can be a proxy for gas losses. Additionally, it is MP leakage does not vary with pressure despite pressure being the second greatest driver of gas losses.

We acknowledge a project is being progressed aimed at improving the estimation of MP leakage. However, we believe the 2019 commitment to developing an MP pressure correction factor should be extended to include also developing MP-specific leakage rates.

***The materiality of the potential errors associated with the use of outdated parameters in the Shrinkage and Leakage Model should be assessed:***

We continue to be concerned that several of the assumptions relied upon in the Shrinkage and Leakage Model are outdated and require reassessing given their age. We are unaware of any evidence to suggest those leakage rates have not changed materially since the tests were conducted. We recommend:

- analysis of the materiality of the potential error associated with the use of outdated assumptions and the cost of reassessment is conducted so SLM improvements can be targeted, and
- 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.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Andy Manning  
Director - Network Regulation, Forecasting and Settlements  
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