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Sent by email to: matt.marshall@cadentgas.com

Dear Matt,

Shrinkage and Leakage Model Review 2019

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group. We highlight that our comments in this response remain of the same substance as we have made in responses to previous annual consultations.

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- **The materiality of the potential errors associated with the use of outdated parameters in the Shrinkage and Leakage Model should be assessed.**

Also,

- **The quality of information included in the consultation should be improved, to enable stakeholders to engage.**

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

We are aware 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), a 'flat' shrinkage profile is unlikely to 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, which gives rise to the risk of market distortions.

Licensees should endeavour to reduce to the risk of market distortions, so as to fulfil their legal obligation to establish transportation arrangements that secure effective competition between relevant shippers and between relevant suppliers. We recommend a methodology for profiling shrinkage volumes to reasonably represent actual losses is developed.

The materiality of the potential errors associated with the use of outdated parameters in the Shrinkage and Leakage Model should be assessed:

The information presented in the consultation does not allow us to independently assess whether the proposed commitments are focussed on those areas which should be treated with priority. For example, 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 continue to recommend a targeted approach to improving the Shrinkage and Leakage Model (SLM), based on an assessment of the materiality of the potential error associated with each existing assumption. 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.

The quality of information included in the consultation should be improved, to enable stakeholders to engage:

Insufficient detail has been presented in the consultation to stakeholders to engage or to comment on the appropriateness of the commitments. For future reviews, greater detail of each should be included in the consultation such as the relative justification and prioritisation, the current status of each project supporting each commitment and a timeline showing the expected milestones for each project leading to any SLM modifications and project costs. The same is required for other projects that are not linked to a commitment but may lead to a modification to the SLM being proposed.

Finally, the impact of each individual factor (e.g. average system pressure) on performance in each local distribution zone should be quantified.

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

Yours sincerely,

Andy Manning
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