



**Legal, Regulation and  
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Friday, 09 November 2007

Joanna Whittington  
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Ofgem  
9 Millbank  
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By E-mail: [Joanna.whittington@ofgem.gov.uk](mailto:Joanna.whittington@ofgem.gov.uk)

Dear Joanna,

**Re: Leakage and Shrinkage baselines for GDPCR 2008-2013 – October Update  
Consultation**

Thank you for the opportunity to comment on the above document, this non confidential response is on behalf of Centrica plc excluding Centrica Storage Ltd. We are happy that Ofgem place this response on their website and in the Ofgem library.

In this letter, we make some general observations and then more specific points relating to the proposals.

We believe it is important to recognise that reductions in shrinkage allowances do not reduce costs to customers because ultimately whatever leaks, leaks and, where not included in explicit allowances, falls in to the RbD smear.

In our view the proposed shrinkage incentive would not drive any additional physical activity to prevent/reduce leakage – as in reality, this is addressed by the mains replacement programme, for which funding is already allocated. However, we are concerned that the addition of a further incentive in this area may simply lead to GDNs fine tuning activities to optimise the combined incentive rather than to maximise leakage reduction. We believe that the most effective way to incentivise the GDNs to reduce leakage (and consequentially both their environmental impact and costs to customers), is to expose them to a proportion of the costs associated with losses in general which are presently borne by domestic customers via RbD.

We have now had further opportunity to study more fully the proposals for determination of the volume of shrinkage gas outlined in section 7 of the Updated Proposals Document together with the October Update Consultation.

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Our evaluation of the proposals would have been assisted by the inclusion of more historic data, for example, a comparison of the last 5 years' average shrinkage gas volumes (in TWh) versus those expected under the new model. If Ofgem could publish this data, we believe it would still be of value in demonstrating the materiality of the current proposals relative to the volumes under the last price control.

We do not believe that the evidence put forward provides compelling reasons to change the current arrangements from a volume allowance linked to demand to a fixed volume per LDZ for leakage gas.

Whilst we agree that the figures in Appendix 12 do not show an exact correlation between demand and leakage we feel that they do show that the more gas is consumed, the more leakage occurs.

In addition, the evidence appears to show inconsistency as to the effect of mains replacement on leakage. We note that some GDNs forecast shrinkage factors may remain constant but that average system pressure would rise, thus resulting in an increase in forecast leakage.

We believe that at this stage it would be wrong to move away from the current method of calculation. Any risk of inaccuracy in the new proposals is borne by the non-daily metered (mainly domestic) shippers via the RBD process. In our view this proposal transfers more risk to (domestic) suppliers and away from the GDNs. We note that this proposed reduction in risk is not explicitly accounted for in the Updated proposals, which do not seem to recognise the benefit to GDNs of greater certainty.

In addition to the above, we have noted recently an increasing number of compensation payments related to third party damage. In most cases such damage results in an escape of gas from the system. We consider that after each such incident the GDNs should be required to estimate the quantity of gas lost from the system and publish these figures. The GDNs should also be required to confirm that the third party causing the escape has been required to pay for the gas estimated as lost, to ensure that domestic customers do not meet these costs.

We urge Ofgem to review this proposal to move from a demand related model for leakage to a fixed model and suggest that any new model would require regular review and amendment to ensure that non-daily metered shippers are not being unfairly penalised.

Should you wish to discuss any of the points raised above in more detail, I should be happy to help.

Kind regards

Yours sincerely,

*By e-mail*

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