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Dear Joanna,

Leakage and shrinkage baselines for GDPCR 2008-13 – October Update Consultation

I am writing in response to the above consultation and attach our detailed response. If you have any queries or require further clarification please contact Steven J Edwards, Head of Income & Pricing on 029 2027 8836 or Steven.J.Edwards@wwutilities.co.uk.

Yours sincerely,



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24 hour gas escape number
Rhif 24 awr os bydd nwy yn gollwng

0800 111 999*

*calls will be recorded and may be monitored
caiff galwadau eu recordio a gellir eu monitro

WWU's response to Leakage and shrinkage baselines for GDPCR 2008-13 – October Update Consultation

WWU still have major concerns with the shrinkage baselines proposed in the October update Consultation. The determination of the baselines is very important as they will be used within the Shrinkage incentive mechanism and the emissions incentive. WWU hope that following receipt of this response Ofgem will review the proposed WWU baselines for leakage. In this response, as requested, WWU also comment on the issues surrounding own use and theft of gas elements of Shrinkage.

Historic and forecast leakage

You note in paragraph 6 of the consultation that:

- At the GDN level, the 2007/8 leakage forecast is similar to 2002/3 leakage, which you consider is inconsistent with the benefits expected from the mains replacement programme, and
- WWU forecast an increase in leakage from 2006/7 to 2007/8 before the downward trend takes effect,

The factors that have affected reported shrinkage between 2002/3 and 2007/8 are:

- Data Cleansing exercises prior to DN Sale.

Prior to June 2005 all DNs were under NG ownership and leakage policies and models, including WWU were co-ordinated centrally. The Distribution networks as a whole demonstrate a general trend downward from 2002/3 but the experience of individual DNs varies in each year, and in some cases, 2003/4 to 2004/5 in particular, there are significant increases in leakage.

We have discussed these data issues with W&W DN staff that were employees prior to sale. It is clear that during 2002/3 to 2005/6 there have been various data cleansing activities that have resulted in both assets being re-allocated between DNs and assets being added and deleted. WWU has boundaries with North West, West Midlands and Southern. It is our view that the data cleansing activities have impacted the WWU data and no doubt the other DN data. Evidence of the data cleansing can be seen in the Annex 1 graphs where DNs, including those adjacent to WWU, have had material increases and decreases from year to year. We doubt these movements can be explained solely by general leakage management.

- Specific Network issues within WWU Network

Wales North LDZ: In 2004/5, in compliance with NG strategy to close “Maelor” office the central control for the Wales North closed loop pressure control systems was removed. This resulted in leakage increasing significantly. WWU have included installation of a comparable pressure control system (Pressure Profile) in capex forecasts (see Supplementary Question OP-WWU-1038 in Aug 2007) and are now forecasting a reduction in leakage over the period to 2013. .



Wales North and Wales South LDZs;: In 2006/7 it was discovered that during sales process NG had mis-allocated assets between the LDZs. WWU have now corrected this data error, which resulted in an increase in leakage in Wales North and reduction in Wales South..

Wales South LDZ 2006/7 leakage (for the gas year to 30 September 2007) has reduced due to the re-allocation of assets above, but is now expected to be an underestimate due to problems with pressure management systems. These problems are expected to continue into 2007/8 and will be addressed by replacement of closed loop systems with Pressure Profile (see Supplementary Question OP-WWU-1038 in Aug 2007). The actual 2006/7 leakage is being calculated and will be submitted for the 2006/7 gas year reconciliation which takes place in Spring 2008.

In summary, 2006/7 DN leakage estimate, once adjusted for Wales South actual pressures is likely to increase above the currently reported 553 Gwh. This higher leakage will be dealt with in subsequent gas year reconciliation. The final figure may be similar to, or even higher than 2002/3 leakage, which is contrary to the working assumption that leakage should reduce as a result of mains replacement activity. The trend has been distorted by the data cleansing and pressure control issues described above.

Similarly, 2007/8 forecast leakage is similar to 2002/3 leakage, although the trend is downwards from 2007/8 as pressure management is improved and other mechanisms are put in place (see Supplementary Question OP-WWU-1038 in Aug 2007)

Shrinkage

WWU would propose that "the own use gas" and "theft of gas" elements of shrinkage are also classified as actual volumes as opposed to a % of throughput. Firstly, the materiality of both of these elements added together is a small proportion of Shrinkage and the administration and complexity of having fixed and variable elements of shrinkage may be disproportionate to any benefits of having them as a % of throughput. Secondly, we are not convinced of the relationship of theft of gas to throughput.