

Direction issued pursuant to Special Condition 1F of the Gas Transporter Licence (Revenue Adjustments for Performance in Respect of Gas Shrinkage and Environmental Emissions) to:

- **National Grid Gas Distribution (NGGD);**
- **Scotia Gas Networks (SGN);**
- **Northern Gas Networks (NGN); and**
- **Wales and the West Utilities (WWU)**

(collectively known as the "Gas Distribution Networks" (the "GDNs"))

1. This direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to paragraph 1F.26 of Special Licence Condition 1F of the Gas Transporter Licence (the "Licence") granted or treated as granted under section 7 of the Gas Act 1986 (the "Act") to each of the GDNs.
2. Special Licence Condition 1F of the Licence (the "Condition") provides for adjustments to performance in respect of gas shrinkage and environmental emissions. Paragraph 1F.12 of the Condition requires each Licensee to maintain a Shrinkage and Leakage Model (the "Model" or the "SLM") as approved by the Authority.
3. Part E of the Condition sets out the arrangements for the modification of the Model. It requires each Licensee to annually review the Model in order to assess how it can better achieve the objective set out in paragraph 1F.13 of the Condition¹. Where a modification is proposed to the Model, paragraph 1F.20 requires each Licensee to consult with other Gas Transporters, gas shippers and other interested parties and allow them a period of not less than 28 within which to make their representations. Following the consultation, the Licensee must make publicly available and submit to the Authority a report (the "SLM Modification Report") in accordance with the provisions of paragraph 1F.21 of the Condition.
4. Where the Authority considers that the modification set out in the SLM Modification Report submitted by the Licensee, as compared with the existing provisions of the Model, would better achieve the objective set out in paragraph 1F.13 of the Condition, it may issue directions requiring the Licensee, in conjunction with all other Distribution Network Operators to revise:
 - a) the Model in such manner as specified in the directions;
 - b) the allowed Shrinkage and Leakage volumes set out in Appendices 2 and 3 to Special Condition 1F; and
 - c) the allowance for Shrinkage costs set out in Appendix 1 to account for any revisions made.
5. In accordance with paragraph 1F.20 of the Condition, on 15 May 2014 NGGD furnished the Authority (on behalf of all the GDNs) with a SLM Modification Report (i.e. Modification Report No. 04) including any changes made as a result of the industry consultation and comments from the Authority.
6. After careful consideration of the SLM Modification Report and the responses to the consultation, and having regard to the objective set out in paragraph 1F.13 of the Condition, the Authority has decided to approve Modification Report No. 04.

¹ Paragraph 1F.13 of the Condition states: "The Shrinkage and Leakage Model must be designed to facilitate the accurate calculation and reporting of gas Shrinkage and gas Leakage in or from each Distribution Network operated by the Licensee."

7. In accordance with paragraph 1F.26 of the Condition, the Authority hereby directs each of the GDNs to make the changes specified in Modification Report No. 04. The changes should take effect from regulatory year 2014/15². The Authority considers that the modification meets the objective set out in paragraph 1F.13 of the Condition in that proposed changes to the Low Pressure Services methodology provides a more accurate assessment of Shrinkage and Leakage:

a) Include the following definitions of Theft of Gas and Own Use Gas within the Shrinkage and Leakage Model documentation:

i) Theft of Gas

'This represents the overall level of Transporter Responsible theft, as defined in UNC Section N1.3.2 and is calculated as 0.02% of throughput.'

ii) Own Use Gas

'This represents the overall level of gas used by the GDN for purposes of pre-heating at pressure reduction installations and is calculated as 0.0113% of throughput.'

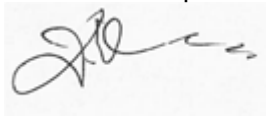
b) Replace the table in Appendix 1 of Special Condition 1 (Distribution Network allowance in respect of Shrinkage costs) with the table in Appendix 1 of this direction.

c) Replace the table in Appendix 2 of Special Condition 1F (Distribution Network allowed Shrinkage volumes) with the table in Appendix 2 of this direction.

d) Replace the table in Appendix 3 of Special Condition 1 (Distribution Network Allowed Leakage volumes) with the table in Appendix 3 of this direction.

8. This direction shall have immediate effect and shall remain in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.

Dated: 16 September 2014



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Dora Guzeleva

Head of Networks Policy, Local Grids

Signed on behalf of the Authority and authorised for that purpose by the Authority

² Year 2 of the RIIO-GD1 price control period

Appendix 1: Distribution Network allowance in respect of Shrinkage costs for the period beginning on 1 April 2013 and ending on 31 March 2021

| Distribution Network | Shrinkage allowance (£m 2009/10 prices) ³ | | | | | | | |
|----------------------------|--|------|------|------|------|------|------|------|
| | t=1 | t=2 | t=3 | t=4 | t=5 | t=6 | t=7 | t=8 |
| NGGD EoE | 11.8 | 10.9 | 10.8 | 10.5 | 10.4 | 10.2 | 10.0 | 9.7 |
| NGGD Lon | 6.1 | 5.5 | 5.4 | 5.2 | 5.1 | 5.0 | 4.9 | 4.8 |
| NGGD NW | 9.0 | 8.4 | 8.3 | 8.0 | 7.9 | 7.7 | 7.5 | 7.3 |
| NGGD WM | 7.0 | 6.9 | 6.8 | 6.7 | 6.6 | 6.5 | 6.4 | 6.2 |
| Northern Gas Networks Ltd | 10.0 | 9.6 | 9.3 | 9.0 | 8.9 | 8.8 | 8.6 | 8.4 |
| Scotland Gas Networks plc | 5.2 | 4.8 | 4.8 | 4.7 | 4.6 | 4.5 | 4.4 | 4.3 |
| Southern Gas Networks plc | 13.3 | 13.3 | 13.2 | 12.9 | 12.7 | 12.5 | 12.3 | 12.1 |
| Wales & West Utilities Ltd | 8.8 | 8.8 | 8.6 | 8.6 | 8.5 | 8.4 | 8.3 | 8.2 |

Appendix 2: Distribution Network allowed Shrinkage volume (the SB term) for the period beginning on 1 April 2013 and ending on 31 March 2021

| Distribution Network | Shrinkage volume (GWh) ⁴ | | | | | | | |
|----------------------|-------------------------------------|-----|-----|-----|-----|-----|-----|-----|
| | t=1 | t=2 | t=3 | t=4 | t=5 | t=6 | t=7 | t=8 |
| NGGD EoE | 569 | 515 | 503 | 490 | 479 | 467 | 455 | 444 |
| NGGD Lon | 317 | 282 | 274 | 266 | 259 | 252 | 245 | 238 |
| NGGD NW | 407 | 378 | 367 | 356 | 346 | 334 | 324 | 314 |

³ Figures for t=1 have not been altered as the changes to baseline volumes only comes into effect from t=2 onwards.

⁴ Figures for t=1 have not been altered as the changes to baseline volumes only comes into effect from t=2 onwards.

| | | | | | | | | |
|----------------------------|-----|-------|-------|-------|-------|-------|-------|-------|
| NGGD WM | 335 | 323 | 316 | 310 | 302 | 295 | 289 | 281 |
| Northern Gas Networks Ltd | 459 | 445 | 433 | 423 | 412 | 401 | 390 | 379 |
| Scotland Gas Networks plc | 247 | 226 | 220 | 212 | 206 | 198 | 192 | 186 |
| Southern Gas Networks plc | 637 | 622 | 606 | 590 | 574 | 557 | 542 | 525 |
| Wales & West Utilities Ltd | 440 | 429.2 | 421.2 | 413.2 | 405.2 | 397.2 | 389.2 | 381.2 |

Appendix 3: Distribution Network allowed Leakage volume (the LB term) for the period beginning on 1 April 2013 and ending on 31 March 2021

| Distribution Network | Leakage volume (GWh) ⁵ | | | | | | | |
|----------------------------|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|
| | t=1 | t=2 | t=3 | t=4 | t=5 | t=6 | t=7 | t=8 |
| NGGD EoE | 535 | 482 | 470 | 458 | 447 | 435 | 423 | 412 |
| NGGD Lon | 299 | 264 | 257 | 249 | 242 | 235 | 228 | 222 |
| NGGD NW | 385 | 356 | 346 | 335 | 324 | 313 | 303 | 293 |
| NGGD WM | 320 | 309 | 303 | 296 | 289 | 282 | 276 | 268 |
| Northern Gas Networks Ltd | 434 | 420 | 408 | 398 | 386 | 376 | 364 | 354 |
| Scotland Gas Networks plc | 231 | 210 | 204 | 197 | 190 | 183 | 176 | 170 |
| Southern Gas Networks plc | 604 | 589 | 573 | 557 | 541 | 525 | 509 | 493 |
| Wales & West Utilities Ltd | 415 | 403.2 | 396.2 | 388.2 | 380.2 | 372.2 | 365.2 | 357.2 |

⁵ Figures for t=1 have not been altered as the changes to baseline volumes only comes into effect from t=2 onwards.