

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:

- **Cadent plc (Cadent) in respect of its gas distribution networks;**
- **Scotland Gas Networks Limited (SGN);**
- **Northern Gas Networks Limited (NGN); and**
- **Wales and the West Utilities Limited (WWU)**

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

1. This direction sets out a change to the annual shrinkage calculations made by the GDNs, and also makes a change to the RIIO-GD1 annual allowances set out in Special Condition 1F of the Gas Transporter Licence (the "Licence").
2. This direction is issued by the Gas and Electricity Markets Authority (the "Authority") pursuant to paragraph 1F.26 of Special Licence Condition 1F ("The Condition") of the Licence granted or treated as granted under section 7 of the Gas Act 1986 to each of the GDNs (the "Licensees").
3. 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 "SLM") as approved by the Authority.
4. Part E of the Condition requires each Licensee to annually review the SLM in order to assess how it can better achieve the objective set out in paragraph 1F.13 of the Condition¹. It also sets out the arrangements for the modification of the SLM.
5. Where, following the SLM Review, the Licensee proposes any modification to the SLM, paragraph 1F.20 requires the Licensee to consult with other Gas Transporters, gas shippers and other interested parties for a period of not less than 28 days.
6. After the close of 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.
7. Where the Authority considers that the proposed modification set out in the SLM Modification Report submitted by the Licensee, as compared with the existing provisions of the SLM, would better achieve the objective set out in paragraph 1F.13 of the Condition, it may issue a direction requiring the Licensee, and all other GDNs, to revise:
 - a) the SLM in such manner as specified in the direction;
 - b) the allowed shrinkage and leakage volumes set out in Appendices 2 and 3 to

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."

- the Condition; and
- c) the allowance for shrinkage costs set out in Appendix 1 to the Condition, to take account of any revisions made at (b) above.
8. In accordance with paragraph 1F.20 of the Condition, on 01 November 2019 Cadent provided the Authority (on behalf of all the Licensees) with a SLM Modification Report (ie Modification Report No. 05) incorporating changes made as a result of the industry consultation.
9. 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. 05.
10. In accordance with paragraph 1F.26 of the Condition, the Authority hereby directs that where the SLM is used for the purpose of determining incentive performance, the calculation of leakage in respect of large gas release incidents should be amended so as to be based on a rate of 500kg of gas per incident for all such incidents. Where the SLM is used for the purpose of determining gas losses for cost allocation, there should be no change to the current method of calculating leakage.
11. The effect of this direction will be to reduce the potential for the GDNs to experience windfall gains or losses under the RIIO-GD1 Shrinkage and Environmental Emissions incentives as a result of a factor that is largely out of their control.
12. The Authority further directs each of the GDNs to replace the table in Appendices 2 and 3 to the Condition (Distribution Network allowed Shrinkage volume and Distribution Network allowed Leakage volume) with the table in Appendix 1 of this direction.
13. This direction has immediate effect and remains in effect until such time as the Authority may revoke or vary the Direction in writing upon reasonable notice.

Dated: 18/09/2020



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

Appendix 1: Replacement Shrinkage and Leakage Volume Allowance Tables

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)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
EoE	569	515	503	490	479	467	455	444
Lon	317	282	274	266	259	252	245	238
NW	407	378	367	356	346	334	324	314
WM	335	323	316	310	302	295	289	281
Northern Gas Networks Ltd	459	445	433	423	411	401	389	378
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	398.2	381.2

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)							
	t=1	t=2	t=3	t=4	t=5	t=6	t=7	t=8
EoE	535	482	470	458	447	435	423	412
Lon	299	264	257	249	242	235	228	222
NW	385	356	346	335	324	313	303	293
WM	320	309	303	296	289	282	276	268
Northern Gas Networks Ltd	434	420	408	398	385	376	363	353
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