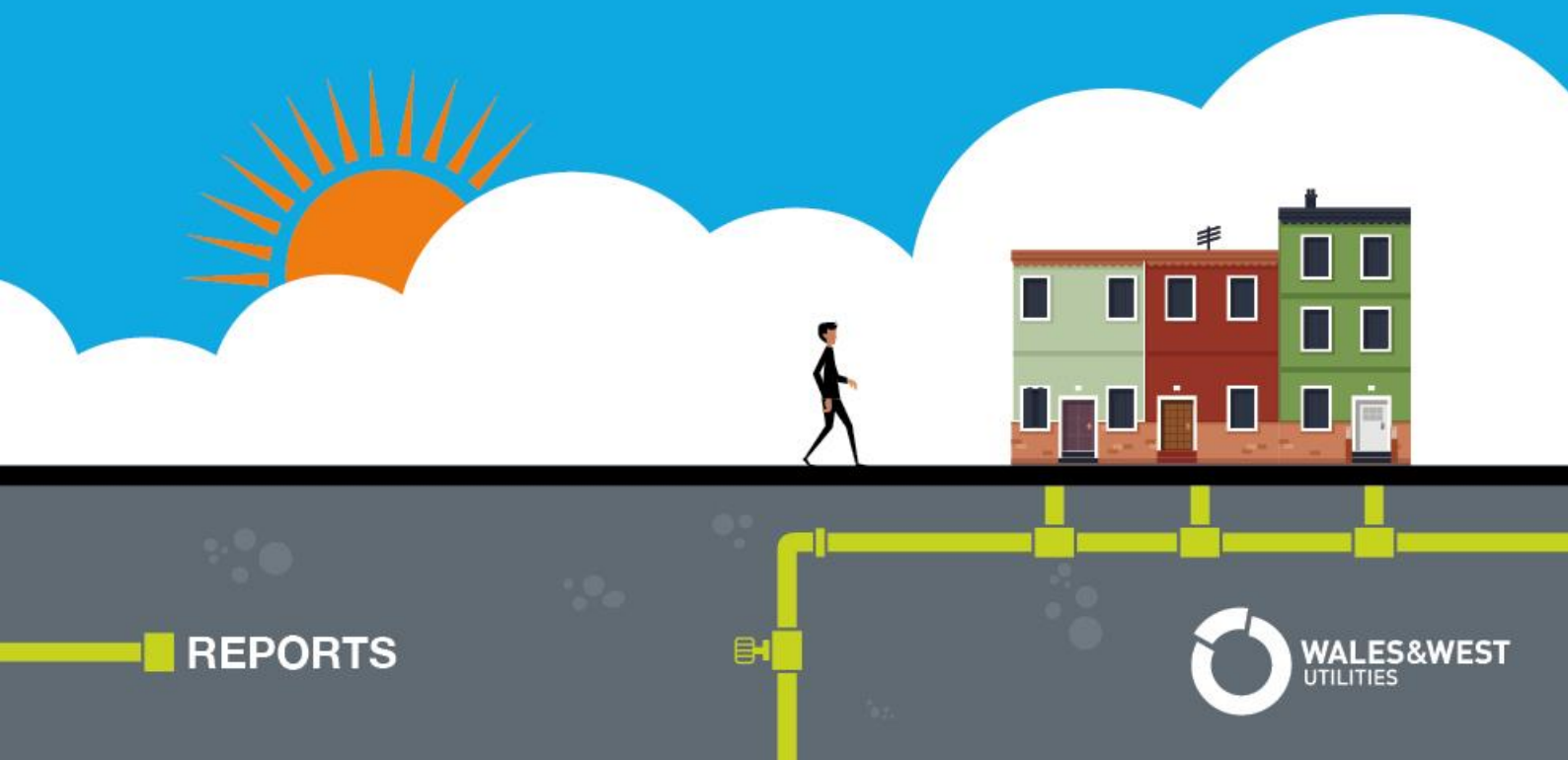


# LDZ Shrinkage Quantity Initial Proposals

Formula Year 2016/17

Version 1

December 2015



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## LDZ Shrinkage Quantity Proposals for Formula Year 2016/17

### 1. Purpose of Proposal

The purpose of this paper is to present Wales & West Utilities' (WWU) proposals in respect of LDZ Shrinkage Quantity for the Formula Year 2016/17 as required under section N of the Uniform Network Code (UNC).

In section N of UNC, the Transporter has an obligation to set the Local Distribution Zone (LDZ) Shrinkage Quantity to provide for the gas that is used by each of its LDZs or lost from its systems.

Following representations from users, a further paper will be issued by 1<sup>st</sup> March 2015 in which WWU will set out its final estimate of the Shrinkage Quantity for its LDZs (Wales North, Wales South and South West).

### 2. Summary of Proposal

The LDZ Shrinkage Quantity, which is set out in the following table, reflects the losses associated with leakage, theft of gas and gas used in the operation of the system. Details of how these quantities have been determined are provided later in this paper.

Fugitive emissions of gas (leakage and venting) have been estimated using forecast mains and asset populations as of 31<sup>st</sup> March 2017. Own Use Gas (OUG) and Theft of Gas (ToG) have been calculated in accordance with the nationally agreed methodology.

The Shrinkage Quantity is to be used as the basis for WWUs' LDZ shrinkage gas procurement during the 2016/17 Formula Year. The components and their associated contribution to the overall LDZ Shrinkage Quantity are detailed below.

LDZ	Proposed Shrinkage Quantity
	GWh
Wales North	48.9
Wales South	114.8
South West	220.5
<b>Total</b>	<b>384.2</b>

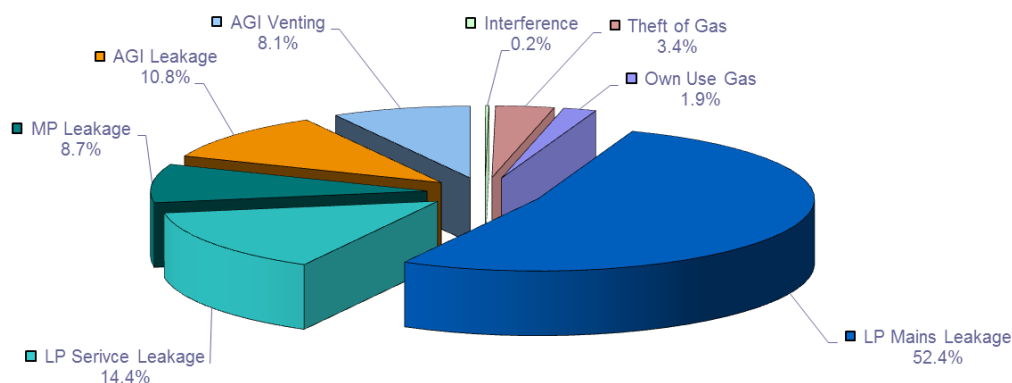


Figure 1: Proportions of the forecast LDZ Shrinkage Quantity for 2016/17

### 3. Component Analysis

This section of the document presents an analysis of the components of LDZ shrinkage that make up the estimates for the Formula Year 2016/17 proposal.

#### 3.1. Leakage

Leakage represents the largest component of the LDZ Shrinkage Quantity.

For the purpose of analysis, leakage is split into three categories which are:

- Distribution Mains (including service pipes);
- Above Ground Installations (AGI's); and,
- Other losses.

Distribution mains and service leakage is a feature of normal system operation.

AGI leakage includes the routine venting of control equipment.

Other losses include gas lost as a result of interference damage and broken mains. These losses are not continuous; they are caused by specific events.

##### 3.1.1. Distribution Mains (and Services) Leakage

The leakage of gas from the Distribution mains system (which includes service pipe leakage) is calculated by applying the results of the 2002/3 National Leakage Testing programme to the following network<sup>1</sup> specific information:

- Projected (Formula year end 2016/17) records of pipe asset;
- The annual average system pressure in each network<sup>1</sup>; and,
- The measured concentration of Monoethylene Glycol (MEG) joint treatment chemical in the gas.

Where applicable (i.e. cast iron mains only) the Pipe Leakage Factors are adjusted to take into account the measured concentration of MEG.

The table below shows the Low Pressure leakage on an LDZ basis

LDZ	Low Pressure Leakage
	GWh
Wales North	22.8
Wales South	73.0
South West	161.0
<b>Total</b>	<b>256.8</b>

<sup>1</sup> Network in this context relates to physical interconnected pipe systems, not administrative structure.

The table below shows the Medium Pressure leakage on an LDZ basis

LDZ	Medium Pressure Leakage
	GWh
Wales North	3.5
Wales South	9.9
South West	19.9
<b>Total</b>	<b>33.3</b>

### 3.1.2. AGI Emissions

The figures for leakage from AGI have been taken from the findings of the 2003 Above Ground Installation Leakage Test programme.

The table below shows AGI Emissions, including AGI Leakage and Venting, on an LDZ basis

LDZ	AGI Emissions <sup>2</sup>
	GWh
Wales North	20.6
Wales South	22.3
South West	30.0
<b>Total</b>	<b>72.9</b>

### 3.1.3. Other Losses

Gas may be lost from LDZ equipment as a result of specific events, namely broken mains and interference damage to plant, in addition to ongoing leakage. These losses are known collectively as "other losses".

Statistics in respect of the number of broken mains and damages are used in conjunction with calculations on the amount of gas lost through each type of incident to derive the total amount of gas lost as a result of these events. (For the purpose of this paper the numbers of events in 2014/15 have been used for the analysis).

The table below shows the amount of gas lost as a result of other losses for the WWU LDZs.

LDZ	Other Losses
	GWh
Wales North	0.12
Wales South	0.15
South West	0.54
<b>Total</b>	<b>0.81</b>

<sup>2</sup> Includes leakage and routine equipment venting  
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### 3.1.4. Total Leakage

The table below shows the total amount of predicted leakage for Formula Year 2016/17 on an LDZ basis with the leakage expressed in GWh and as a percentage of LDZ consumption.

LDZ	Leakage
	GWh
Wales North	47.0
Wales South	105.4
South West	211.4
<b>Total</b>	<b>363.8</b>

### 3.2. Own Use Gas

In order to ensure the continued safe and reliable operation of the gas network, some gas is utilised through activities associated with the routine daily operation of the network; this gas is termed as Own Use Gas (OUG). Further detail on the what constitutes OUG and the necessity of its use is discussed below.

Natural gas is a compressible fluid; as a direct result of this property, it experiences a drop in temperature when it undergoes an isenthalpic expansion. When gas has its pressure reduced (at an NTS offtake or Local Transmission System PRI) the gas on the downstream side of the pressure reduction apparatus is colder than the gas on the upstream side. To avoid the gas leaving a site at a temperature below the freezing point of water, and causing damage to the downstream pipeline, pre-heating may be applied. Pre-heating is only needed to maintain gas above 0°C and if the gas enters the site at a sufficiently high temperature, e.g. during the summer, or if the pressure reduction is small, then pre-heating may not be required.

Pre-heating requires a small proportion of the gas passing through the site to fuel the pre-heating equipment. The amount of gas required for pre-heating is estimated by applying industry standard thermodynamic equations, LDZ throughput and system pressures together with assumptions about the efficiency of the pre-heating equipment.

Routine venting of gas by control equipment at AGIs could also be said to be Own Use Gas, however for the purpose of this paper it is included within AGI leakage.

In future years, WWU intends to use actual, metered gas consumed for AGI pre-heating rather than a calculated factor. Metering equipment is installed at a number of sites although this will require validation and in some cases replacement. However until this information has been collated WWU propose to apply the factor of 0.0113% to its LDZ consumption following studies carried out by Advantica and reported to the Shrinkage Forum.

For the Formula Year 2016/17 the factor for Own Use Gas is proposed as 0.0113% of LDZ consumption, this equates to 7.4 GWh.

### 3.3. Theft of Gas

UNC Section N 1.3.2 states that LDZ Shrinkage shall include, and WWU is therefore responsible for, gas illegally taken upstream of the emergency control valve (ECV) and downstream where there is no shipper contract with the end-user.

There is a current consensus agreement that unidentified theft is assumed to be 0.2% of LDZ consumption, of which 10% is deemed to be Transporters responsibility, resulting in a theft of gas factor of 0.02%.

WWU propose that the Theft of Gas factor be set at 0.02% for the Formula Year 2016/17, equating to 13.1 GWh.

### 3.4. LDZ Shrinkage Quantity Summary

The proposed LDZ Shrinkage Quantity for the Formula Year 2016/17 is presented in the following table.

LDZ	Leakage (GWh)	Own Use Gas (GWh)	Theft of Gas (GWh)	Proposed Shrinkage Quantity 2016/17 (GWh)
Wales North	47.0	0.7	1.2	48.9
Wales South	105.4	3.4	6.0	114.8
South West	211.4	3.3	5.8	220.5
<b>Total</b>	<b>363.8</b>	<b>7.4</b>	<b>13.1</b>	<b>384.2</b>

## 4. Detailed Analysis

### 4.1. Leakage

In May 2003, Advantica – on behalf of Transco – completed an extensive programme of Leakage Tests. These tests were undertaken at the request of users. Before commencing the testing programme, users were invited to help Transco scope the project. Subsequently users were updated in respect of progress and had the opportunity to witness one of the tests.

Altogether 849 sets of test results were obtained. The full test results were presented to users on the 10th of June 2003. Users have subsequently received a report, written by Advantica, detailing the programme and its findings.

To ensure that the testing programme was effective, Stone and Websters (a firm of consulting engineers) were asked to investigate the planned methodology. They found that both the proposed testing process and the equipment were fit for purpose. A copy of their report has previously been circulated.

In addition, Dr Shirley Coleman from the Industrial Statistics Research Unit of Newcastle University was invited to comment upon and discuss with users the proposed sample plan. It was concluded that the proposed sample was likely to produce the results that were required.

In addition to testing distribution mains, Transco also tested above ground LDZ assets. The AGI testing programme was introduced during the March 2003 Shrinkage Forum. Subsequently users had the opportunity to question Dr Peter Russell - who led the work - and to visit a test in progress. To ensure the integrity of the testing programme Nottingham University (Environment Science Department) examined the testing procedure and Dr Coleman commented upon the results prior to their being used in the Final Proposals in respect of the 2003/04 Formula Year.

We still believe that the test programmes are relevant and provide a firm basis for assessing the leakage from both the distribution mains and AGIs; consequently, WWU has utilised the information as the basis for these proposals.

The results of the leakage testing programmes have been used in conjunction with our mains and other asset records, and system pressures to derive total leakage by LDZ.

#### 4.2. Own Use Gas

The 2016/17 proposals utilise the methodology applied in previous years and incorporating the conclusions of studies carried out by Advantica, whereby Own Use Gas is indicated as being 0.0113% of LDZ consumption.

#### 4.3. Theft of Gas

As a result of previous discussions at The Shrinkage Forum, it was concluded that 0.2% of LDZ consumption would be used as the overall level of theft.

Transco statistics confirm the 90:10 – Shipper: Transporter split in responsibility for theft of gas. We believe that it is appropriate that WWU should assume responsibility for Theft of Gas equal to 0.02% of LDZ consumption

### 5. Extent to which the Proposal would better facilitate the relevant objectives

This proposal provides a robust estimate of LDZ Shrinkage Quantity for the Formula Year 2016/17. The gas usage and loss in transportation within the LDZs will be reflective of actual conditions. This in turn facilitates the achievement of efficient and economic operation of the system through effective targeting of costs.

It will also lead to accurate targeting of costs to users through the Reconciliation by Difference process and this is consistent with securing effective competition.

### 6. The implications for Wales & West Utilities of implementing the Proposal including:

#### a) Implications for operation of the System:

We are not aware of any such implications that would result from implementing this proposal.

#### b) Development and capital cost and operating cost implications:

The proposed LDZ Shrinkage Quantity (which have been prepared without Pressure and Temperature correction) lead to a fair allocation of operating costs between LDZ systems.

#### c) Extent to which it is appropriate for Wales & West Utilities to recover the costs, and proposal for the most appropriate way for Wales & West Utilities to recover the costs:

It is appropriate for each LDZ to incur a share of the overall Shrinkage Energy cost dependent upon the actual shrinkage in that LDZ.

#### d) Analysis of the consequences (if any) this proposal would have on price regulation

We are not aware of any such implications that would result from implementing this proposal.

### 7. The implications of implementing the Proposal for Users

This proposal improves the equitability and accuracy of cost targeting across all Users.

### 8. Analysis of any advantages or disadvantages on implementation of the Proposal



Advantages: Good representation of the actual system usage and losses leading to improved cost targeting.

Disadvantages: WWU are not aware of any disadvantages.

### **9. Summary of the representations (to the extent that the import of those representations are not reflected elsewhere in the Proposal)**

This paper outlines our initial proposals. We appreciate hearing the views of Ofgem and users; these views will help inform our final proposals that are due to be published no later than 1st March 2015.

It would be appreciated if users could let us have any feedback that they would like to share with us by 1st February 2016 in order for views to be considered prior to the notification of our LDZ Shrinkage Quantity final estimates.

Representations can be made by contacting Ian Marshall : [Ian.Marshall@wwutilities.co.uk](mailto:Ian.Marshall@wwutilities.co.uk)

or via the Joint Office: [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

### **10. Programme of works required as a consequence of implementing the Proposal**

The only required modification is to the LDZ Shrinkage Quantity values entered into AT Link.

### **11. Proposed implementation timetable (including timetable for any necessary information system changes)**

When we publish our final proposals, users have until 15<sup>th</sup> March 2016 to request that Ofgem issues a Standard Special Condition A11 (18) disapproval of this proposal. This provision is in the UNC Section N 3.1.8.

If no disapproval notice is issued beforehand, it will be our intention to implement revised LDZ Shrinkage Quantity from 05:00 hrs on 1<sup>st</sup> April 2016.

### **12. Recommendation concerning the implementation of the Proposal**

We recommend the proposed LDZ Shrinkage Quantity be implemented with effect from 05:00 hrs on 1<sup>st</sup> April 2015.

### **13. Wales & West Utilities Proposal**

This report contains our proposal for the LDZ Shrinkage Quantity for the Formula Year 2016/17.