

## **Shrinkage volumes: call for input**

Dear Ofgem,

Citizens Advice welcomes the opportunity to respond to Ofgem's review of shrinkage volumes on the National Transmission System (NTS). We are responding in our role as the statutory consumer advocate for energy consumers in Great Britain.

We are supportive of Ofgem's review into shrinkage, and feel that a Call for Input is a useful way to begin the process, due to the uncertainty around the overall scale of the issue and the incurring costs to consumers. Although we are not well-placed to answer the specific questions that Ofgem has posed, we would like to share our initial views for Ofgem's consideration at this stage. We would welcome further opportunities to respond to any follow-up consultations in this programme of work.

We note the importance of shrinkage to consumers due to both the environmental impact and the significant costs on bills (estimated to be around £250 million per year), especially in a future where any blending in the network could increase the problem.

### **The shrinkage incentive regime**

We note that this review has come at a time when the RIIO-3 policy framework has already been established, therefore limiting the possibility of addressing any shrinkage issues through the incentive framework. We do not feel that this is a problem for financial incentives, as we have noted in RIIO-3 consultation responses that penalties and rewards from ODI-Fs (with the exception of incentives concerning procurement costs) could be ineffective if it turns out that a significant proportion of shrinkage volumes sit outside of NGT's control.

However, we feel that more reputational incentives could have been added to the regime to hold NGT to account for its environmental input. There is currently a missed opportunity for more regular reporting relating to NGT's performance against its targets and commitments, which could include shrinkage volumes.

### **Independent Shrinkage Expert**

The Unified Network Code (UNC), on which Citizens Advice sits as a panel member, has recently voted through a modification (UNC0843) that proposes

the introduction of an Independent Shrinkage Expert (ISE) to calculate a shrinkage charge for the Transporters. This is in light of the evident trust and confidence issues surrounding the Shrinkage and Leakage model. The two consumer representatives on the UNC (Citizens Advice and the non-domestic consumer representative) voted in favour of the ISE modification. They also supported a review of the ISE after two years of operation, to assess if the numbers produced are materially different from current calculations.

Ofgem has yet to approve this modification. If it does not, then the two consumer representatives asked for Ofgem to note the issues raised in UNC and work to ensure that a consistent and trusted methodology is applied to calculating shrinkage. This Ofgem review programme should work closely with UNC to avoid duplication or cross-purposes.

### **Innovation funding**

Networks are given a generous amount of funding for innovative projects, both through a ringfenced allowance (their Network Innovation Allowance) and the opportunity to bid for additional funding (in the Strategic Innovation Allowance). For RIIO-2, National Gas received £25 million.<sup>1</sup>

This innovation funding represents an opportunity for NGT to test both better ways for accurately monitoring shrinkage and ways to minimise its impact on both consumers and the network itself. However, we feel that this opportunity is being missed. In our review of the 103 projects that NGT contributed in RIIO-2 (through both the NIA and SIF), only nine appeared to relate to the issue of shrinkage. Of these nine projects, five were primarily focused on future hydrogen scenarios rather than the present-day issue.

Given the significant environmental and financial impacts of shrinkage, we would like to see both the gas network and Ofgem put more resources behind resolving these issues, particularly before any further blending on the network is considered and bi-directional flows are implemented.

This response is not confidential and may be published on your website.

Yours sincerely,

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<sup>1</sup> Ofgem, [RIIO-2 Final Determinations](#), February 2021