

**OFGEM DECISION LETTER No. 0535**  
"Reconciliation of NTS Supply Points after Close-Out"  
Version 1.0

Our Ref: Net/Cod/Mod/535

Transco, Shippers and Other Interested Parties

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Dear Colleague,

**Modification Proposal 535 – Reconciliation of NTS Supply Points after Close-Out**

Ofgem has considered the issues raised in Modification Proposal 535 - "Reconciliation of NTS Supply Points after Close-Out" - and has decided to direct Transco to implement the modification because we believe that it better facilitates the relevant objectives of Transco's Network Code in Standard Condition 9 of Transco's gas transporters licence. In this letter, we explain the background to the modification proposal, the nature of the proposal and give our reasons for making this decision.

**Background**

Transco is obliged to assess National Transmission System (NTS) Shrinkage for each Day in each month and provide Users with details of the average assessed NTS shrinkage for Days in that month, no later than the 15th Day of the following month.

NTS Shrinkage is assessed for each Gas Flow Day by conducting an energy balance that takes into account all flows into the NTS, all flows out of the NTS (including Local Distribution Zone (LDZ) Off-takes, NTS Supply Points and NTS Connected System Exit Points (CSEPs) and NTS line-pack changes determined from system pressures.

Before the Gas Flow Day, Transco estimates NTS Shrinkage and calculates an NTS Shrinkage Factor that, together with the LDZ Shrinkage Factors, determines the quantity of shrinkage gas procured. The Network Code also allows for differences between this estimated and assessed shrinkage for previous days to be reflected in this NTS Shrinkage Factor. This ensures that any over-procurement or under-procurement of shrinkage gas is corrected.

Any measurement inaccuracies on the NTS are reconciled with NTS Shrinkage up to M + 15 (Month + 15 calendar days). That is, if measurement inaccuracies are discovered up to M+15 then shrinkage can be adjusted for the previous month via future procurement. The adjustments are reflected in the assessed NTS Shrinkage for the gas day(s) concerned and the NTS Shrinkage Factors for future days are adjusted accordingly.

After M+15 shrinkage cannot be corrected via future procurement. After M+15 this period measurement inaccuracies are reconciled against the Balancing Neutrality account.

At present, Daily Metered (DM) reconciliation at NTS Supply Points and NTS CSEPs leads to equal and opposite adjustments to Energy Balancing Neutrality Quantities so the financial costs and benefits arising from DM reconciliation are borne by shippers. Under the proposed System

Operator (SO) Incentive arrangements, which are expected to become effective from 1 April 2002, the financial consequences of shrinkage procurement discrepancies would be shared between Transco and shippers.

If this Modification Proposal were implemented, Energy Balancing Neutrality costs would not be affected by the DM reconciliation process in respect of NTS Supply Points and NTS CSEPs.

### **The modification proposal**

It is proposed that when measurement inaccuracies are found and quantified at NTS Supply Points and NTS CSEPs, the reconciliation process be revised so that the adjustments in off-take quantities are reflected in equal and opposite adjustments to the shrinkage procurement account.

The proposer (Transco) believes this modification will reduce the financial risks that apply to shippers and Transco by reducing their present energy balancing exposure and, their potential future exposure within the proposed SO Incentive arrangements when there is an over-procurement of shrinkage gas.

### **Respondents' views**

Two responses were received, both supporting the proposal. One respondent believes that the modification will ensure that when energy is reconciled for an NTS Supply point the corresponding adjustment will be correctly applied to the shrinkage account and not via the Balancing neutrality charges. This respondent believes that metering errors should continue to be monitored and reported, in order for the trend of improvement to be maintained. The other respondent expressed support for the modification, believing it will lead to lower risk profiles for shippers.

### **Transco's View**

Transco state that currently both shippers and Transco are financially affected by the resolution of metering inaccuracies at NTS Supply Points. The precise effects depend upon whether these inaccuracies are established before or after closeout. In turn, the risk profiles of both shippers and Transco are affected. This Modification Proposal seeks to eliminate this dependency on closeout and has a beneficial effect upon the risk profiles.

### **Ofgem's view**

Ofgem supports the proposal given that it will improve the allocation of cost/ revenues to shippers.

Currently if meter errors are reconciled against Balancing Neutrality, the costs (and benefits) are smeared between the shippers. Therefore costs/ benefits in the current system are not allocated accurately after M+15. Under this modification supply points will be reconciled directly against the shrinkage account. Therefore costs/ revenues will be targeted more accurately, and this will reduce the financial risk for participants. This modification will also make arrangements consistent with NTS offtake reconciliation (Reconciliation by difference).

## **Ofgem's decision**

Ofgem has decided to direct Transco to implement this modification, as we consider that it would better facilitate the relevant objectives as outlined in Standard Condition 9 of Transco's GT licence.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number or Pav Dhesi on 020 7901 7040.

Yours sincerely,

Nick Simpson  
**Director, Industry Codes**