

**CODE MODIFICATION PROPOSAL No 0203V**  
**Revision to DN Shrinkage Regime**  
**Version 1.0**

**Date:** 17/04/2008

**Proposed Implementation Date:** 1 July 2008

**Urgency:** Non Urgent

**1 The Modification Proposal**

**a) Nature and Purpose of this Proposal**

Following the recently concluded 2008-13 Gas Distribution Networks Price Control discussions, Ofgem have set a fixed volumetric allowance for Shrinkage for each LDZ, as opposed to ex ante target shrinkage factors (percentages of throughput). Ofgem concluded that on the basis of evidence available, there is little correlation between shrinkage and throughput for the existing networks. The fixed volumetric allowances are defined in Special Condition E8 of each of the respective DN Operators Gas Transporter Licences.

As a result, changes to Section N of UNC are required:

- to update references to LDZ Shrinkage Factors to reflect LDZ Shrinkage Quantities,
- make appropriate amendments to the content of industry notification processes, namely current Initial and Final Proposals, and
- effect minor change to the classification of LDZ vented gas, consistent with the operation of the approved Leakage model calculations (vented gas is not burnt and therefore should be classed as unaccounted for gas, not own use gas).
- update the sources of information used in the assessment process to include all inputs to the leakage model

Ofgem stated (GDPCR Final Proposals, para 7.19) that:

*“In order to allow time for these modification proposals to be considered, and avoid potentially significant windfall gains or losses, we propose to roll over the existing shrinkage allowances (both volume and price) for the first six months of the next price control period.”*

Although there is an expectation that the new ‘fixed’ LDZ Shrinkage Quantity UNC regime would be effective as from the start of the Gas Year on 1 October 2008, the preferred implementation date of this modification is 1 July 2008. This is due to the fact that there is a UNC requirement (N3.1.4) to publish initial proposals prior to the start of the Gas Year. If the implementation was delayed then the DNs would be obligated, under UNC

N3.1.4, to produce a document specifying estimated LDZ Shrinkage Factors, as opposed to LDZ Shrinkage Quantities. For clarity the implementation date of 1 July will have no impact on the Shrinkage processes for the current 2007/08 Gas Year.

In addition, UK Link system changes are required to enable DNs to nominate a fixed daily quantity as opposed to the quantity derived from the shrinkage factor regime. These changes are being progressed under a xoserve Change Order (as is the assessment of potential iGMS implications) however this modification will need to ensure that appropriate assessment & adjustment processes are robust and flexible enough to accommodate a contingency arrangements should UK Link system changes be delayed.

**b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**

Not applicable

**c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

The proposer believes that this proposal is sufficiently clear to proceed directly to consultation.

**2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives**

*Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Implementation would be expected to facilitate the achievement of this objective.

**3 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

No such implications have been identified.

**4 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:**

**a) The implications for operation of the System:**

No such implications have been identified.

**b) The development and capital cost and operating cost implications:**

No such implications have been identified.

**c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:**

No such cost recovery is proposed.

- d) **The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

No consequence has been identified.

- 5 **The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)**

Implementation is not required to facilitate such compliance.

- 6 **The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users**

Changes to the Gemini algorithm will be required to enable DNs to nominate a fixed daily volume as opposed to shrinkage factor volume (COR1092)

- 7 **The implications for Users of implementing the Modification Proposal, including:**

- a) **The administrative and operational implications (including impact upon manual processes and procedures)**

No such implications have been identified.

- b) **The development and capital cost and operating cost implications**

No such implications have been identified.

- c) **The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

- 8 **The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)**

No changes will be required for iGT or Users systems and processes.

- 9 **Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters**

No such consequences have been identified.

**10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above**

**Advantages**

Alignment of UNC and Licence Obligations

**Disadvantages**

No disadvantages have been identified.

**11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)**

No consultation has been initiated.

**12 Detail of all other representations received and considered by the Proposer**

No representations have been received.

**13 Any other matter the Proposer considers needs to be addressed**

None identified.

**14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal**

**15 Comments on Suggested Text**

Legal text currently being drafted

**16 Suggested Text**

**Code Concerned, sections and paragraphs**

Uniform Network Code

Transportation Principal Document

**Section(s)** N

**Proposer's Representative**

*Kerri Matthews (National Grid Distribution)*

**Proposer**

*Kerri Matthews (National Grid Distribution)*