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## **Modification Proposal 0203v 'Revision to DN Shrinkage'**

Dear Julian,

Thank you for your invitation seeking representation with respect to the above Modification Proposal.

National Grid NTS (NG NTS) supports the proposed changes to UNC TDP section N, which seeks to align the Distribution Network Operators (DNO) obligations, under the UNC, with the recent revisions made to Special Condition E8 of the DNOs' Gas Transporters Licence.

### **2) Extent to which implementation of this Modification proposal would better facilitate the achievement (for the purposes of each Transporters Licence) of the Relevant Objectives**

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

The proposed revisions to the LDZ Shrinkage regime are required as a result of the recent revisions to Special Condition E8 of the Distribution Network Operators Gas Transporters Licence and therefore this Proposal demonstrates an improvement to this relevant objective.

#### **Standard special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards ... are satisfied as respects the availability of gas to their domestic customers:**

We note that the replacement of an ex-ante target Shrinkage Factor for LDZ Shrinkage allowance, which is based on a percentage of throughput, also removes an incentive on the DNOs management of their LDZ offtake meters.

Currently (based on a percentage of throughput), the DNO shrinkage allowances provides an incentive to ensure accurate LDZ offtake meter readings; as the DNO will pick up a percentage of the cost of any meter read error, through the LDZ reconciliation process. We believe that the effect of removing such an incentive may be considered as minor, (0.1 % of the total daily reconciled energy adjustment for the LDZ), however, the removal of this incentive could have an impact on the quality of LDZ Meter Assurance, and thus have a detrimental effect on this Relevant Objective.

**(3) The implication of implementing the Modification Proposal on security of supply, operations of the Total System and industry fragmentation:**

We note that this change proposes to introduce a volumetric based LDZ Shrinkage allowance, which differs from the NTS Shrinkage allowance that is based on throughput. We believe that this may demonstrate fragmentation in respect of accounting for Shrinkage across the system.

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

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

Under prevailing UNC arrangements the DNO's are required to make available LDZ Shrinkage information available. Under the Network Code Operational Reporting Manual (NCORM) National Grid Transmission publishes LDZ Shrinkage information as part of the MIPI suite of information provision. If this Proposal is implemented these reports, as currently designed, would generate LDZ Shrinkage factors of zero, and not provide the industry with any meaningful LDZ Shrinkage information. Some of the DNOs have advised that it is their intention to publish their LDZ Shrinkage information through their websites.

At the April 2008 Distribution Workstream some Users advised that they would prefer to have such information sourced in one place. We understand that the changes to LDZ Shrinkage information provision are due to be discussed at the May Distribution Workstream.

We anticipate that this issue will be resolved prior to the implementation of the Proposal, if approved.

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

We believe that this Proposal, if implemented, may introduce some operational costs associated with the manual processes required to publish LDZ Shrinkage data. We anticipate that further manual processes may be required to ensure that forecasting

processes, which currently utilise the prevailing LDZ Shrinkage factors are not compromised by this proposed change.

**6) The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

The proposed change to enable DNOs to nominate a fixed daily volume as opposed to the calculations of the LDZ Shrinkage Quantities generated by Gemini will require UK Link system changes.

We note that the proposer seeks to implement this change on the 1 July 2008, if this Proposal is approved we are concerned that the development and testing requirements to introduce the necessary Gemini system changes may have implications associated with the testing timetable of the Gemini Summer 2008 release. We therefore request that the proposer is mindful of any potential impact testing required for this Proposal may have on the Gemini Summer Release testing timetable.

**8) Implications of implementing the Modification proposal for Terminal Operator, Consumers, Connected System Operator, Suppliers producers and, Non Code Party**

Under prevailing arrangements 'independent Gas Transporters' (iGT) Shrinkage quantities are factored into the LDZ Shrinkage Factors, although the quantities of such shrinkage are believed to be low, we believe that further development of appropriate accounting for iGT Shrinkage should be undertaken to ensure that appropriate incentives are in place for iGTs to manage shrinkage.

Please let me know if you require any further information to enable preparation of the Final Modification Report.

Yours sincerely

Claire Thorneywork