

Draft Modification Report
Revised Timescales for LDZ Shrinkage Arrangements
Modification Reference Number 0225
Version 1.0

This Draft Modification Report is made pursuant to Rule 9.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Uniform Network Code (UNC) Transportation Principal Document (TPD) Section N sets out the arrangements for NTS and LDZ Shrinkage. For clarity, this Proposal deals solely with LDZ Shrinkage.

Sections N3.1 (LDZ Shrinkage Quantity) & N3.2 (Notification of Shrinkage Quantity) set out the Transporters obligations and timescales for estimating, notifying, and consulting on the aggregate amounts of LDZ own use gas and LDZ unaccounted for gas (known as the LDZ Shrinkage Quantity) for the forthcoming Gas Year.

Sections N3.3 (Assessed LDZ Shrinkage) & N3.4 (LDZ Shrinkage Adjustment) set out the Transporters obligations for assessing and carrying out adjustments of LDZ Shrinkage and the associated timescales for these activities.

This Modification Proposal does not seek to alter the obligations that Transporters have in relation to LDZ Shrinkage but just the timing of them (i.e. when they occur during the year).

For Sections N3.1 & N3.2, this Proposal seeks to retain identical obligations and timescales but to change these to be relative to the Formula Year rather than the Gas Year. As the Gas Year commences in October, and the Formula Year in April, the affect that implementation of this Proposal would have is a 6 month shift in timescales (e.g. the initial LDZ Shrinkage estimates that are currently due by 1 September would be due by 1 March).

Diagram 1 and Diagram 2 in Appendix 1 show the existing and proposed timeline for the processes contained within Sections N3.1 & N.3.2. Paragraph 16 below provides the legal text associated with the implementation of this Proposal.

For Sections N3.3 & N3.4, this Proposal seeks to retain the obligations that currently exist but to shorten the required timescales for carrying out LDZ Shrinkage assessments. As with above, it also seeks to relate these timescales to the Formula Year rather than the Gas Year. Transporters currently have to carry out LDZ Shrinkage assessments by 31 March (i.e. within 6 months of the end of the Gas Year) and this Proposal seeks to change this to be carried out by 31 July (i.e. within 4 months of the end of the Formula Year).

Diagram 3 and Diagram 4 in Appendix 1 show the existing and proposed timeline for the processes contained within Sections N3.3 & N.3.4. Paragraph 16 below provides the legal text associated with the implementation of this Proposal.

UNC TPD Section N LDZ Shrinkage arrangements are, predominantly, a

commercial regime with little impact on the day-to-day physical operation of the System. All other LDZ Shrinkage related Transporter activities (e.g. regulatory and incentive reporting, LDZ Transportation pricing changes) are based around the Formula Year. Therefore the Proposer believes that it would be beneficial to align the UNC TPD Section N LDZ Shrinkage arrangements with the Formula Year rather than the Gas Year.

Changing the arrangements to be in relation to the Formula Year would also allow the Transporters to use more timely network and operational data when carrying out LDZ Shrinkage estimates.

The proposed changes would also allow the Transporters to carry out LDZ Shrinkage Assessments sooner following completion of the relevant 12 month period and in turn be able to carry out any necessary LDZ Shrinkage Adjustments (reconciliations).

Suggested Text

UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT

SECTION N – SHRINKAGE

Amend paragraphs 3.1.1 to 3.4.2 as follows:

3 LDZ SHRINKAGE

3.1 LDZ Shrinkage Quantity

3.1.1 Subject to paragraph 3.1.3, for the purposes of establishing the "**LDZ Shrinkage Quantity**" applicable in respect of a relevant LDZ, the Transporter will estimate by 1 ~~March~~ September in the Preceding Formula Year, the aggregate amounts of LDZ own use gas and LDZ unaccounted for gas for that LDZ in the Formula ~~Gas~~ Year.

3.1.2 Subject to paragraph 3.1.3, the LDZ Shrinkage Quantity for each Formula ~~Gas~~ Year will be determined as the aggregate of the estimated amounts under paragraph 3.1.1 of own use gas and unaccounted for gas in the LDZ for the Formula ~~Gas~~ Year, divided by the number of Days in the Formula ~~Gas~~ Year.

3.1.3 When the Transporter determines that the basis on which it estimates LDZ unaccounted for gas is sufficiently robust to permit its valid estimation more frequently than annually, the Transporter will increase (after giving Users not less than 30 Days' notice) the frequency with which it estimates LDZ unaccounted for gas, and accordingly reduce the period by reference to which adjustments are made for differences between estimated and assessed LDZ unaccounted for gas.

3.1.4 The Transporters will, not later than 1 January ~~July~~ in the Preceding Formula Year, submit to all Users:

(a) the estimated LDZ Shrinkage Quantity for each LDZ for the

Formula Gas Year;

(b) the methodology by which the estimate was determined and Users may submit to a Transporter representations in respect of the estimated LDZ Shrinkage ~~Quantity~~ Quantity for up to but not later than 1 ~~February~~ August in the Preceding Formula Year.

3.1.5 Between 1 and 15 ~~February~~ August in the Preceding Formula Year, the Transporters:

- (a) will review any representations made by Users under paragraph 3.1.4;
- (b) will consult, so far as the Transporters deem appropriate, with any User in respect of any representations made by it or any other User;
- (c) may convene meetings with any User or Users for the purposes of such consultation.

3.1.6 The Transporters will make available to Users reasonable details of the representations made to them under paragraph 3.1.4 and consultations under paragraph 3.1.5 (but may do so by oral presentation at a meeting of Users convened under paragraph 3.1.5(c)), and shall be free to disclose to any User and the Authority any such representation and details of any such consultation.

3.1.7 Not later than 1 ~~March~~ September in the Preceding Formula Year, the Transporters will submit to the Authority and all Users their final estimates of the LDZ Shrinkage Quantity for each LDZ for the Formula ~~Gas~~ Year with such changes as they may on the basis of Users' representations and consultation under paragraphs 3.1.4 and 3.1.5 determine appropriate.

3.1.8 The LDZ Shrinkage Quantity for each LDZ applicable to the Formula ~~Gas~~ Year shall be the estimate submitted under paragraph 3.1.7 unless upon the application of the Transporter or any User, made no later than 15 ~~March~~ September, the Authority shall give Condition A11(18) Disapproval to the Transporter applying a particular estimate of the LDZ Shrinkage Quantity, in which case the LDZ Shrinkage Quantity in the relevant LDZ shall be that applying in the Preceding Formula Year.

3.2 Notification of LDZ Shrinkage Quantity

3.2.1 Subject to paragraph 3.2.2, the LDZ Shrinkage Quantity for each relevant LDZ for the Formula ~~Gas~~ Year will be notified to Users by the Transporter not later than 1 ~~March~~ September in the Preceding Formula Year.

3.2.2 Where the frequency of estimation of LDZ Shrinkage Quantity is increased under paragraph 3.1.3:

- (a) the LDZ Shrinkage Quantity for each relevant LDZ will be notified to Users on a basis commensurate with such increased frequency;

- (b) references in this Section N to Formula Gas Year, in the context of the LDZ Shrinkage Volume, shall be to such reduced period for which such estimate is made;
- (c) the Transporter will provide to Users, not later than 1 March September in the Preceding Formula Year, a provisional forecast of the LDZ Shrinkage Quantity to apply in each relevant period in the Formula Gas Year.

3.2.3 The forecast LDZ Shrinkage Quantities under paragraph 3.2.2(c) are indicative only and will not bind the relevant Transporter, the relevant Shrinkage Provider or Users.

3.3 Assessed LDZ Shrinkage

3.3.1 The Transporter will assess LDZ shrinkage in each relevant LDZ at intervals of approximately twelve months, on the basis of such historic information as may be available to it, by technical and statistical analysis including extrapolation of sampled information and identification of any long term trends.

3.3.2 The sources of the information referred to in paragraph 3.3.1 include:

- (a) as respects own-use gas, meter readings in respect of preheating facilities (where such facilities are metered);
- (b) as respects unaccounted for gas:
 - (i) as respects leakage, the data listed in paragraph 3.3.4;
 - (ii) as respects unidentified theft of gas, any evidence of significant changes in the occurrence of theft as compared with the assumption made previously.

3.3.3 The data referred to in paragraph 3.3.2(b)(i) is actual data in relation to the period relating to:

- (a) the measurement of pressure profiles in the LDZ;
- (b) conditioning of gas transported in the LDZ;
- (c) replacement of old pipework in the LDZ;
- (d) number of Supply Meter Points supplied in the LDZ;
- (e) above ground installations (AGIs) installed and in operation on the LDZ;
- (f) damage caused by third party interference with pipes comprised in the LDZ;
- (g) Calorific Value of gas transported in the LDZ;
- (h) the rate of leakage of gas from different kinds of asset comprising the LDZ; and
- (i) demand on the LDZ.

3.3.4 Not later than 31 July March in each Formula Gas Year, the Transporter will provide to Users a report setting out in respect of the Preceding Formula Year:

- (a) values (for the whole year and/or on an average daily basis) of assessed LDZ shrinkage for each relevant LDZ together with a summary of the statistics and information from which (as described in paragraph 3.3.1) such values were derived; and
- (b) a comparison of such assessed values with the values of LDZ shrinkage estimated before the Preceding Formula Year in accordance with paragraph 3.1.

3.4 LDZ Shrinkage Adjustment

- 3.4.1 Not later than 31 ~~July~~ March in each Formula Gas Year, the Transporters will in respect of the Preceding Formula Year review the assessed LDZ shrinkage for each LDZ established under paragraph 3.3.1, and the estimated LDZ Shrinkage for each LDZ established under paragraph 3.1, and where appropriate undertake a reconciliation in accordance with the LDZ Shrinkage Adjustments Methodology for the purposes of Section E7.6.
- 3.4.2 The "**LDZ Shrinkage Adjustments Methodology**" is the methodology from time to time established, published and revised by the Transporters (subject to prior approval by Panel Majority of the Uniform Network Code Committee) and issued to Users setting out the calculations for the reconciliation to be carried out under paragraph 3.4.1.

UNIFORM NETWORK CODE – GENERAL TERMS

SECTION C – INTERPRETATION

Add sub-paragraph (k) to 2.2.1 as follows:

2.2 Times and dates

- 2.2.1 For the purposes of the Code:
 - (a) "**Day**" means the period from 06:00 hours on one day until 06:00 hours on the following day;
 - (b) "**Business Day**" means (except for the purposes of TPD Sections G and M) a Day other than a Saturday or a Sunday or a Day which begins at 06:00 hours on a bank holiday in England and Wales;
 - (c) "**Gas Flow Day**" means, in relation to the application of any provision of the Code, the Day in relation to deliveries, offtakes or flows of gas or other operations on which such provision is to apply;
 - (d) "**Preceding Day**" means the Day before the Gas Flow Day;
 - (e) "**Gas Year**" means the period from 1 October in any year until

- and including 30 September in the following year;
- (f) in relation to any Gas Year the "**Preceding Year**" is the Gas Year ending at the start of such Gas Year;
 - (g) "**Winter Period**" means the period from 1st November in any year until and including 30 April in the following year;
 - (h) "**Capacity Year**" means the period from 1 April in any year until and including 31 March in the following year;
 - (i) and in relation to a Capacity Year, the "**Preceding Capacity Year**" is the Capacity Year ending at the start of such Capacity Year;
 - (j) "**Formula Year**" means the period from 1 April in any year until and including 31 March in the following year;
 - (k) and in relation to a Formula Year, the "**Preceding Formula Year**" is the Formula Year ending at the start of such Formula Year.

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

By utilising more timely network and operational data, when carrying out LDZ Shrinkage estimates, Transporters may increase the accuracy of LDZ Shrinkage estimates and therefore better facilitate this relevant objective. This in turn would lead to more accurate nominations and demand allocations (for NDM sites) in each LDZ and again will better further this relevant objective and SSC A11.1 (d) by the securing of effective competition between shippers.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of

- (i) *the combined pipe-line system, and/ or*
- (ii) *the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

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 not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

- (i) *between relevant shippers;*

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

Implementation of this Proposal will better facilitate this relevant objective, in particular the securing of effective competition between relevant shippers. Implementation of this Proposal will ensure that LDZ Shrinkage Assessments and subsequent reconciliations are carried out within 4 months, rather than the current 6 months, of the end of the 12 month LDZ Shrinkage period.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Implementation would not be expected to better facilitate this relevant objective.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

a) Implications for operation of the System:

The Transporters will be required to carry out LDZ Shrinkage Assessments (based on actual data in accordance with Section N3.3 & 3.4) within 4 months of the end of the Formula Year rather than within 6 months of the end of the Gas Year.

b) Development and capital cost and operating cost implications:

There is no development cost, capital cost or operating cost implications associated with implementation of this Proposal.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No cost recovery mechanism is required

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

No such consequences have been identified

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

The level of contractual risk of each Transporter would not be impacted upon by the Implementation of this Proposal.

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

There is no development, or other, implications for Transporter or Users systems.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

Notification of LDZ Shrinkage estimates, and the timing of any adjustments, will change if this Modification Proposal is implemented. This may have an impact on Users but it is not thought to be material (timing issue only).

Development and capital cost and operating cost implications

No such costs have been identified.

Consequence for the level of contractual risk of Users

There would be no consequence on the level of contractual risk of Users by implementation of this Proposal.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No such implications have been identified for any other relevant persons.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Moving to a Formula Year based LDZ Shrinkage regime would allow the Transporters to:
 - align the annual LDZ Shrinkage Assessments with regulatory reporting requirements
 - align annual LDZ Shrinkage Assessments with licence incentives (Shrinkage and emissions)
 - utilise more timely operational and network information for Shrinkage estimates which may lead to greater accuracy of LDZ Shrinkage estimates and reduced reconciliation volumes
- The Transporter will assess LDZ Shrinkage within 4 months of the end of the Formula Year rather than the current 6 months (from the end of the Gas Year). This will result in more timely financial reconciliation for Users (for the purposes of E7.6)

Disadvantages

No Disadvantages have been identified

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Written Representations are now sought in respect of this Draft Report.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works would be required as a consequence of implementing the Modification Proposal.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

This Modification Proposal will need to be implemented by 1st January 2009 to allow Transporters to submit to all Users the estimated LDZ Shrinkage Quantity for each LDZ for the Formula Year.

The suggested timetable for this Modification Proposal is as follows:

16 October 2008 – Modification Panel

20 October 2008 – Consultation Phase commences (subject to Panel approval)

07 November 2008 – Consultation Phase closes

20 November 2008 – FMR considered by Modification Panel

24 November 2008 – Final Mod Report (FMR) issued to Ofgem

December – Ofgem Decision

29 December 2008 – Implementation (subject to direction from Ofgem).

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

Representations are now sought in respect of this Draft Report and prior to the Transporters finalising the Report.

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Appendix 1

Diagram 1 – Current LDZ Shrinkage arrangements (Section N3.1 & 3.2)

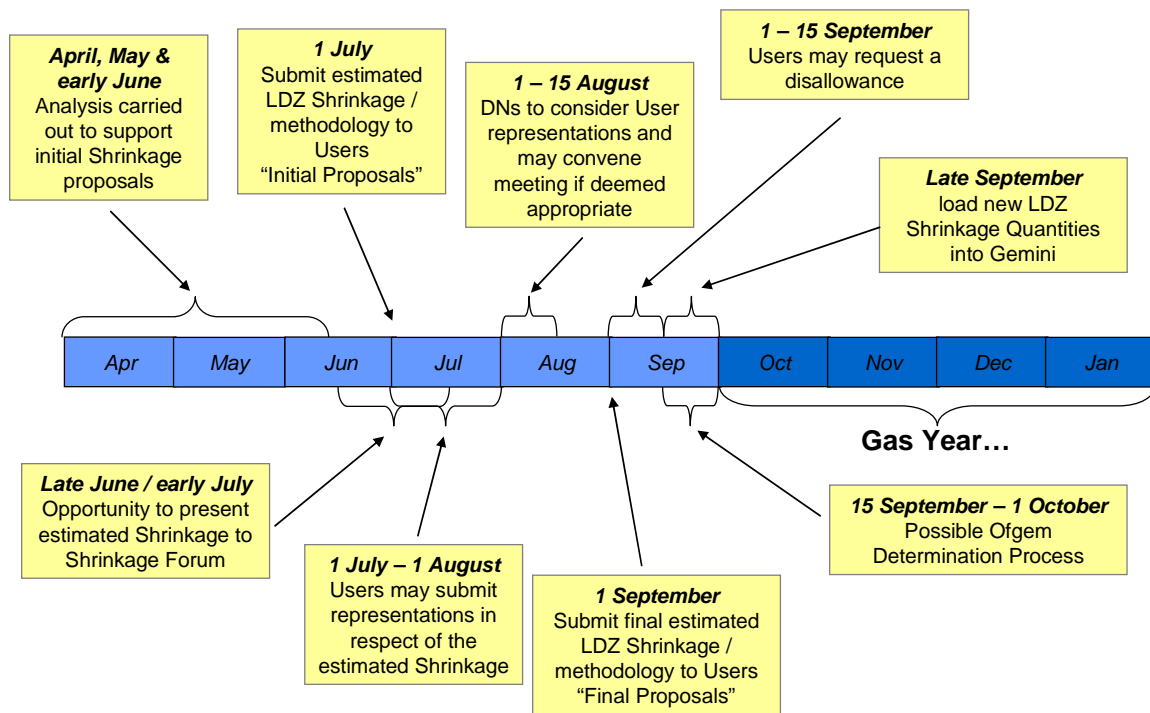


Diagram 2 – Proposed LDZ Shrinkage arrangements (Section N3.1 & 3.2)

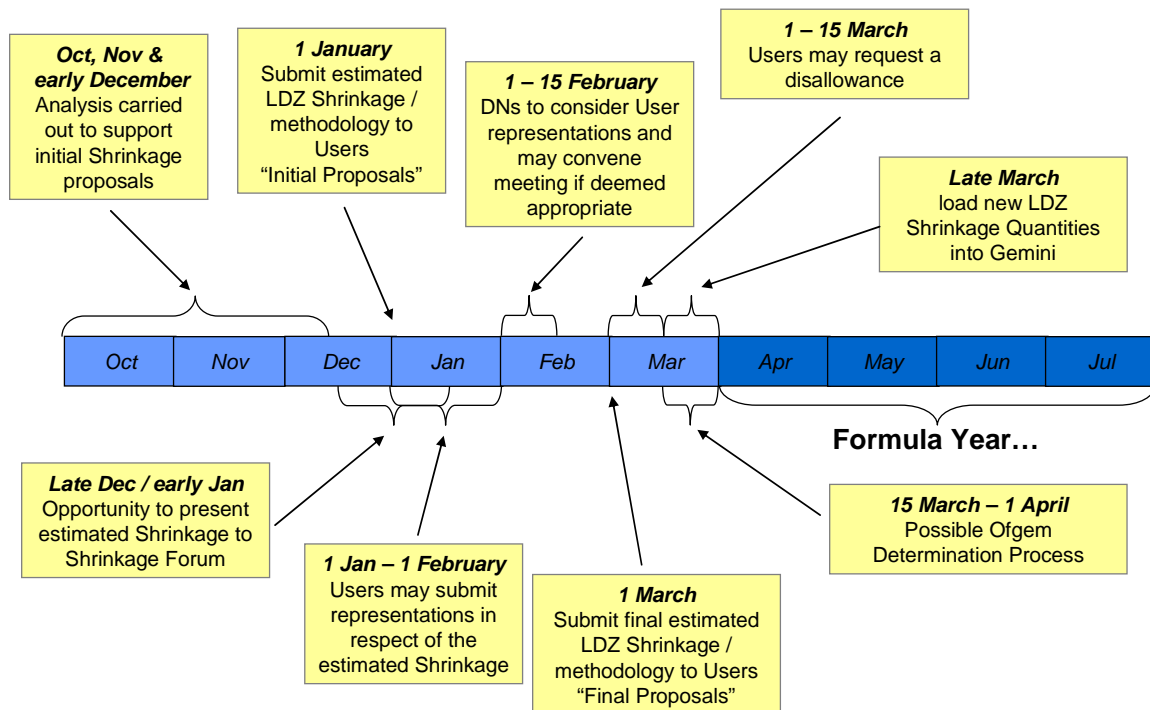


Diagram 3 – Current LDZ Shrinkage arrangements (Section N3.3 & 3.4)

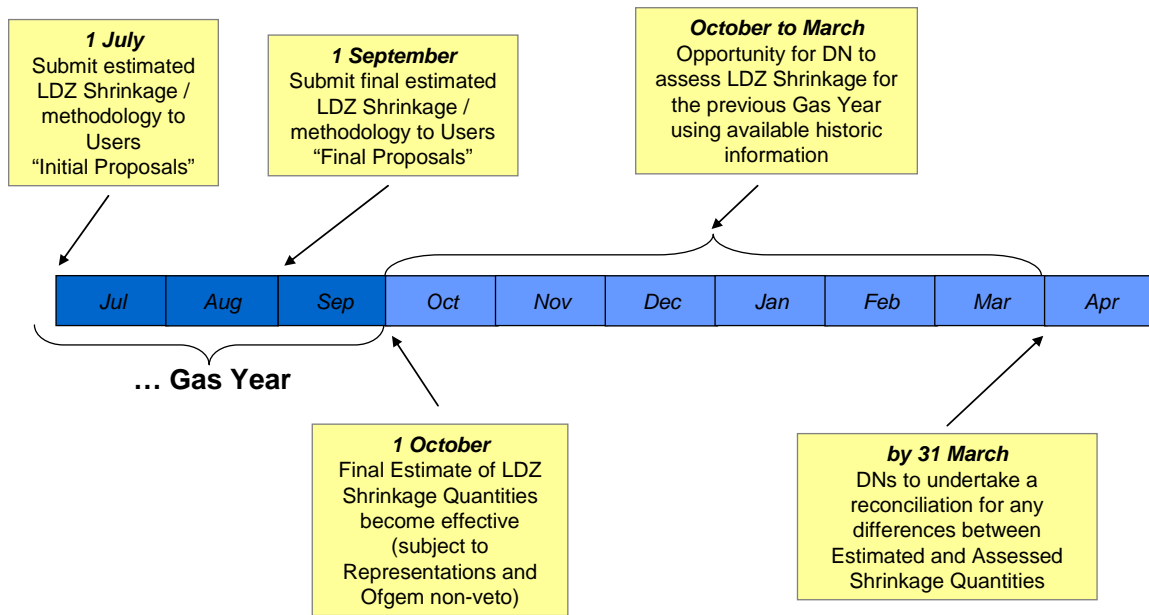


Diagram 4 – Proposed LDZ Shrinkage arrangements (Section N3.3 & 3.4)

