

Draft Modification Report
Amendments to NTS Shrinkage Reporting Process
Modification Reference Number 0278
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

Where capitalised words and phrases are used within this Modification Proposal, those words and phrases shall usually have the meaning given within the Uniform Network Code (unless they are otherwise defined in this Modification Proposal). Key UNC defined terms used in this Modification Proposal are highlighted by an asterisk () when first used.*

This Modification Proposal, as with all Modification Proposals, should be read in conjunction with the prevailing Uniform Network Code* (UNC).*

National Grid NTS currently provides a suite of forecast information regarding NTS Shrinkage that ranges from the day ahead NTS Shrinkage Factor* to an annual indication of the monthly shrinkage factors for the upcoming gas year.

It is believed that Users rely on some elements of the above suite of forecast NTS Shrinkage information to provide visibility of the gas that NTS will need to purchase via the competitive market to balance the forecast volume of gas identified as NTS Shrinkage.

Recently National Grid NTS has undertaken a review to ensure that the NTS Shrinkage information published to Users provides the most accurate picture of forecast NTS Shrinkage. The purpose of this Modification Proposal is to recommend the implementation of the findings from this review into the UNC.

The high level summary of this proposal is twofold; firstly to align the publication dates of the annual forecast reports for both NTS and LDZ shrinkage* to 1 April to 31 March, and secondly to update the UNC to reflect a number of process improvements associated with estimating and publishing NTS shrinkage information.

For clarity this proposal only considers the calculation of NTS Shrinkage Factor and publication of related shrinkage data, but does not impact the System Operator* (SO) incentive.

The following provides an explanation of the identified improvements and the rationale for the proposed changes to Transportation Principal Document Section N of the UNC.

1) Amendment to publication date of Annual NTS Shrinkage Forecast

Both Distribution Network* Owners (DNOs) and National Grid NTS are obligated to provide an annual forecast of shrinkage. For DNOs this is an estimate of their total LDZ shrinkage for a twelve month period whilst National Grid NTS is obligated to provide an estimate of the monthly NTS Shrinkage Factors*.

The timescales associated with these independent publications are currently not aligned. Following the implementation of UNC Modification 0225 “Revised

Timescales for LDZ Shrinkage Arrangements”, DNOs are obligated to publish their final estimates of LDZ Shrinkage Quantity for the Formula Year* (1 April to 31 March), no later than 1 March each year. Whilst conversely, National Grid NTS are obligated to provide to Users* not later than 1 September in the preceding year, for each month in the Gas Year* (1 October to 30 September), a provisional forecast of the NTS Shrinkage Factor to apply in such month.

This modification proposal seeks to amend the National Grid NTS obligation to report the monthly estimates of NTS Shrinkage Factor from 1 September to 1 March and the reference to Gas Year be amended to Formula Year.

Aligning the annual forecast reporting of both NTS and LDZ shrinkage will provide a greater level of transparency and coordination of the shrinkage regime and enable Users to have an improved ability to view and compare shrinkage information for the entire system.

2) Clarification of NTS Shrinkage Factor sections within UNC TPD Section N

Following the internal review it has been identified that a small number of operational performance improvements require the UNC to be updated accordingly.

The following provides a summary of the proposed changes to the UNC TPD Section N.

a) Amendment to NTS Shrinkage Factor Calculation

This section of the modification proposal seeks to amend section N2.1.1 to clarify that the NTS Shrinkage Factor includes a daily estimate of NTS unaccounted for gas rather than a flat monthly average.

The NTS Shrinkage Factor comprises of three component parts; NTS own use gas*, CV Shrinkage* and NTS unaccounted for gas* (UAG). To estimate the NTS Shrinkage Factor on a daily basis, UNC states that NTS should use a daily estimate for own use gas and CV shrinkage components, however for unaccounted for gas UNC implies NTS should use a flat monthly value (calculated as an average monthly value as estimated in the previous month).

Following further developments in National Grid NTS’s ability to estimate UAG, this information can now be estimated on a daily basis alongside the other aforementioned component parts of the NTS Shrinkage Factor. The benefits of adopting a daily estimation of UAG are the calculation of a more accurate NTS Shrinkage Factor. This more accurate NTS Shrinkage Factor, leads to a reduction in the difference between actual (NTS Shrinkage Factor multiplied by forecast system demand) and assessed shrinkage (physical level of NTS Shrinkage).

b) Cease publication of Month ahead NTS Shrinkage Factor forecasting

This proposal seeks to remove the reference to the month-ahead report in UNC section N 2.2.2 (b).

The month-ahead report includes an estimate of the daily NTS Shrinkage Factors for each day in the following month. As per the review referred to above, analysis found that Users did not refer to this month-ahead report. Upon review of this report it was found that the information produced bore little relevance to the actual NTS Shrinkage Factors that are calculated on a daily

basis. This disparity is due to the fluctuating components of the NTS Shrinkage Factor that, due to changing operational conditions, can vary greatly from one day to the next.

To reflect the findings from the above review and to ensure that Users are provided the most clear and unambiguous NTS Shrinkage reporting information as possible the monthly report has not been included within the scope of the recently implemented Market Information Provision Initiative (MIPI) project which has enhanced the reporting functionality available to Users via the National Grid website. As such, this proposal seeks to reflect this process change and remove the reference to the monthly report from Section N of the UNC.

For a longer term forecast of NTS Shrinkage Factors, Users are encouraged to refer to the twelve month forecast currently published no later than 1 September.

c) Clarification of publication times of Assessed Shrinkage

This proposal seeks to amend UNC Section N 2.3.2 to include reference to the 16th Day, which is the current publication date of the assessed shrinkage data.

A slight mismatch exists between the Uniform Network Code Operational Reporting Manual* (UNCORM) and UNC with the UNCORM stating total assessed Shrinkage data items will be published by the 16th Day of the following month, whilst the UNC states the data will be published no later than the 15th Day of the following month.

The benefit of this proposed change is solely to align the two UNC documents.

Summary

In summary, this proposal seeks to implement a number of amendments to the NTS Shrinkage reporting obligations documented within Section N of the UNC.

This proposal seeks to ensure that the suite of NTS Shrinkage Factor reporting is as relevant and accurate as possible for Users who may rely on the transparency and pertinence of the data to inform commercial actions within the competitive market.

Aligning the timing of LDZ and NTS annual forecast reports will provide greater transparency of forecast shrinkage across the total system to Users. In addition, ensuring that the NTS Shrinkage Factor is provided in a timelier, relevant and accurate manner will provide greater value to the relevant reporting to Users. Further, removing a potentially ambiguous and non-value adding report will ensure that the NTS Shrinkage reporting suite continues to be relevant to Users' requirements. Finally, amending the delivery date of a summary report will ensure that UNC continues to accurately reflect the services delivered by National Grid NTS.

Suggested Text

UNC Section N

Amend paragraphs 2.2.1, 2.2.2, 2.2.3 and 2.3.2 to read as follows:

- 2.1.1 For the purposes of establishing the “**NTS Shrinkage Factor**”, National Grid NTS will estimate each Day, the quantity of NTS own use gas, NTS unaccounted for gas and CV Shrinkage on the following Day.
- ~~(a) each Day, the quantity of NTS own use gas, NTS unaccounted for gas and CV Shrinkage on the following Day;~~
- ~~(b) by the end of each month, the average daily quantity of NTS unaccounted for gas (other than CV shrinkage) in the following month.~~
- 2.2.2 National Grid NTS will provide to Users not later than 1 March in the Preceding Year, for each month in the Formula Year, a provisional forecast of the NTS Shrinkage Factor to apply in such month.
- ~~(a) not later than 1 September in the Preceding Year, for each month in the Gas Year, a provisional forecast of the NTS Shrinkage Factor to apply in such month;~~
- ~~(b) not later than the last Day of each month, for each Day in the following month, a forecast of the NTS Shrinkage Factor to apply in respect of such Day~~
- 2.2.3 The forecasts of NTS Shrinkage Factors under paragraph 2.2.2 are indicative only and will not bind National Grid NTS, the NTS Shrinkage Provider or Users
- 2.3.2 National Grid NTS will assess NTS shrinkage for each Day in each month, and provide to Users details of the average assessed NTS shrinkage for Days in that month, not later than the ~~15th~~ 16th Day of the following month

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

Implementation would not affect xoserve systems or procedures and therefore would not be affected by User Pays governance arrangements.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

No User Pays charges applicable.

c) Proposed charge(s) for application of Users Pays charges to Shippers

No User Pays charges applicable to Shippers.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

No charges applicable for inclusion in ACS.

3 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;

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

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (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 ensure greater coordination of the system through aligning the publication dates of both the LDZ and NTS annual forecast shrinkage reports and therefore facilitate the achievement of this relevant objective.

In addition, a more accurate and timelier calculation of the NTS Shrinkage Factor results in a more accurate forecast and efficient procurement of the volume of gas NTS are required to purchase to cover NTS Shrinkage. Moreover, a more accurate calculation of NTS Shrinkage Factor would reduce the inefficient requirement to sell gas originally purchased as a result of a large disparity between actual and assessed shrinkage.

Furthermore, an improved suite of information regarding NTS Shrinkage and SO Incentive performance would better highlight to Shippers the ongoing efficient and economic operation of the system.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (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 subparagraphs (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 would allow Users to operate more effectively in the competitive gas market. Providing more accurate and relevant forecast data would provide transparent signals to the competitive market for all Shippers who may wish to sell gas to meet the gas required by National Grid NTS as

part of NTS Shrinkage.

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.

4 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.

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

a) Implications for operation of the System:

None identified.

b) Development and capital cost and operating cost implications:

None identified.

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

n/a

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

n/a

6 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

n/a

7 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

n/a

- 8 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)

Users would be able to access a more accurate and relevant suite of NTS shrinkage information, which will provide an improved transparency of NTS shrinkage activities.

Clarification of UNC Section N to remove any possible ambiguity or confusion and provide an accurate reflection of NTS Shrinkage processes within the UNC.

Development and capital cost and operating cost implications

None identified.

Consequence for the level of contractual risk of Users

None identified.

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

None identified.

- 10 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**

None identified.

- 11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

Advantages

- Alignment of NTS with LDZ Shrinkage reporting to provide greater coordination of total system and greater ease of comparison between NTS and LDZ shrinkage forecasts.
- UNC would be updated to reflect operational improvements to the NTS shrinkage reporting process.

Disadvantages

No disadvantages have been identified.

- 12 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.

- 13 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.

- 14 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.

- 15 Programme for works required as a consequence of implementing the Modification Proposal**

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

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

This proposal is recommended to be implemented by 01 March 2010. This recommendation is to ensure that the annual NTS Shrinkage forecast can be published on 01 March 2010 to reflect the twelve months April 2010 through March 2011.

The Proposal could be implemented with immediate effect following direction from Ofgem.

- 17 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.

- 18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

19 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.

20 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