

CODE MODIFICATION PROPOSAL No 0278
[Amendments to NTS Shrinkage Reporting Process]
Version 2.0

Date: 15/12/2009

Proposed Implementation Date: 1 March 2010

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this 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 ~~The purpose of this Modification 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 ~~minor~~ 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

~~National Grid NTS constantly evaluate the shrinkage information made available to Users as part of all operational processes to ensure that the information continues to provide the best possible value to the industry in respect of data relevance, accuracy and timing.~~

Following an-the internal review it has been identified that a small number of such 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-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 ~~no accurate~~ little relevance to the actual NTS Shrinkage Factors that are calculated on a daily basis. This ~~inaccuracy-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.

~~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.~~

~~Based upon the above analysis~~ 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.

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 User Pays

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

This modification proposal does not affect xoserve systems or procedures and therefore is not 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

n/a

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

n/a

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

n/a

3 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

By ensuring that the suite of NTS Shrinkage reports is as accurate and relevant as possible, National Grid NTS considers this proposal would, if implemented, better facilitate the following Relevant Objectives as set out in its Gas Transporters Licence in respect of the NTS:

In respect of Standard Special Condition A 11.1(b) the coordinated, efficient and economic operation of the combined pipe-line system, National Grid NTS believes that this proposal will ensure greater coordination of the system through aligning the publication dates of both the LDZ and NTS annual forecast shrinkage reports.

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 will reduce the inefficient requirement to sell gas originally purchased as a result of a large disparity between actual and assessed shrinkage.

Furthermore, Users are provided with accurate and transparent NTS shrinkage reporting/SO incentive data. National Grid NTS believe that ~~this an~~ enhanced improved suite of information regarding NTS Shrinkage and SO Incentive performance will better highlight to Shippers provide further supporting evidence and comfort to Users of the ongoing efficient and economic operation of the system.

In respect of Standard Special Condition A 11.1 (d) securing of effective competition, National Grid NTS believes that this proposal, if implemented, will ensure Users are provided with accurate forecasts of NTS shrinkage requirements allowing Users to operate more effectively operate in the competitive gas market. Providing more accurate and relevant forecast data will 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.

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

None identified

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

a) The implications for operation of the System:

None identified

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

None 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:

n/a

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

n/a

6 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)

n/a

7 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

n/a

8 The implications for Users of implementing the Modification Proposal, including:

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

Users will be able to access a more accurate and relevant suite of NTS shrinkage information which will ~~facilitate~~ provide an greater 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

b) The development and capital cost and operating cost implications

None 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

None identified

9 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)

None identified

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

None identified

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

Advantages

Alignment of NTS with LDZ Shrinkage reporting to provide greater coordination of total system and greater ease of easier comparison between NTS and LDZ of shrinkage forecasts.

UNC will be updated to reflect operational improvements to the NTS shrinkage reporting process.

Disadvantages

No disadvantages have been identified

12 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)

13 Detail of all other representations received and considered by the Proposer

14 Any other matter the Proposer considers needs to be addressed

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

This proposal is recommended to be implemented by 1 March 2010. This recommendation is to ensure that the annual NTS Shrinkage forecast can be published on 1 March 2010 to reflect the twelve months April 2010 through March 2011.

16 Comments on Suggested Text

17 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 ~~September-March~~ in the Preceding Year, for each month in the ~~Gas-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

Code Concerned, sections and paragraphs

Uniform Network Code Section N 2.1.1, 2.2.2, 2.2.3, 2.3.2

Transportation Principal Document

Section(s)

Proposer's Representative

Nick Reeves (National Grid NTS)

Proposer

National Grid NTS