

Draft Modification Report
Reconciliation of NTS Supply Points after Close-Out
Modification Reference Number 0535

Version 1.0

This Draft Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

It is proposed that when measurement inaccuracies are found and quantified at NTS Supply Points and NTS CSEPs, the reconciliation process be revised so that the adjustments in off-take quantities are reflected in equal and opposite adjustments to the shrinkage procurement account.

At present, NTS Shrinkage is assessed for each Gas Flow Day by conducting an energy balance that takes into account:

- All flows into the NTS;
- All flows out of the NTS (including LDZ Off-takes, NTS Supply Points and NTS CSEPs (including storage sites and interconnectors)); and
- NTS line-pack changes determined from system pressures.

Prior to the Gas Flow Day, Transco estimates NTS Shrinkage and calculates an NTS Shrinkage Factor that, together with the LDZ Shrinkage Factors, determines the quantity of shrinkage gas procured. The Network Code also allows for differences between this estimated and assessed shrinkage for previous days to be reflected in this NTS Shrinkage Factor. This ensures that any over-procurement or under-procurement of shrinkage gas is corrected.

Providing measurement inaccuracies at NTS Supply Points are established prior to close-out, the adjustments are reflected in the assessed NTS Shrinkage for the gas day(s) concerned and the NTS Shrinkage Factors for future days are adjusted accordingly. However, after close-out no mechanism exists under the Network Code to recover the consequent under or over-procurement of shrinkage gas.

At present, DM Reconciliation at NTS Supply Points and NTS CSEPs leads to equal and opposite adjustments to Energy Balancing Neutrality Quantities so the financial costs and benefits arising from DM Reconciliation are borne by Users. Under the proposed SO Incentive arrangements, which are expected to become effective from 1 April 2002, the financial consequences of shrinkage procurement discrepancies would be shared between Transco and Users.

If this Modification Proposal were implemented, Energy Balancing Neutrality and hence Users' costs would not be affected by the DM Reconciliation process in respect of NTS Supply Points and NTS CSEPs.

2. Transco's Opinion

At present both Users and Transco are financially affected by the resolution of metering inaccuracies at NTS Supply Points. The precise effects depend upon whether these inaccuracies are established before or after close-out. In turn, the risk profiles of both Users and Transco are affected. This Modification Proposal seeks to eliminate this dependency on close-out and has a beneficial effect upon the risk profiles.

3. Extent to which the proposed modification would better facilitate the relevant objectives

Transco believes that implementation of this Modification Proposal would better facilitate the securing of effective competition by reducing Users' and Transco's present Energy Balancing exposure and their future potential exposure within the proposed SO Incentive Arrangements.

4. The implications for Transco of implementing the Modification Proposal , including a) implications for the operation of the System:

Transco does not anticipate that implementation of this Proposal would have any impact upon the operation of Transco's System.

b) development and capital cost and operating cost implications:

Transco has identified occurrences of NTS Supply Point Meters over-reading and under-reading. It would therefore expect the effect of implementation to be broadly neutral. There would, however, be a benefit to Transco's risk profile.

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

Recovery of costs is accounted for within Ofgem's Final Proposals for the SO Incentives.

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

Transco is not aware of any consequences this proposal would have on price regulation.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

It is not anticipated there will be change to the level of contractual risk to Transco as a consequence of this Proposal.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

No development implications on the computer systems of Transco or on the related computer systems of Users are anticipated.

7. The implications of implementing the Modification Proposal for Users

Transco anticipates the implications for operating costs to be broadly neutral.

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

Reduction in neutrality risk which Users may wish to pass on to consumers.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco is not aware of any consequences on the legislative and regulatory obligations and contractual relationship of Transco and each User and Non-Network Code Party of implementing the Modification Proposal.

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

Advantages: The present inappropriate adjustment to energy balancing neutrality as consequence of DM reconciliation would not continue.

Disadvantages: Transco has not identified any disadvantages.

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

Transco now seeks representations in respect of this Modification Proposal.

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

Implementation is not required 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 Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco does not believe that implementation of this Modification Proposal is required in respect of any proposed change in the methodology established under the Standard

Condition 4(5) of the statement; furnished by Transco under Standard Condition 4(1) of the Licence.

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

No modifications are required to the Transco System and therefore a programme of works will not be required as a result of implementing this Modification Proposal.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Transco proposes implementation as soon as possible.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends that this Modification Proposal is implemented.

17. Text

Draft Legal Text:

SECTION F: SYSTEM CLEARING, BALANCING CHARGES AND NEUTRALITY

Amend paragraph 4.5.3(a) to read as follows:

"
(iv); and
(v) (1);
(2)in month m."

Delete paragraph 4.5.3(b)(v).

Amend paragraph 5.1.2 to read as follows:

" Without prejudice to Section N4.5, for the purposes of such System Clearing Contract....

SECTION N: SHRINKAGE

At paragraph 4.5 delete 'Not Used' add text to read as follows:

"4.5 **Reconciliation**

Where following DM Reconciliation and CSEP Reconciliation in respect of a NTS Supply Meter Point or NTS Connected System Exit Point:

- (a) where, for the purposes of Section F5.1.1, the Reconciliation Quantity:
 - (i) is positive, the seller is the User and the buyer is the Shrinkage Provider;
 - (ii) is negative, the seller is the Shrinkage Provider and the buyer is the User; and
- (b) the Reconciliation Clearing Charges are payable:
 - (i) to the User, they shall be payable by the Shrinkage Provider;
 - (ii) by the User, they shall be payable to the Shrinkage Provider."

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

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date: