

TRANSCO WORKSTREAM REPORT

"Reconciliation of NTS Supply Points after Close-Out"

Version 2.0

Background to The Modification Proposal

Modification Proposal 0535 was raised by Transco and discussed at the February Modification Panel. The Modification Panel agreed with Transco's recommendation that this Modification Proposal be developed by the relevant workstream. As the issue is relevant to both the Energy and the Planning and Security (including Storage) (PSS) Workstreams the Modification Panel referred to both of these. Transco has now presented this Modification Proposal to the Energy Workstream on 7 March 2002 and at the PSS Workstream on 12 March 2002.

2. Description of The Modification Proposal

The Modification Proposal was as follows:

"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."

3. Workstream Discussion

Whilst the attendees at the two Workstreams were different Transco gave essentially the same presentation and the discussion was similar. Some Energy Workstream members expressed the

view that a Modification Proposal of this nature should have been issued earlier. Transco recognised this view but provided data that showed whilst instances had occurred of substantial inaccuracies being discovered after close-out, these included both under-reads and over-reads. This had fortuitously only resulted in a small net discrepancy. However, Transco suggested that it was not satisfactory to rely on such inaccuracies off-setting each other out and considerations of risk management would indicate an improvement is required to the present NTS DM reconciliation processes.

Some time was taken in both Workstreams in assessing the results of under-reads and over-reads. Whilst the interactions are not entirely straightforward these were explained to the satisfaction of the Workstreams.

At the close of the Workstream discussions it was agreed to recommend that this Modification Proposal proceed to consultation.

4. Conclusion

Both the Energy and the PSS Workstreams recommend to the March Modification Panel that Modification Proposal 0535 proceed to consultation.