

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

Version 1.0

This 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 would 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

By implementing the Proposal a reduction in neutrality risk may occur, 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 and respondents have 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)

Representations were received from BGT Ltd and Powergen Uk Plc. Both supported implementation of the Modification Proposal.

PowerGen supported implementation of the Proposal as it would lead to lower risk profiles for shippers.

BGT supported implementation of the Proposal as it "will ensure that when the energy is reconciled for an NTS Supply Point the corresponding adjustment will be correctly applied to the Shrinkage account and not via Balancing Neutrality charges. Even when the error is more properly accounted for, following implementation of this modification, we would advocate the continued monitoring and reporting of the level of metering errors in order that the trend of improvement can be maintained."

Transco welcomes the support for this Proposal, and confirms it intends to continue to monitor and report the level of metering errors, subject to commercial confidentiality restraints.

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. Restrictive Trade Practices Act

If implemented this proposal will constitute an amendment to the Network Code. Accordingly the proposal is subject to the Suspense Clause set out in the attached Annex.

18. Transco's Proposal

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

19. 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_2 "

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."

Signed for and on behalf of Transco.

Signature:

Tim Davis
Head of Regulation NT&T

Date:

Gas and Electricity Markets Authority Response:

In accordance with Condition 9 of the Standard Conditions of the Gas Transporters' Licences dated 21st February 1996 I hereby direct Transco that the above proposal (as contained in Modification Report Reference **0535**, version **1.0** dated **14/05/2002**) be made as a modification to the Network Code.

Signed for and on Behalf of the Gas and Electricity Markets Authority.

Signature:

The Network Code is hereby modified with effect from, in accordance with the proposal as set out in this Modification Report, version **1.0**.

Signature:

Process Manager - Network Code
Transco

Date:

Annex

1. Any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which The Restrictive Trade Practices Act 1976 ("the RTPA"), had it not been repealed, would apply to this Agreement or such arrangement shall not come into effect:
 - (i) if a copy of the Agreement is not provided to the Gas and Electricity Markets Authority ("the Authority") within 28 days of the date on which the Agreement is made; or
 - (ii) if, within 28 days of the provision of the copy, the Authority gives notice in writing, to the party providing it, that he does not approve the Agreement because it does not satisfy the criterion specified in paragraphs 1(6) or 2(3) of the Schedule to The Restrictive Trade Practices (Gas Conveyance and Storage) Order 1996 ("the Order") as appropriate

provided that if the Authority does not so approve the Agreement then Clause 3 shall apply.
2. If the Authority does so approve this Agreement in accordance with the terms of the Order (whether such approval is actual or deemed by effluxion of time) any provision contained in this Agreement or in any arrangement of which this Agreement forms part by virtue of which the RTPA, had it not been repealed, would apply this Agreement or such arrangement shall come into full force and effect on the date of such approval.
3. If the Authority does not approve this Agreement in accordance with the terms of the Order the parties agree to use their best endeavours to discuss with Ofgem any provision (or provisions) contained in this Agreement by virtue of which the RTPA, had it not been repealed, would apply to this Agreement or any arrangement of which this Agreement forms part with a view to modifying such provision (or provisions) as may be necessary to ensure that the Authority would not exercise his right to give notice pursuant to paragraph 1(5)(d)(ii) or 2(2)(b)(ii) of the Order in respect of the Agreement as amended. Such modification having been made, the parties shall provide a copy of the Agreement as modified to the Authority pursuant to Clause 1(i) above for approval in accordance with the terms of the Order.
4. For the purposes of this Clause, "Agreement" includes a variation of or an amendment to an agreement to which any provision of paragraphs 1(1) to (4) in the Schedule to the Order applies.