

DN Shrinkage Changes

24 January 2008
Distribution Workstream

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Agenda

- ◆ Background / Scene Setting
- ◆ UNC Considerations
- ◆ Gemini Considerations
- ◆ Way Forward

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Background / Scene Setting

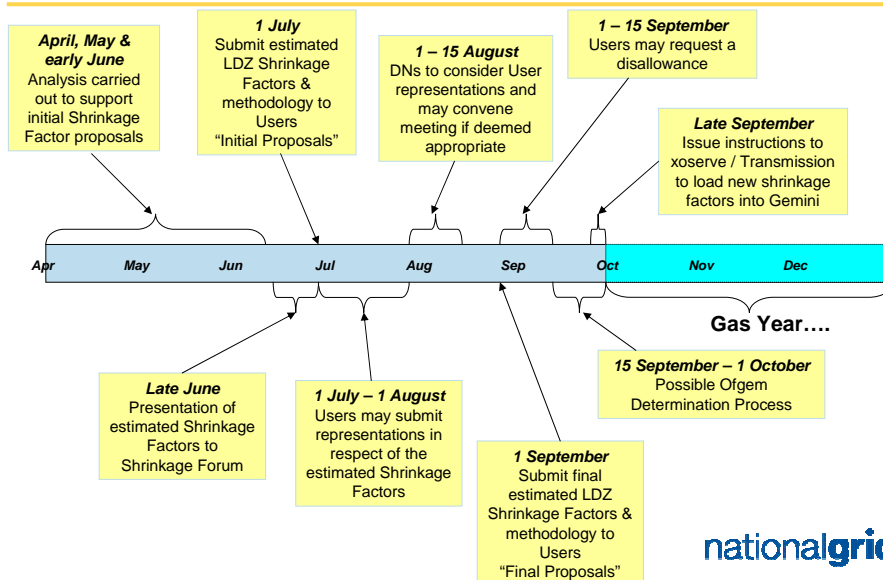
2007/08 Regime

- ◆ DN Licence:
 - ◆ Allowed revenue calculated as a product of
 - ◆ the three month ahead uplifted gas reference price
 - ◆ the shrinkage volume (calculated as a factor for each LDZ applied to actual LDZ throughput)
 - ◆ Defined Shrinkage Factors within each of the DN licences
 - ◆ Applicable from April to March (i.e. Formula Year)
- ◆ UNC Section N:
 - ◆ Shrinkage volumes calculated and converted to Shrinkage Factor proposals
 - ◆ Initial & Final Proposals discussed with Industry
 - ◆ Applicable from October to September (i.e. Gas Year)

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Background / Scene Setting

UNC Section N Timeline



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Background / Scene Setting

2008 – 2013 Licence Drafting

- ◆ Current Licence Drafting:
 - ◆ Allowed revenue calculated as a product of
 - ◆ the day-ahead gas reference price
 - ◆ the fixed shrinkage volume
 - ◆ Fixed 'baseline' volumes within each of the DN licences
 - ◆ Again, applicable from April to March (i.e. formula year)

- ◆ Transitional arrangements:
 - ◆ Applicable for 6 months (fixed volumes apply from 1 October 2008)
 - ◆ *"7.19 In order to allow time for these modification proposals to be considered, and avoid potentially significant windfall gains or losses, we propose to roll over the existing shrinkage allowances (both volume and price) for the first six months of the next price control period."*

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UNC Considerations

Section N - Procurement Volume

- ◆ Move from Shrinkages Factor to Fixed Volume
 - ◆ For Leakage, OUG and TOG
 - ◆ 1/365th fixed daily volume
 - ◆ Majority of volume governed by Leakage Model (c95%)
 - ◆ Decreasing volume incentive during 2008-13
- ◆ Review of assessment year alignment
 - ◆ Currently a mix of Gas Year / Formula Year / Calendar Year
- ◆ Revision to Assessment and Adjustment Process
 - ◆ Changes to Adjustment Methodology potentially required
- ◆ NTS / iGT Impacts
 - ◆ NTS operate a differing regime
 - ◆ iGT Shrinkage provisions still being debated

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Gemini Considerations

Change Order / Analysis

- ◆ Current process:
 - ◆ DNs consult on 'new' Shrinkage Factors with Shippers
 - ◆ DNs supply 'new' Shrinkage Factors to xoserve by 1 October for input into Gemini
 - ◆ Shrinkage calculated on a daily basis, by LDZ, by applying the relevant shrinkage factor to the throughput
 - ◆ Adjustment & Reconciliation Process takes place by March following year

- ◆ 2008-2013 Regime:
 - ◆ Gemini Algorithm change to move to fixed volume (1/365th daily)
 - ◆ Xoserve / UKT undertaking analysis
 - ◆ August 2008 / February 2009 release
 - ◆ DNs nominate a fixed volume to xoserve for input into GEMINI
 - ◆ Potential quicker & simpler Reconciliation & Adjustment & Reconciliation process

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Way Forward

Suggested Modification Proposal Timescales

- ◆ Raise topic in January (complete)
- ◆ Table draft modification proposal in February
- ◆ Convene Shrinkage Forum or Workstream subgroup to discuss in more detail?
- ◆ Final modification proposal to March Panel

- ◆ Implementation date (subject to Gemini change order analysis):
 - ◆ Preferred date 1 July 2008
 - ◆ Initial SF Proposals normally published 1 July
 - ◆ Alternative date 1 October 2008
 - ◆ Still required to publish Initial & Final SF Proposals?

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