

Modification proposal:	Uniform Network Code (UNC) 278: Amendments to NTS Shrinkage Reporting Process		
Decision:	The Authority ¹ directs that this proposal be made		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	16 February 2010	Implementation Date:	Immediate

Background to the Proposal

National Grid Gas National Transmission System (NGG NTS) currently provides a suite of forecast information regarding NTS Shrinkage. This ranges from publication of a day-ahead NTS Shrinkage Factor (a factor determined before each day by which the shrinkage attributable to any gas flow on the NTS on that day may be estimated) to publication of an annual indication of the monthly shrinkage factors for the upcoming Gas Year.

Users rely on the suite of forecast NTS shrinkage information. This is to provide visibility of the gas that NTS will need to purchase via the competitive market in order to balance the NTS shrinkage forecast gas volume. It also allows shippers to understand what the additional cost of shipping in any period will be from shrinkage uplift. The 2007 UNC Review Group 140 "Review of Information Provision on National Grid's Information Exchange"² identified some areas for improvement to ensure Users receive the most accurate forecast of NTS shrinkage.

The modification proposal

Modification proposal UNC278 "Amendments to NTS Shrinkage Reporting Process" was raised by NGG NTS, on 15 December 2009. It proposes firstly to align the publication dates of the annual forecast reports for both NTS shrinkage and Distribution Network Owners (DNOs) Local Distribution Zone (LDZ) shrinkage to 1 March for the reporting period 1 April to 31 March, and secondly to update Section N of the UNC to reflect a number of process improvements associated with estimating and publishing NTS shrinkage information. These changes are further set out below.

1. Amendment to publication date of Annual NTS Shrinkage Forecast

Annual forecasts of shrinkage at both the NTS and LDZ levels are required to be published as part of the suite of operational information from NGG NTS and DNOs³, however the timescales of these independent publications are not aligned. Following the implementation of UNC225 "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. Conversely, NGG NTS is obligated to provide to Users not later than 1 September, 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 NGG NTS obligation to report the monthly estimates of NTS Shrinkage Factor from 1 September to 1 March and the reference to

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² Review Group details can be found at <http://www.gasgovernance.co.uk/0140>.

³ The annual obligation to publish forecast NTS Shrinkage is established by UNC Section N 2.2.2, and the equivalent for LDZ Shrinkage is in N 3.2.1.

Gas Year be amended to Formula Year. The proposed implementation date, by 1 March 2010 at the latest, was recommended by the proposer to ensure that the annual NTS shrinkage forecast can be published on 1 March 2010 to reflect the twelve months of the Formula Year, April 2010 through to March 2011. By adopting this method there would be six months of forecasting repeated i.e. NGG NTS has already provided monthly forecast data up to 30 September 2010.

2. Clarification of UNC TPD Section N: NTS Shrinkage Factor

a. Amendment to NTS Shrinkage Factor Calculation

Unaccounted for gas (UAG) is a component of the NTS Shrinkage Factor (along with NTS own use gas and CV shrinkage). NGG NTS currently estimates UAG on a flat monthly basis but is now able to estimate UAG on a daily basis. The modification proposal suggests that the daily UAG estimation should be adopted in the NTS Shrinkage Factor calculation in line with the other elements of the NTS Shrinkage Factor.

b. Cease publication of month ahead NTS Shrinkage Factor forecasting

In the UNC140 Review, NGG NTS established that Users did not use the month-ahead publication of daily NTS Shrinkage Factors, as they did not find the report valuable. This was deemed as a result of the inaccuracies of the report as the components of NTS Shrinkage Factor fluctuate as a result of changing operational conditions on a daily basis.

As such, this proposal seeks to reflect this process change and remove the reference to the monthly report from Section N of the UNC. A single publication of monthly forecasts for the year ahead will continue to be published by NGG NTS for the long-term view.

c. Clarification of publication times of Assessed Shrinkage

A mismatch exists between the UNC Operational Reporting Manual (UNCORM) and the UNC. The UNCORM states 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. This proposal seeks to amend UNC Section N 2.3.2 to include reference to the 16th Day, thereby aligning the two documents.

UNC Panel⁴ recommendation

At the Modification Panel meeting held on 21 January 2010, the Panel voted unanimously to recommend implementation of the proposal. The Panel considered that this proposal would better facilitate the achievement of relevant objectives (b) and (d).

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 21 January 2010. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁵. The Authority has concluded that:

⁴The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

⁵UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

1. Implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁶; and
2. Directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

We agree with the Panel that implementation of this proposal will better facilitate relevant objectives (b) and (d) of the UNC. Our consideration of the impact of the proposal against the aims of these relevant objectives is set out below. The effect of the proposal on the remaining relevant objectives is neutral.

There were three responses to UNC278 (EDF Energy, NGG NTS, and Wales & West Utilities), all of which expressed support for the changes. However, EDF Energy expressed disappointment that cessation of publication of a report was proposed, rather than taking action to improve the accuracy and therefore the potential value of the information currently provided. EDF Energy also questioned why the UNC was being modified rather than UNCORM, as the UNC is the major document and therefore logically the UNCORM should be changed, not the UNC.

Relevant objective (b): the coordinated, efficient and economic operation of the combined pipe-line system.

In relation to the first change identified in the proposal, we agree with the view expressed in the FMR that the alignment of NTS and LDZ shrinkage reporting will provide transparency and coordination of the regime, and enable Users to compare system shrinkage information more efficiently. The timing of the proposal to bring forward the publication of data by six months ensures there is no data loss.

With respect to the second part of the proposal changes, Ofgem considers that by streamlining the information available in the UNC through the removal of inaccurate or ambiguous information, the published and available data will remain fit for purpose. These changes represent the maintenance of an efficient, economic and transparent system, in particular with regard to NGG NTS's activities relating to shrinkage.

For the reasons set out above, we consider that this proposal would better facilitate the achievement of relevant objective (b).

Relevant objective (d): securing of effective competition between the relevant shippers and suppliers and DN operators.

Ofgem agree with the Panel's view that amending the Shrinkage Factor Calculation specified in the UNC in order to use daily rather than monthly average estimates of UAG volumes would be expected to produce more reliable data. Clearer short-term costing for shippers would help support effective competition.

We note that EDF Energy disagreed with this view and expressed scepticism that this proposal would facilitate competition between shippers due to the relatively small volumes of gas associated with NTS shrinkage. However, we consider that even

⁶ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547.

⁷ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

incremental improvements to system transparency and efficiency should be completed where economic.

Given the above reasoning, Ofgem therefore considers that this modification proposal better facilitates achievement of relevant objective (d).

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 278: Amendments to NTS Shrinkage Reporting Process be made.

Ian Marlee
Partner, Trading Arrangements

Signed on behalf of the Authority and authorised for that purpose.