

Draft Modification Report
Improvements to NDM Demand Determination
Modification Reference Number 0496
Version 2.0

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

The Modification Proposal was as follows

"It is proposed to change the calculation of the Weather Correction Factor (WCF). The present calculation is:

Current WCF = (Total actual LDZ demand - Total LDZ SND)/Total LDZ SND

The revised calculation would be:

Revised WCF = (Aggregate actual NDM demand in LDZ - Aggregate NDM SND in LDZ)/(Aggregate NDM SND in LDZ)

The basic NDM attribution calculation defined in Section H 2.2.1 would be unchanged but the value of the Daily Adjustment Factor (DAF) would need to be adjusted to be consistent with the revised calculation of WCF."

The Justification was as follows

"The methods currently specified in the Network Code to forecast and determine Non Daily Metered (NDM) demand assume accurate Seasonal Normal Demand (SND) forecasts, prior to the Gas Year, of total demand (i.e. NDM and DM). Transco has established that anomalous determination of NDM nominations and allocations has arisen in cases where actual DM demand differed substantially from that assumed in calculation of the relevant SND forecast. As a result of this, Transco has developed a revised methodology where NDM nominations and allocations are no longer dependent upon accurate DM forecasts. To assess the affect of this revised methodology, allocations of NDM demand for the Gas Years 1999/2000 and 2000/2001 were repeated, using both the original and revised methodology, and the results were presented to the Planning and Security (including Storage) Workstream on 11 September 2001. The results showed substantial improvements in NDM allocation consistency during summer periods for LDZs that have a high proportion of DM demand and in no LDZ was a deterioration in NDM allocation consistency observed."

2. Transco's Opinion

Transco has put forward this Modification Proposal as it would reduce the scale of the present anomalies within the daily NDM nomination and allocation processes. These anomalies are primarily caused by uncertainties in DM demand forecasting prior to the Gas Year. This Modification Proposal removes the present dependency on accurate DM forecasting. An evaluation using the proposed allocation methods for all LDZs, over the two most recent Gas Years, has demonstrated either no deterioration or substantial improvement in NDM allocation consistency.

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

Anomalous allocation of NDM demand can lead to inconsistent allocation between End User Categories (EUCs) such as between domestic supply points and certain industrial and commercial demands. This in turn can lead, on the day, to higher balancing costs for shippers that specialise in supplying gas to certain categories of end-user matched by lower costs for shippers that specialise in other EUCs. Implementation of this Modification Proposal would lead to more consistent allocation of gas on the day and hence the costs associated with that allocation. It is therefore consistent with efficient and economic operation of Transco's pipe-line system.

4. The implications for Transco of implementing the Modification Proposal, including

a) implications for the operation of the System:

Day to day operations would not be affected. Revised procedures would be required for obtaining demand attribution parameters prior to the gas year.

b) development and capital cost and operating cost implications:

There would be minor cost impacts arising from system changes

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:

Transco does not consider it appropriate to recover these costs,

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

Transco is not aware of any consequence 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

Transco is not aware of any consequence implementation of this Modification Proposal would have on the level of its contractual risk.

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

Transco would need to make minor modifications to its computer systems in order to implement this Modification Proposal.

7. The implications of implementing the Modification Proposal for Users

Users would in some cases benefit from more consistency in NDM allocation. No adverse affect is expected.

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

No implications have been identified.

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

No such consequences are expected.

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

The advantages identified are as follows:

- Greater consistency of NDM allocation
- Better apportionment of balancing costs between Users on the day

The disadvantage identified is:

- Cost in modification of computer systems. This is considered to be minor

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

Transco now invites representations to this Modification Proposal

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

Transco is not aware of any such requirement.

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 is not aware of any such requirement

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

Changes in procedures would be required in order to calculate the demand attribution parameters prior to the Gas Year. Minor changes would also be required to computer systems

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

The following timetable has been identified:

| | |
|----------------------------------|----------|
| Close-out for representations | 29/11/01 |
| Final Modification Report issued | 20/12/01 |
| Ofgem decision expected | 11/01/02 |
| Implemented | 01/10/02 |

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommend implementation of this Modification Proposal.

17. Text

MODIFICATION 0496

IMPROVEMENTS TO NDM DEMAND DETERMINATION

SECTION H: DEMAND ESTIMATION AND DEMAND FORECASTING

Amend paragraph 2.4.2 to read as follows:

"SNDL_t is the seasonal nonnal demand for all NDM SUPRly Point ComRonents and for all relevant Connected System Exit Points for the relevant LDZ;"

In paragraph 2.5 delete defined term 'DMD_i' (and definition thereof) and amend paragraph to read as follows:

"

$$SF_t = ASD_t / NDMD_t$$

.....

ASD_t is:

- (i) for the purposes of Nomination Determination, Forecast LDZ Demand (at the relevant time of Nomination Determination) less the aggregate sum of DM Output Nominations (at the relevant time of Nomination Determination) at all DM Supply Point Components and relevant Connected System Exit Points for the relevant LDZ determined in accordance with paragraph 5.2.....;
- (ii) for the purposes of Offtake Determination, that quantity comprised in the LDZ Daily Quantity Offtaken attributable to NDM Supply Point Components and relevant Connected System Exit Points and adjusted for the purposes of....;

SNDL_t has the meaning in paragraph 2.4.2;

NDMD_t is the aggregate....."

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:

A handwritten signature in black ink, appearing to read 'T. Davis', is positioned to the left of a vertical red line.

Tim Davis
Manager, Network Code

Date:

13/11/01