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Gas Transporters, Shippers and
other interested parties.

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26 May 2005

Dear Colleague,

Uniform Network Code modification proposal 012 - "New Seasonal Demand Derivation and Associated AQ Impacts" (formerly Network Code modification proposal 739)

Ofgem¹ has carefully considered the issues arising from modification proposal 012 'New Seasonal Demand Derivation and Associated AQ Impacts'. Having regard to its statutory duties, has decided to direct the relevant Gas Transporters to implement the modification, as it considers that it will better facilitate the achievement of the relevant objectives of the Uniform Network Code, as set out in standard special condition A11 of their GT licences. This letter explains the background to the modification proposal and outlines Ofgem's reasons for making its decision.

Background

Annual Quantities (AQs) are used by Transco to determine the consumption at a Non-Daily Read Meter (NDM) under conditions of average weather over the course of a 365 day year. An AQ is determined by using a formula defined in the Network Code (the Code), Section H 3.4. AQs are reviewed annually in accordance with Section G 1.6 and Section H 3. Where an AQ cannot be fully reviewed (i.e. there are not adequate meter reads with which to review the meter), then, in accordance with H 3.1.2, the preceding Gas Year's AQ is rolled forward to the next 'relevant' Gas year.

An AQ is determined by adjusting a period of valid meter read history (Section H 3.2-3) to account for changes in average weather conditions. Such an adjustment is achieved using formulae that originate from the Composite Weather Variable (CWV) (Section H 1.4) – a daily variable determined by a formula held and maintained by Transco. In accordance with Section H 1.4.2 of the Code, Transco, having consulted with the Network Code Committee or any relevant sub-committee (in this case the Demand Estimation Sub-Committee (DESC)), are obliged

¹ Ofgem is the office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter.

to review the CWV formula every five years, or more frequently if they consider it necessary, on the basis of new weather experience.

Transition from Transco's Network Code to the UNC

This modification proposal was originally raised in respect of Transco's Network Code, and followed the modification rules pertaining to that code. Following the implementation of modification proposal 745², and in accordance with the Part IV, paragraph 2.1 of the Uniform Network Code (UNC) Transitional Rules, this modification proposal is deemed to be made in respect of the UNC.

At its meeting of 3 May 2005, the UNC modification panel agreed to the re-numbering of live modifications carried over into the UNC under the transitional rules. At that meeting modification proposal 739 was re-numbered as UNC modification proposal 012. The UNC modification panel also voted for this modification proposal to proceed without re-consultation.

Ofgem has therefore considered this modification proposal against the relevant objectives of the UNC, as set out in standard special condition A11 of relevant GT licences.

Modification Proposal

Modification Proposal 739 proposed to amend the Network Code with regard to the determination and review of an AQ to account for all future reviews of the CWV (including a recent review due to take effect on the 1 October 2005). Transco considered that revised CWV should be applied to all AQs where possible, to avoid disparities between different meters' future AQs. Therefore the proposed modification also aims to add a new method for annually reviewing AQs relating to NDMs that would normally have had their old AQ rolled over for another year (Section H 3.1.2). To accommodate this modification proposal, Section H of the Code would have two new paragraphs added and two existing paragraphs amended. The proposed changes are set out in the Final Modification Report.

Views of Respondents

Six representations were received³ and all agreed in principle with the modification proposal 739. Respondents' reasons for agreement were that the modification would serve to improve the efficiency of allocating gas consumption.

However, one respondent expressed concern that the modification could cause a higher than normal number of meters to move from being a larger supply point to a smaller supply point. They did not feel that a good explanation had yet been given for why Supply Offtake Quantities (SOQs)⁴ were not being reduced in line with the reduction of AQ values. In their response to the modification, the respondent also pointed out that they had unsuccessfully requested clarification of their concerns at DESC meetings, most recently in February 2005. The

² www.ofgem.gov.uk/temp/ofgem/cache/emsattach/11299_745_letter.pdf

³ Representations were received from E.ON UK, Gaz de France, Total Gas & Power, RWE Npower, Scottish Power and British Gas Trading

⁴ SOQ's are "the maximum instantaneous rate (in kWh/Hour) at which a User is permitted to offtake gas from the System at that Supply Point Component" (See Network Code Section G 5.3). An SOQ is also known as a Supply Point Offtake Rate.

respondent consequently requested that Transco consider their concerns fully in the Final Modification Report.

Transco's Views

Transco believe it is necessary to ensure that all NDM Supply Point AQs that are reviewed are done so using the most up to date calculations of the CWV. They argue that if an AQ review did not accommodate reviewed calculations of the CWV then there could be a misallocation of energy between meter points and therefore Shippers. Furthermore, Transco estimated that not implementing modification 739 will exclude about three million meter points from being adjusted using the updated CWV.

With regard to the potential effects on Transportation charges for the forthcoming Gas Year (2005-06), Transco believe these will, on aggregate, be negligible. This is based on analysis they have carried out on the overall effects that would be experienced by the review of the CWV on AQs and SOQs.

Transco considered the views of respondents. To mitigate the concerns raised, Transco provided a report describing the potential effects the modification would have on meter points moving from being a large to a small supply point and vice versa – Threshold Crossing. This report was presented to the AQ Sub Group meeting on 11 April 2005. Transco provided an explanation of the likely effects on SOQs in the modification's Final Report based on a series of tests using historical data. Transco argued that an SOQ is used to indicate peak capacity (eg. at times of peak weather conditions) and that there is no evidence to suggest that, although average weather conditions have changed, peak weather conditions (in particular the 1 in 20 Peak Day statistic (see Section H 4.4)) have changed or are likely to.

Following consideration of the responses, Transco recommended that modification 739 be implemented. It is their opinion that the successful implementation of this modification would provide an inclusive mechanism that would allow any review of the CWV to be reflected in the calculation of an AQ during an annual AQ review. Transco also believe the successful implementation of modification 739 would fulfil the relevant objective of facilitating the efficient and economic operation by the licensee of its pipe-line system.

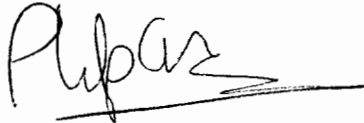
Ofgem's Views

Ofgem notes the views raised by respondents and Transco with regard to this modification. Furthermore, Ofgem notes the high level of support shown by respondents for the implementation of the modification and the efforts made by Transco to answer concerns raised. It considers that modification 739, now UNC modification proposal 012, would better facilitate the relevant objective of the efficient and economic operation by licensees of their pipe-line systems in two ways. The first is to improve the accurate allocation of energy between meter points which are subject to an AQ Review by updating relevant methodologies to accommodate reviews of the CWV, therefore reflecting more accurately prevailing weather conditions. In addition, the accurate allocation of energy in respect of meters with insufficient meter read history to be subject to an AQ Review would be improved through application of the revised weather data using a simplified methodology. Secondly, the modification will enable all future reviews of the CWV to be accommodated into the Code without the need to raise a modification.

Ofgem's Decision

For the reasons set out above, Ofgem directs the relevant Gas Transporters to implement this modification as we consider that it will further the relevant objectives of the Uniform Network Code, as set out in standard special condition A11 of the GT licence. If you wish to discuss any aspect of this decision please contact Nicholas Rubin on 020 7901 7176.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Davies', with a horizontal line underneath it.

Philip Davies
Director, Consumer Markets