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31 May 2005

Dear Colleague,

Uniform Network Code modification proposal 018: 'Transitional arrangements for the review and calculation of Annual Quantities for Gas Years 2005/6, 2006/7, 2007/8, and 2008/9'.

Ofgem¹ has carefully considered the issues raised in modification proposal 018, 'Transitional arrangements for the review and calculation of Annual Quantities for Gas Years 2005/6, 2006/7, 2007/8, and 2008/9'. Having regard to its principle objective and wider statutory duties, Ofgem has decided to direct the implementation of this modification, as it believes 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 the GT licence. In this letter Ofgem explains the background to the modification proposal and outline the reasons for making its decision.

Background to the proposal

Annual Quantities (AQs) are used by transporters to determine the consumption at a Non-Daily Read Meter (NDM) under average weather conditions, and is itself determined by adjusting a period of valid meter read history to account for changes in average weather conditions. These adjustments are achieved using formulae that originate from the Composite Weather Variable (CWV). The CWV formula is reviewed every 5 years or more frequently if the Demand Estimation Sub-Committee (DESC) considers it necessary, on the basis of new weather experience.

Transco recently proposed modification proposal 012 (formerly Network Code modification proposal 739) which sought to amend the (Uniform) Network Code to account for all future reviews of the CWV, including one which has been recently undertaken and due to come into effect 1 October 2005.

The proposal also sought to add a new method for annually reviewing AQs for NDMs that would normally have had their old AQ rolled over for another year due to insufficient meter reads being available, therefore avoiding disparities between different meters' future AQs.

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

The Final Modification Report (FMR) for modification proposal 012 was submitted to Ofgem for its decision on 23 March 2005. Subsequently, Transco identified two further issues that would require transitional changes to the UNC, necessitating a further modification proposal.

The proposal

This modification proposal seeks to place a restriction on Valid Meter Readings received by Transco that can be used for the purposes of calculating an AQ for Smaller Supply Meter Points. This restriction specifies that no valid meter readings received prior to 1 October 2002 may be used for the calculation of AQs in accordance with section H3.2. This follows the assertion by DESC that it will only be feasible to compute revised Weather Adjusted Annual Load Profiles (WAALPs) from 1 October 2002. Any reads received prior to this date would be subject to an older profile, and no longer suitable for deriving AQs.

In addition, given the tight timescales for the loading and application of the new WAALP values to the Supply Point Register, a delay to the start date of the AQ review process has been recommended. It is therefore proposed that for the 2005/6 Gas Year only, the dates by which the Registered User must be notified of the Provisional AQ and by which the Registered User may query that Provisional AQ are delayed by one week, from 31 May to 7 June and from 13 August to 20 August respectively.

Urgent status

In determining whether to grant urgent status to this modification proposal, Ofgem considered the criteria it generally applies to such requests². In this instance the modification relates to a time related event insofar as the 2005 AQ Review Process begins on 1 June 2005.

Respondents' views

The Joint Office received five representations to its consultation on this Urgent Modification Proposal, two of which supported its implementation, with another offering qualified support. One respondent expressed concern in relation to certain aspects of the proposal, while another offered comments only.

Several respondents raised concerns at the lack of clarity regarding the number of supply point AQs that may be affected by this proposal, particularly due to the cut off date for the age of valid reads that may be used, and requested further analysis. One respondent stated that it was on the assumption that such a review would be conducted that they support the implementation of this proposal.

One respondent questioned why the issue of the 30 September 2002 cut off date was not raised as part of modification proposal 012.

² http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf

Panel recommendation

The UNC modification twice held teleconferences to discuss this modification report, but were unable to reach a decision regarding a recommendation on whether to implement this proposal. Ofgem understands that much of the difficulty related to the short time available to review documentation and consult peers. Unfortunately no further time could be made available given the urgent nature of this modification proposal.

Ofgem's view

On 26 May 2005 Ofgem directed the relevant GTs to implement modification proposal 012 (formerly 739) as it considered that it would facilitate the efficient and economic operation of the pipeline systems by improving the accurate allocation of energy between meter points which are subject to an AQ review, and enabling all future reviews of the CWV to be accommodated into the UNC without the need to raise further modifications. Ofgem now notes that certain further modifications will be required to the UNC, as set out in modification proposal 018, in order to give proper effect to the intent of modification 012.

Ofgem is disappointed that a delay to the start of the AQ review process has been considered necessary, particularly as this could have been avoided if the issues had been identified earlier. However, without being fully appraised of the *technical challenges* alluded to in the FMR, Ofgem agrees that it is prudent to ensure adequate time for the processing of all aspects of the AQ review, and a short delay of one week is far preferable to data quality or any other aspect of the review being compromised.

Ofgem notes the concerns raised by respondents regarding the lack of clarity of the number of supply points that may be affected by this proposal and the calls for a further review. Although certain figures have been provided by Xoserve, there has been some concern around the accuracy of these figures, and indeed Xoserve has itself provided a caveat that they cannot be certain of the figures without an actual review taking place. Ofgem therefore welcomes the commitment by Xoserve, as set out in Transco's letter of 25 May 2005 to undertake such a review.

Should the review identify that any further modifications to the AQ regime may be warranted, UNC parties are at liberty to raise such modification proposals. In the meantime, Ofgem considers that implementation of this modification is necessary in order to achieve the benefits of an improved AQ regime, as set out in more detail in the documentation and decision for modification 012.

Ofgem's decision

For the reasons outlined above, Ofgem has considered that implementation of this proposal would better facilitate the achievement of the relevant objectives of the Uniform Network Code, as outlined under standard special condition A11 of the GT licence. In particular this modification will facilitate the efficient and economic operation of the pipeline systems.

In accordance with standard special condition A11 of the GT licences, dated 1 May 2005 Ofgem hereby directs that the above proposal as contained in Modification Report Reference 018, version 1.0, be made as a modification to the Uniform Network Code.

If you have any further questions regarding this letter please contact Nicholas Rubin on 020 7901 7176.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Davies', with a long horizontal line extending to the right.

Philip Davies
Director, Consumer Markets