

CODE MODIFICATION PROPOSAL No 0218
Amendment to the base period used to define Seasonal Normal weather
Version 3.0

Date: 08/09/2008

Proposed Implementation Date: 31/12/2008

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Seasonal normal weather provides a view of expected or most likely, daily weather values. This allows the industry to form a view of whether demand has increased/decreased due to changes in base load or due to short term weather impacts.

The expected average (normal) weather conditions are used to create the SNCWV (Seasonal Normal Composite Weather Variable) values which underpin the demand allocation process. In addition SNCWV is used to correct AQ values to seasonal normal allowing them to be used as a proxy for future demand despite them being based on historical consumption. SNCWV is used to provide a view of SND that Networks use as the basis for long term planning.

As the level of seasonal normal has such a wide ranging impact on demand allocation, planning and charging mechanisms it is important that the values are updated to reflect current weather conditions.

Code currently allows for updates on a maximum five year cycle, with allowance for more frequent changes if Transporters feel unusual weather experience justifies.

Current UNC rules require the seasonal normal basis to be “the smoothed average of the values of the variable for that Day in a significant number of consecutive previous years, up to and including a year not more than 6 years prior to the year in question” (UNC TPD H1.5.2).

Where historical weather is reasonably free from trends and is expected to be a good representation of future patterns this is a sensible basis. However, recent history has seen concern about changing weather patterns and discussion around global warming converge into an accepted view that climate is changing. This being the case a seasonal normal based on historical weather is likely to be unrepresentative of future weather, even allowing for year on year variability around the norm.

Over the past two years the majority of major suppliers and at least one Transporter have been involved with a Met Office/Hadley centre study into weather impacts for the utility industry (EP2). This study has recently concluded, providing those involved with a set of hourly temperatures and

wind speeds from the Met Office decadal model. These values are a good fit to recent historical actual weather and provide forecast values through to 2018. The Met Office and the Hadley Centre are accepted as world experts in weather forecasting and global warming impacts, allowing us to place weight on their findings of expected temperature changes over the future decade. However, we are not seeking to restrict the Transporters to which data or suppliers to use – merely to extend their ability to derive the seasonal normal on a more appropriate basis.

This modification seeks to amend H1.5.2 to remove the requirement to base seasonal normal on purely historical data where use of forecast data would provide benefit. While a reasonable length of years is important to remove year on year variability, a trend change into the future makes it important to have the opportunity to reflect future changes.

Use of forecast data is defined in UNC TPD H5.1.1 and this definition is expected to be sufficient to be extended to cover future periods past day ahead.

Using forecast information, such as that produced by the Met Office in their recent study, would allow a period of part historical and part forecast data to provide the seasonal normal base. As a trend change can be problematic to reflect in a seasonal normal we propose retaining the review period of 5 years. This would allow a set of seasonal normal values to be derived from a combination of forecasts and historical data, fixed for a number of years, then revised upwards to match the new warmer expected levels.

For the avoidance of doubt this proposal does not seek to mandate use by Transporters of the Seasonal Normal defined through section H for their ten-year planning defined within section O. Historically different seasonal bases have been used for allocation and planning purposes and although we believe that a review of 1 in 20 derivations by the industry would be useful this proposal is not looking to impact this area.

b) Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)

As seasonal normal is due to be reviewed over the next 18 months with a view to implementing in 2010 this proposal is non-urgent. The suggested implementation of December 2008 would provide certainty for the Transporters on the requirements for their analysis to proceed in line with anticipated changes. However it is recognised that this may not be possible given consultation periods, a date as soon as possible would allow Transporter analysis for seasonal normal amendment to include the outcome from this modification.

c) Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.

We recommend this proposal is discussed at a Distribution work stream, and

potentially DESC (as industry experts) before proceeding to consultation.

2 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

A11.1 (a) the efficient and economic operation of the pipe-line system to which this licence relates:

AQ forms the building block of many of the planning and system security activities of Transporters. As such improving the accuracy of AQs through the appropriate weather correction will provide information that could improve the ability of Transporters to operate the pipe-line system in an efficient and economic manner.

Standard Special Condition A11.1 (d): the securing of effective competition

- (i) between relevant shippers;**
- (ii) between relevant suppliers;**
- (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers**

Improvement in the seasonal normal values will feed into the allocation profiles. This will ensure that energy is allocated more accurately on the original commodity invoice and minimise movement of energy between market sectors through reconciliation.

This could be expected to facilitate competition between relevant Shippers, minimise uncertainty for new entrants and increase revenue certainty for DNs.

Standard Special Condition A11.1 (f) of efficiency in the implementation and administration of the network code and/or the uniform network code;

In addition, as reviewing the seasonal normal is a code requirement, an enabling modification allowing analysis to consider high impact changes could be considered as enabling the efficiency of administration of code.

3 The implications of implementing this Modification Proposal on security of supply, operation of the Total System and industry fragmentation

Improving the view of seasonal normal may feed through into the seasonal normal demand that Transporters use to plan system security. A more reflective base can be expected to improve the accuracy with which this process takes place improving security of supply. However we accept that Transporters are not obliged to use the same basis for planning as used for allocation and therefore this modification may not impact security of supply.

4 The implications for Transporters and each Transporter of implementing this Modification Proposal, including:

a) The implications for operation of the System:

A review of seasonal normal is already scheduled; this Mod should enable it to be reflective of meteorological changes improving operation of the system.

b) The development and capital cost and operating cost implications:

The review is already scheduled so there are no cost implications to this specific modification. Should the Transporters decide to use the output from the recent Met Office study the project board has agreed that access can be provided to xoserve for their analysis without additional cost to the Transporters.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

None anticipated

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

There is not expected to be any additional contractual risk on the Transporters from this Modification as it is allowing a more appropriate base period to be selected during a current code required process.

5 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

Transporters are required to review seasonal normal on a regular basis. This Modification will allow this review to be reflective of meteorological changes.

6 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

There are no implications to systems for any Transporter or User over and above the SNCWV changes already scheduled.

7 The implications for Users of implementing the Modification Proposal, including:

a) The administrative and operational implications (including impact upon manual processes and procedures)

A review of seasonal normal is already scheduled, this Modification should enable it to be reflective of meteorological changes improving operation of the system

b) The development and capital cost and operating cost implications

The review is already scheduled so there are no cost implications to this specific modification. Should the Transporters decide to use the output from the recent Met Office study the project board has agreed that access can be provided to xoserve for their analysis without additional cost to the

Transporters.

c) **The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal**

As the choice of base period directly influences AQ values an improvement in the accuracy relative to future climate reduces risk that allocation of charges between Shippers be influenced by weather changes rather than demand changes.

8 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

No impact above the already scheduled SNCWV changes.

9 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

None

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

- Extend Transporters ability to derive the seasonal normal on a more appropriate basis.
- Reduces risk that allocation of charges between Shippers be influenced by weather changes rather than demand changes.
- Ensures energy is allocated more accurately on the original commodity invoice and minimise movement of energy between market sectors through reconciliation.

Disadvantages

11 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

DESC has briefly discussed this issue and the attendees agreed that we should look to allow consideration of forecasts such as those from the Met Office study.

12 Detail of all other representations received and considered by the Proposer

13 Any other matter the Proposer considers needs to be addressed

14 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

It is recommended that implementation be during 2008 or as soon as feasible in 2009 to fit in with the scheduled review.

15 Comments on Suggested Text

16 Suggested Text

Suggested text is left to the Transporter, however the proposer believes amendments are due to H1.5.2 (to define the seasonal normal) and H5.1.1 (to refer to forecasts and providers)

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) H

Proposer's Representative

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Proposer

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