

Workstream Report
Amendment to the base period used to define Seasonal Normal weather
Modification Reference Number 0218
Version 2.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The Distribution Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream does not recommend that the Panel requests the preparation of legal text for this Modification Proposal.

1 The Modification 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.

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).

2 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): *the coordinated, 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 improve the opportunity for Transporters to operate the pipe-line system in an efficient and economic manner.

Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph (a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): *so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;*

Through more accurate allocations of demand, implementation may provide the opportunity to improve cost reflectivity of charging and therefore be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): *so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;*

Potential improvement in the seasonal normal values will feed into the calculation of AQs and hence to the allocation process. This would ensure that energy was 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 DNOs.

Standard Special Condition A11.1 (e): *so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;*

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): *so far as is consistent with sub-paragraphs (a) to (e), the promotion 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 the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

Implementation would not be expected to affect the security of supply.

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

a) implications for operation of the System:

A review of seasonal normal is already scheduled, this Modification should provide the opportunity for it to be reflective of a wider set of meteorological data so improving operation of the system.

b) development and capital cost and operating cost implications:

The review is already scheduled so there are no cost implications to this specific modification. It is recognised that should the Transporters decide to use the output from the recent Met Office study there would be no cost implications for those not already party to the information but there would be cost implications if the Transporters used other sources of data.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

No additional cost recovery is proposed.

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

No such consequence is anticipated.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the 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.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

There are no implications to systems for any Transporter or User over and above the Seasonal Normal Composite Weather Variable changes already scheduled.

7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

No such implications have been identified.

Development and capital cost and operating cost implications

By increasing certainty of initial charges, implementation would potentially improve cost allocation amongst Users which would affect their operating costs.

Consequence for the level of contractual risk of Users

As the choice of base period directly influences AQ values, any 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. It might also reduce Users' exposure to differences between SMP and SAP on the Day.

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

No impact above the already scheduled SNCWV changes.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

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

Advantages

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

Disadvantages

None identified.

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workstream Report)

DESC has briefly discussed this issue and the User attendees agreed that we should look to incorporate the Met Office study. In addition a paper was presented by EDF Energy as part of the Review Group 0176 discussions confirming their view that the Met Office study should be used to determine the seasonal normal base (published on

the Joint Office Website under the December 2007 RG0176 output).

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

Implementation would not be expected to affect this requirement.

13 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

No such requirement has been identified.

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

No programme for works has been identified.

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

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

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Workstream recommendation regarding implementation of this Modification Proposal

The Distribution Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. The Workstream does not recommend that the Panel requests the preparation of legal text for this Modification Proposal.