CODE MODIFICATION PROPOSAL No 0254
Facilitating the use of forecast data in the UNC
Version 2.0

Date: 05/06/2009

Proposed Implementation Date:

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

Uniform Network Code Modification Proposal 0218 "Amendment to the base period to define Seasonal Normal Weather" introduced the concept that both historical and forecast data could be used by the Transporters when developing their view of Seasonal Normal Weather – as required under UNC TPD Section H 1.4.2 (available at: http://www.gasgovernance.com/NR/rdonlyres/912CA091-492C-462B-9CE6-BD3411F6E099/33202/02_09_TPDH.pdf) The intent of UNC Modification Proposal 0218 was to allow the Transporters the option of using forecast data when developing their view of Seasonal Normal Weather however it was not prescriptive and allowed the Transporters to use other methodologies if they wished.

However through discussions with Transporters and xoserve at DESC it has become clear that there are issues with the current text of the UNC that may prevent the use of EP2 data. This proposal aims to modify the UNC so that forecast data and in particular EP2 data, can be used by the Transporters when developing their view of Seasonal Normal Weather. The aim is to allow the Transporters to use the Hadley Centre data for developing the "seasonal normal value", in line with DESC recommendations for 2010, but not restricting the Transporters to this methodology in future years.

Hadley Centre/Met Office EP2 Data

Currently the Transporters, through xoserve, produce a "seasonal normal value" of the CWV. This value is produced by using the smoothed average of 17 years of historical data for a particular day. This produces a view of the "seasonal normal value" for individual days. This is then applied to produce the "seasonal normal value" for future years – 2005 to 2010. EP2 data produces the exactly the same results in that it produces a "seasonal normal value" for future years. The only difference is that rather than producing a static view of weather for a period of years it produces a specific view for each year.

This reflects the fact that since 2004 the industry's understanding of climate change and its implications have grown. The Hadley Centre and Met Office formed a project with Shippers, Suppliers, Generators and Transmission owners to look at the impact that climate change would have called the EP2 Project. The high-level aim of this project was to recognise that the climate

was changing and so historic data by itself may no longer represent a good proxy for future climate. One of the workstreams to come out of the EP2 project was an updated view of Seasonal Normal Weather. Like the current arrangements the model produces a forecast of Seasonal Normal Weather. However this forecast is produced using 15 years of actual historic data and 15 years of forecast data[1].

Modification Proposal

It is proposed that UNC Section H is modified so that the Transporters can use forecast data. To assist this the following changes are proposed:

1. **A new paragraph is added so that the Transporters are required to review the Seasonal Normal Value every 5 years, or more frequently on the basis of unusual new weather.**

   This will improve clarity in the UNC of how frequently the Seasonal Normal Value should be updated and be consistent with the arrangements for reviewing the Composite Weather Variable.

2. **Remove the requirement that the data used in developing the Seasonal Normal Value is no more than 6 years old.**

   The methodology used to develop EP2 data uses actual historic data up to 2007. Therefore with the current wording of Section H 1.5.2 a review would be forced for 2013 and not 2015 as intended. Further it is our understanding that the current 6 year rule was implemented to force a review of the Seasonal Normal Value every 5 years. This is now being addressed by point one above and so is redundant.

3. **Amend the UNC so that the seasonal normal value is derived from weather records maintained by a reputable provider.**

   The EP2 data is maintained by the Met Office and not the Transporters. This requirement therefore appears overly restrictive on data sources and should be amended so that weather records maintained by a reputable provider are acceptable. It is also worth noting that the historic data used in developing the forecast is the same data as that held by the Transporters.

4. **Amend the UNC so that the Gas Transporters can develop the Seasonal Normal View based on either historical data only OR using a combination of both historic and forecast data OR using forecast data only.**

   Currently the UNC is worded so that the Seasonal Normal View is developed based on historical weather records held by the Transporters AND a forecast were the Transporters determine. There is therefore a

[1] Note the actual split between historic data and forecast data will vary depending on the year being forecast.

view that this is incompatible with the use of only EP2 data. It is therefore proposed that the UNC is modified so that it is compatible with other data sources such as EP2 data.

5. **Delete the reference in H 1.5.2 (b) to: "in the current year and one or more subsequent years".**

   At the DESC meeting on 11 May 2009 xoserve proposed that this clause was deleted as they believed that it was ambiguous/redundant. It is therefore proposed that it is removed.

6. **Amend the UNC so that data is smoothed only if required.**

   Currently the UNC is worded so that the seasonal normal value is the smoothed average of the values for a day. However one of the benefits of EP2 data is that it does not need smoothing. If only historic data is used then this may need smoothing if the data series is relatively short and so exposed to any recent fluctuations. There may also be a requirement to smooth the output of forecast data in the future, depending on the model adopted. It is therefore proposed that the UNC is modified so that the smoothed average is only applied to data if required.

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

Non-Urgent

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.

This Proposal has had significant peer review. It has also been discussed at the Distribution Workstream prior to submission. It is therefore proposed that this Proposal should proceed directly to consultation for a period of 15 Business Days.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

Not User Pays

This Proposal is not creating any additional costs on xoserve's processes or systems. There are therefore no costs to recover and so this is not a User Pays Proposal.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

N/A

c) Proposed charge(s) for application of Users Pays charges to Shippers

N/A

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

N/A

3 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

This Proposal seeks to ensure that the UNC is consistent with the intent of UNC Modification Proposal 0218V and allow the Transporters to use EP2 data. This Proposal therefore facilitates the following Relevant Objectives:

Standard Special Condition 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 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 subparagraph (a), the coordinated, efficient and economic operation of

- ***(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 Standard Licence Condition A5.5.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (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 accuracy of 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.

In addition this Proposal seeks to bring clarity to the UNC and remove redundant clauses. This could therefore be seen to reduce complexity within the UNC. If UNC complexity is a barrier to entry, then this proposal will reduce this barrier. This could therefore be seen to benefit competition by reducing a barrier to entry and reducing the regulatory burden and complexity on smaller Shippers.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… 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 subparagraphs (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.

This Proposal also brings clarity to the UNC. This can therefore also be seen as facilitating efficiency in the implementation of the UNC.

4 The implications of implementing this 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.

5 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 Modification Proposal should provide the opportunity for it to be reflective of a wider set of meteorological data so improving operation of the system.

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

None. The data derived from the EP2 model is being provided to the Gas Transporters free of charge and so there are no costs in procuring this data. Going forward the Met office have identified that maximum costs for running this model will be £50,000. It should be noted that the gas Transporters will only be exposed to these costs if no other Shipper, Supplier, Generator or Transmission Owner requires an update to the model.

We believe that this is unlikely and so any future costs are limited.

The letter from the Met Office identifying these costs is available on the Joint office website at: http://www.gasgovernance.com/NR/rdonlyres/FE620FD5-06D2-4838-BC2C-E1D83659BCB4/33138/EP2_WP8_update_schedule.pdf

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:

No additional cost recovery is required.

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

The UNC is preventing the Transporters from adopting EP2 data, despite this being the favoured data source of all Shippers. Implementation of this proposal will therefore remove this risk.

6 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)

Implementation would not be expected to impact on each Transporter's safety case.

7 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 Seasonal Normal Composite Weather Variable changes already scheduled.

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

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

No such implications have been identified.

b) The 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.

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, 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.

9 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.

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

No such consequences have been identified.

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

Advantages

- Meets DESC requirements to facilitate the use of EP2 data, developed by recognised world experts.
- Potentially ensures that gas and electricity definitions of Seasonal Normal Weather are aligned.
- Provides clarity to the UNC

Disadvantages

- None identified

12 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)

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

14 Any other matter the Proposer considers needs to be addressed

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

28 May: Discuss at Distribution Workstream

04 June: Discuss at UNC Modification Panel and issue for consultation

16 June: Consultation end

18 June: Discuss at UNC Modification Panel and recommendation to Ofgem or

02 July: Discuss at UNC Modification Panel and recommendation to Ofgem

16 Comments on Suggested Text

17 Suggested Text

Insert new paragraph in H 1.5:

> Every 5 years, commencing 2015, the Transporters will, after consultation with the Uniform Network Code Committee or any relevant Sub-committee, review and where appropriate revise (with effect from the start of a Gas Year) the "**seasonal normal value"** of the Composite Weather Variable for an LDZ that is determined on the basis of new weather experience; provided that the Transporters may (after such consultation) revise such formula at more frequent intervals where the Transporters determine it to be appropriate on the basis of unusual new weather experience in any shorter period.

Amend H 1.5.2:

> Where the Transporters so determine the "**seasonal normal value**" of the Composite Weather Variable for an LDZ for a Day in any year is the ~~smoothed~~ average of the values of the variable, which may need to be smoothed, (derived from the formula prevailing in accordance with paragraph 1.4 for that year) for that Day:
>
> (a) 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,~~ derived from weather records maintained by a reputable provider ~~the Transporters,~~ or
>
> (b) ~~where the Transporters so determine, in the current year and one or more subsequent years,~~ in a significant number of consecutive previous years derived from weather records maintained by a reputable provider and ~~derived~~ from forecasts by the Meteorological Office or other reputable meteorological services provider or
>
> (c) derived from forecasts by the Meteorological Office or other reputable meteorological services provider.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) H 1.5

Proposer's Representative

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Proposer

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