DEVELOPMENT WORKGROUP REPORT

MODIFICATION REFERENCE 0105

ESTABLISHMENT OF CALORIFIC VALUE (CV) ZONES TO FACILITATE THE IMPLEMENTATION OF FLOW WEIGHTED AVERAGE (FWA) METHODOLOGY

1.0 SCOPE OF WORK

To facilitate the implementation of flow weighted average CV charging under the Network Code, the workgroup will need to review the implications of establishing 3 extra Exit Zones from a sub-division of existing Exit Zones and the supply and application of FWA CV at Exit Zone level to reduce unbilled energy on the transportation system and be more compatible with data structures within Shipper/Supplier computer systems.

2.0 BACKGROUND

The Ofgas CV Advisory Group extensively discussed the issue of more effective targeting of CVs using a combination of FWA CV and billing zones at the sub-LDZ level.

The 25th June Ofgas CV Advisory Group concluded that FWA CV utilising the 19 Charging Zones (as previously used for Section 13 (Domestic Billing) should be introduced from 1st April 1997. It was agreed that TransCo, Ofgas and the DTI would meet to agree between 'pure' or 'capped' FWA and the level of cap (if appropriate).

Agreement was reached on the application of a 1MJ/M3 cap during July in conjunction with a confirmation that CV billing should take place at the sub-LDZ level targeted on 19 CV Zones.

The proposed amendments to the Gas (Calculation of Thermal Energy) Regulation 1995, will introduce a change from using lowest Source CV to a Flow Weighted Average CV with a one Megajoule cap, effective from 1st April 1997.

In addition, in recognition of the agreement reached previously by the CV Advisory Group, TransCo proposed a Modification to the Network Code (0105) to introduce CV charging at sub LDZ level. This Modification Proposal was later amended to recommend the adoption of 3 new Exit Zones created from a sub-division of current Exit Zones. This option would comply with the amended Regulations, reduce unbilled energy on the system, and be more compatible with data structures within Shipper/Supplier computer systems.

Following discussions at the Modification Panel of 12 December 1996, it was agreed to take the proposal to development and report back to the February meeting of the Modification Panel.

3.0 SUMMARY OF WORKGROUP DISCUSSIONS

3.1 Systems Changes

Initial discussions concentrated on the detail of the systems changes required for resolution prior to implementation. It was agreed that Shipper systems would need to be amended to cater for changes to billing end users and to deal with amendments to SC9 and LPA Profile Allocation Reconciliation file interfaces.

To accommodate the move to a CV Charging regime with 3 new exit zones, TransCo would implement amended interfaces and billing system changes. TransCo would also transfer Supply Points between zones and notify of Post Code amendments at a minimum of two months in advance of implementation. New Activities would need to be set up for the new Exit Zones with TransCo assisting Shippers in doing this. Finally, Shippers would advise TransCo of their Capacity requirements at both the new and existing Exit Zones with TransCo updating Shippers Capacity requirements accordingly.

3.2 Cost/Benefit Analysis and Timetable

Shippers/TransCo prepared cost benefit analyses for discussion by the Group.

TransCo presented a current assessment of unbilled energy as:

Based on LSCV CV	7318Gwh/annum
Based on FWA (capped) inc extra calorimeters	935 Gwh/annum

The introduction of additional calorimetry will necessitate an investment of £9m with additional annual operating costs of approximately £1m. This investment will reduce unbilled energy by approximately 87% compared with LSCV:

TransCo advised that following the agreement by the CV Advisory Group to implement a FWA CV regime from 1st April 1997 along with the introduction of CV charging at sub LDZ level, TransCo has invested significantly (£180,000) in line with industry expectations.

Shippers presented their analyses of the cost benefits associated with the introduction of CV charging at sub-LDZ level. Estimates of system costs;

National Power	£50-100k
BGT	£305k
Alliance	£80-£100k
BP Gas	£80-£100k
Mobil	£30
ENG	£65k
TransCo	£500k

After extensive discussions the consensus view from the Shippers was that there will be little cost benefit associated with a move to CV charging at sub-LDZ level. Any margin would be made on the sale of gas to the end-user which would not be sufficient to produce a reasonable payback on investment.

With regard to delivery lead times it was agreed that the proposal to implement on 1st April 1997 would not be feasible. A realistic implementation date would be 1st October 1997. It was also proposed and agreed by the Group that a phased implementation would be preferable;

Phase 1	-	FWA CV by LDZ for 1st April 1997
Phase 2	-	Set up 3 new Exit Zones in preparation for introduction of CV at Exit Zone level at a date to be agreed (as soon as possible following April 1997)
Phase 3	-	Use of FWA CVs at Exit Zones (at a date to be agreed - possibly 1st October 1997)

4.0 CONCLUSIONS OF THE WORKGROUP

In view of the discussions of the Group and of the previously stated regulatory intention of enabling shippers to bill more correctly on CVs and reducing End User cross-subsidies, Ofgas were requested by the meeting to report to and obtain a judgement from the Director.

Ofgas have subsequently confirmed that "there is no regulatory requirement for the change from 13 to 19 CV charging areas." (document attached).

In light of the Ofgas notification, FWA CV charging at LDZ level will be implemented under the Network Code from 1st April 1997 in accordance with the proposed amended Regulations.

5.0 TRANSCO OPINION

TransCo is concerned that system development costs and more importantly valuable resources have been utilised in order to support Modification 0105 in accordance with agreements reached with the Calorific Value Advisory Group, Ofgas and the DTI.

It was necessary to start this work prior to full formal notification via the official channels in order to meet the proposed implementation date of 1st April 1997, as accepted by the CV Advisory Group.

Shippers at the Modification 0105 Development Workgroup implied that the system changes required to increase the number of CV charging zones would only be implemented if supported by a regulatory requirement despite earlier industry sign-on to this proposal. Ofgas have since stated that there is no regulatory requirement to change to 19 CV charging zones.

TransCo note that this decision is likely to decrease TransCo's allowed formula revenues and increase its operating costs. This raises issues that will need to be addressed during the formulation of TransCo's new licence conditions.