

**Modification Report**  
**Transitional arrangements for the review and calculation of Annual Quantities for Gas**  
**Years 2005/6, 2006/7, 2007/8, and 2008/9**  
**Modification Reference Number 0018**

Version 4.0

This Modification Report is made pursuant to Rule 10 of the Modification Rules and follows the format required under Rule 9.6.

**Circumstances Making this Modification Proposal Urgent:**

In accordance with Rule 10.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because In accordance with Rule 10.1.2 Ofgem has agreed that this Modification Proposal should be treated as Urgent because in this instance the modification relates to a time related event insofar as the 2005 AQ Review Process begins on 1st June 2005. The granting of urgent status and adherence to the timetable set out below would ensure that the proposal is in a position to be decided upon and if appropriate implemented in readiness for the 2005 AQ Review Process which commences on 1 June 2005.

**Procedures Followed:**

The procedures agreed with Ofgem for this Proposal are:

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|  |             |
|--|-------------|
| Proposal issued to Ofgem for decision on urgency | 6 May 2005  |
| Proposal agreed as urgent                        | 12 May 2005 |
| Circulate to Users requesting representation     | 13 May 2005 |
| Representation close out                         | 19 May 2005 |
| Panel consider FMR and decide on recommendation  | 24 May 2005 |
| FMR sent to Ofgem                                | 24 May 2005 |
| Ofgem decision expected by                       | 27 May 2005 |

**1. The Modification Proposal**

Transco raised Network Code Modification Proposal 0739 (UNC Modification Proposal 0012) 'New Seasonal Demand Derivation and Associated AQ Impacts' on 10 January 2005 for the purposes of creating an opportunity for gas transporters to be able to apply a change to the seasonal normal basis within the annual review of Annual Quantities (AQs).

Transco states that i  
mplementation of the Proposal would permit the use of revised Weather Adjusted Annual Load Profiles (WAALP) in recalculating AQs during the annual review including those not normally revised due to insufficient meter reading history being available. This requirement and the supporting methodology was identified and developed by the Demand Estimation Sub-Committee (DESC) and is broadly supported by the industry.

The Final Modification Report for the above Modification Proposal has been submitted to Ofgem and is awaiting direction.

Transco has now engaged in discussion with Users with regard to the process and systems changes which would be required to facilitate implementation in the event that such direction is received from Ofgem. During the course of Transco's analysis, two issues have been identified which require transitional changes to the Uniform Network Code (UNC). This is required to ensure clarity with respect to the conditions under which the AQ review is intended to perform.

The changes and rationale are described as follows:

1. The DESC identified that it would only be feasible to compute revised WAALP values from 1st October 2002 onwards: i.e. for the gas years 2002/03, 2003/04 and 2004/05. AQs computed from Meter Readings received prior to this date would consequently be subjected to 'old' WALPs and would therefore be unsuitable for use in the derivation of AQs.

Section H3.2.3 of the UNC identifies that the commencement of the Relevant Metering Period for the calculation of an AQ is no more than 3 years prior to the 'target opening date' which is approximately 1 year prior to the 'ending Meter Read'. The 'ending Meter Read' is the latest Valid Meter Read received by the Transporter before 10th August of the preceding Gas Year. This latest Valid Meter Read may have been received by the Transporter at a maximum period of two years prior to that date, being the longest period possible in between NDM 'cyclic' readings defined within the Uniform Network Code Section M3.5.1.

Transitional Modification of the UNC is therefore necessary to ensure that any Meter Readings recorded by Transporters prior to 1st October 2002 are not used for the purposes of calculating AQs. In this event, transporters would utilise the AQ applied during the Preceding Year in accordance with Section H3.1.2 (which would be subjected to the 'new basis' WAALPs in accordance with the methodology identified within Modification Proposal 0739).

These provisions are appropriate to Gas Years 2005/6, 2006/7, 2007/8 and 2008/9. This is in view of the requirement to ensure that all relevant scenarios are captured.

2. Section G 1.6.3 identifies that for Smaller Supply Meter Points, the Relevant Transporter is required to provide details of Provisional Annual Quantities with supporting data to Users by 31st May in the preceding Gas Year. Section G1.6.4(a) identifies that no later than 13th August in the preceding Gas Year, Users have an opportunity to challenge the accuracy of the Provisional Annual Quantity.

During the course of preparatory analysis, Transco has identified that the timescales associated with loading and applying 'new basis' WAALPs to the Supply Point Register is technically challenging and open to risk associated with 'tight timescales'. Transco therefore recommends that to enable an acceptable contingency, a 5 Business Day delay to

the start date of the AQ review process (being the notification of provisional AQs to Users) would be prudent. For the purposes of ensuring that there is no compromising the 'window' for Users to assess the suitability of the provisional values, a corresponding 5 Business Day delay in the 'close out' for receipt by the Relevant Transporter of requests for AQ amendment would also be necessary.

It is therefore proposed that for the Gas Year 2005/6 only, revised dates, being 7th June 2005 and 20th August 2005 respectively be applied.

Modification of the Uniform Network Code (UNC) is required to provide that:

- for Gas Years 2005/6, 2006/7, 2007/8 and 2008/9, for the purposes of calculating Smaller Supply Meter Point AQs, no Valid Meter Reading provided to Transco prior to 30th September 2002 be used for the purposes of calculating an AQ in accordance with Section H3.2.
- for Gas Year 2005/6, the dates identified within Sections G1.6.3 and G1.6.4(a) be amended to 7th June 2005 and 20th August 2005 respectively.

Transco comments that if this Proposal were not implemented it would not be possible for Relevant Transporters or Users to adhere to the provisions relevant to the existing AQ review timescales which are currently reflected within the UNC.

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

Transco states that the measures identified within this UNC Modification Proposal further the GT Licence 'code relevant objective' of facilitating the efficient and economic operation by the licensee of its pipe-line system.

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

No such implications have been identified.

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

**a) implications for operation of the System:**

No implications for operation of the system have been identified.

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

No such implications have been identified.

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

Transporters do not propose any additional cost recovery.

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

No such consequences have been identified.

**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**

Implementation of this Modification Proposal would not increase the level of each Transporter's contractual risk.

**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**

Changes will be required to be made to the UK Link systems to address the following:

- use of the newly calculated WAALPs,
- overwriting historical WAALPs
- population of data in around 140 exit zones for every day going back to 1/10/02.
- historical WAALP calculations are applicable for Demand Estimation purposes until 1/10/5 requiring the amendment of the old WAALP data and replacement with the new. This allows the User to use any meter readings obtained in the AQ appeals window.  
application of a factor to meter points that have insufficient read data. This will in effect reduce the AQ in line with the new seasonal demand.

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

Users will be required to operationally manage up to a 5 Business Day delay to the start date of the AQ review process (being the notification of provisional AQs to Users) and also a 5 Business Day extension of the 'close out' for receipt by the Relevant Transporter of requests for AQ amendment.

In validation of revised AQs notified to it by the Transporter and submission of any amendment requests, Users will also be required to disregard any read originating from prior to 30 September 2002.

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

No such implications have been identified.

**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:

- ❑ Implements the recommendations of the Demand Estimation Sub-committee.
- ❑ Facilitates calculation of Annual Quantities in accordance with the Uniform Network Code.
- ❑ Facilitates calculation of AQs utilising more reflective Seasonal Normal Demand data.

Disadvantages:

- ❑ In respect of gas years 2005/6, 2006/7, 2007/8, and 2008/9, certain historic reads will not be able to be utilised in the AQ Review (though where this hinders the calculation of a new AQ value, the existing AQ will be scaled using a factor that is equivalent to applying the full WAALP calculation).

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

Five representations were received with respect to this Urgent Modification Proposal. Two were supportive of its implementation, one offered qualified support, one representation offered comments and one expressed ‘considerable concerns’ in relation to certain aspects of the Proposal.

Gaz de France (GdF) stated that it was *‘in favour of the proposed modification 0018’* and Transco commented that *‘as the Proposer, Transco supports implementation’* based on the reasons it identified in the Modification Proposal.

A number of representations expressed concern in respect of the impact of the ‘back-stop date’ of 30 September 2002. E.On commented that its *‘...key concern...is that it could potentially lead to a higher than usual number of AQ rolling over as a result of the backstop date’* and requested that *‘In order to give the industry more confidence ...in the event that the proposal is implemented ...request that Transco report additional sites,*

*which roll over. It is on this assumption that Transco commit to writing such a report post implementation of the proposal, that we would support implementation’.*

British Gas also conveyed a ‘...request for greater transparency of the effect’ and stated that this would be ‘...of value to the community’ in ‘assessing the implications of the number of supply points affected by this proposed change’. Npower questioned the impact of the Proposal stating ‘...the Extraordinary AQ Sub Group Meeting April 2005 identifies that it is anticipated that approx 4.9 million AQs will not be recalculated as a result of the cut off date...There is no mention of this in the mod proposal 739; though there is mention that approx 3 million cannot be recalculated ...does the 4.9 million mentioned above include the 3 million or is this an additional number making an approx total of nearly 8 million meter points that will not have their AQs properly recalculated’ GdF noted that ‘it would be helpful if Transco could identify the number of supply points affected by the...criteria’.

Xoserve have responded stating that it did comment in the AQ Sub-group extraordinary meeting that it believed that approximately 4.9 million sites would not calculate this year but did compare this with 4.2 million sites which did not calculate in 2004. This could be interpreted that 0.7 million sites failed to calculate due to the back stop issue. At the time xoserve stated that it did caveat this by saying that without the actual review taking place it could not make this claim with any certainty.

Xoserve have commented that it is currently conducting analysis on the 2005 Domestic AQ calculation results. It is anticipated that these will be produced on Monday 23 May 2005 and will available as soon as validated. The analysis should provide confidence that the impact of the backstop date was not significant in the overall AQ process. Xoserve further stated that it provided estimated impacts on Threshold crossers at the AQ meeting in April and is happy to review such once the AQ process is complete and issue analysis comparing the estimated results to the actual. The AQ team within xoserve regularly provides a number of statistics in relation to the Review process once the AQ calculations have been issued and add that these will include analysis comparing the impact of this years review to previous years.

Xoserve further stated that in relation to npower’s representation, the 4.9 million was originally an estimate of the total number of sites that have an AQ carried forward due to lack of historical read data to produce calculations. This is not the number that will be impacted by the new backstop date, and in practice the number carried forward is likely to be similar to previous years despite the implementation of the backstop date. Xoserve also highlighted that although it may be carrying forward AQ values, these are all being scaled using a factor that is equivalent to applying the full WAALP calculation. This should mean that, subject to the original AQ being a reasonable value, the carried forward AQ will be scaled appropriately and will be fully equivalent to those calculated using reads. This ensures that all AQs will be consistent’.

Npower sought clarification as to the ‘back-stop’ date commenting ‘Whilst it is correct that the DESC identified that the cut off date of 30th Sep 2002 would have to be applied to this

*AQ Review, this information was contained in a short paragraph towards the end of a paper produced by the Demand Estimation Sub Committee on 12th Nov 2004 entitled "Technical basis for AQ Review 2005"... What is not clear from this report is why this date has been determined'.*

Xoserve have responded stating that historically the Demand Estimation models have been developed to use a three-year smoothing process. In practice this means that to be able to develop the new basis Weather Average Annual Load Profiles (WAALPs) the 2004/5 models are required. The models are based on 2002/3, 2003/4 and 2004/5. Due to this the models are not available for dates before 1/10/02, and as such WAALPs on the new basis are not available either. The 'back-stop' date was discussed at the Demand Estimation Sub-committee (DESC) and the all representatives had ample opportunity to question the start date if required.

The proposer added that NPower is represented on DESC and in this forum npower expressed a view that it was not unreasonable in the context of this point, to use the AQ factors to adjust Aqs for such meter points. It is also pertinent to this matter that an analysis presented to DESC in February 2005 showed that the multiplicative AQ factors gave AQ adjustments very closely similar to those obtained using the WAALPs as per the normal AQ computation for read intervals of around 12 months

The proposer added that the reason for the cut-off date of 01 October 2002 is that there are practical limitations to undertaking retrospective demand modelling to replicate exactly past years' analyses with nothing other than the weather basis changed. The approach to EUC modelling has evolved over time and it is therefore not possible to go back in time and to do exactly what was done at that point in the past but with the new weather basis applied. Thus, it is not possible to compute new basis WAALPs prior to 01 October 2002. However, the aforementioned multiplicative AQ factors ensure that such meter points will still have their Aqs adjusted to the new weather basis.

Xoserve added that although this is a periodic Uniform Network Code requirement (every five years) this is the first time that Seasonal Normal changes have been significant enough to impact AQ values. Five years ago the changes were small enough that Aqs based on the historical WAALPs were used during the first year of the new SN values. This is not practical this time due to the significant warming effect.

Npower stated that it did *'not understand why the issue of the 30 Sept 02 cut off was not raised in the [Mod 0739] draft mod report dated 10 Feb 2002. ...in the draft Mod report section 4 Transco stated that no implications had been identified upon the operation of the system'* and it stated it *'fail[ed] to understand why it wasn't until 11th April extraordinary meeting that this situation was made more widely known.'* Npower commented that *'The issuance of an earlier proposal might have allowed wider debate and therefore greater understanding of the technical issues that will impact this and future years AQ Reviews'.*

Xoserve have responded stating that although it would have been preferable to identify these issues earlier, this was driven by the Demand Estimation process and the impact on

the AQ process itself was not evident until much closer to the implementation when full system impacts had been identified by the offshore team working on the UK Link code changes (associated with Modification proposal 0739). It further commented that Transco did not raise the Proposal until a month after the extraordinary meeting due to the proximity to the commencement of the Uniform Network Code.

*Npower stated that it had ‘concerns about the handling of this change. In the report of the Extraordinary AQ Sub Group Meeting April 2005 it is reported that Mod 739 is in the process of being implemented. Perhaps this is unfortunate wording, as of today Ofgem has not publicly ruled on this Mod Proposal’.*

The proposer responded that the lead-time for the analysis and development of works required in the event of the implementation of Modification Proposal 0739 necessitated early commencement. The proposer expressed the view that whilst not wishing to pre-empt the Authority’s decision in relation to the proposal, it was necessary to make a reasonable assumption with regard to the likelihood of implementation. This would then enable xoserve to undertake preparatory work to ensure all measures are in place to undertake the AQ Review in 2005 in accordance with Modification Proposal 0739 in the event the Authority directs Transporters to implement the Proposal.

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

Implementation of the Modification Proposal is not required to enable Transporters to facilitate compliance with safety or other legislation.

**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**

This Proposal is not required to facilitate any such change.

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

No independent works are required as a consequence of this Modification Proposal. The need for this Modification to the Uniform Network Code has become apparent as a consequence of investigations relating to the changes required to the Transporters’ UK Link system in the event of implementation of Modification Proposal 0012 (previously Modification Proposal 0739). The measures detailed within this Proposal facilitate such implementation and will enable robust calculation of Annual Quantities (AQs) in the 2005 AQ Review.

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

In respect of Modification Proposal 0739 (UNC Modification Proposal 0012) 'New Seasonal Demand Derivation and Associated AQ Impacts', IS system development is planned to be completed and implemented by 1 June 2005 (subject to the appropriate direction from Ofgem in relation to Modification Proposal 0739 / 0012).

Subject to the appropriate direction from Ofgem, implementation of this Modification Proposal would also be scheduled for 1 June 2005.

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

No such implications have been identified.

**17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel**

No modification panel recommendation is available for this urgent modification.

**18. Transporter's Proposal**

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

## 19. Text

Although the proposal relates to ‘Transitional Arrangements’, in assessing the text changes required to the Uniform Network Code (UNC) pursuant to this Modification Proposal, it was assessed that element of the Proposal relating to the commencement of the ‘Relevant Metering Period’ could be achieved by amendment of the UNC Transportation Principal Document. Therefore relevant changes have been proposed to section H, below (in addition to the proposed change to the Transition Document).

The text for this Proposal is as follows:

### **Section H: Demand Estimation and Demand Forecasting**

*Amend paragraph 3.2.3 as follows:*

3.2.3 “The starting Meter Read shall be...

(b) subject to...opening date.

Provided always that the starting Meter Read shall be no earlier than 1 October 2002”

3.2.4 If there was no Valid Meter Read...ending Meter Read, or the first Valid Meter Read after the target opening date was earlier than 1 October 2002, paragraph 3.1.2 shall apply.”

### **Transition Document Part IIC**

*Insert new paragraph 1.1.3(a) as follows:*

1.1.3(a) In respect of gas year commencing 1 October 2005 only, the relevant date (in respect of Smaller Supply Meter Points) contained within Transportation Principal Document paragraph G1.6.3 shall be 7 June.

*Insert new paragraph 1.1.3(b) as follows:*

1.1.3(b) In respect of gas year commencing 1 October 2005 only, the relevant date contained within Transportation Principal Document paragraph G1.6.4(a) shall be 20 August.

Subject Matter Expert sign off:

*I confirm that I have prepared this modification report in accordance with the Modification Rules.*

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

**Tim Davis**  
**Chief Executive Joint Office of Gas Transporters**

Signature:

Date :