

OFGEM DECISION LETTER No. 0496
"Improvements to NDM Demand Determination"
Version 1.0

Direct Dial: 0207-901-7000

7 March 2002

Transco, Shippers and Other Interested Parties

Our Ref: Net/Cod/Mod/496

Dear Colleague,

Modification Proposal 0496 "Improvements to NDM Demand Determination"

Ofgem has considered the issues raised in Network Code modification proposal 0496 "Improvements to NDM Demand Determination". Ofgem has decided to direct Transco to implement this modification, because we believe that the proposal will better facilitate the relevant objectives of Transco's Network Code under Standard Condition 9 of its Gas Transporter licence.

In this letter, we explain the background to the modification proposal, the nature of the proposal and give the reasons for our decision.

Background to the proposal

Under the Network Code Transco forecasts daily demand for its system and for each shipper operating on its system. These demand forecasts are used by Transco for making decisions about how best to balance the supply and demand on its system, and for calculating shippers' offtakes from the system for imbalance charges.

As part of the demand estimation process in the Network Code, Transco calculates a variable known as the Weather Correction Factor (WCF), in order to estimate Non-Daily Metered (NDM) demand. WCF is the difference between actual demand within a Local Distribution Zone (LDZ) and seasonal normal demand (SND), expressed as a percentage of the SND for the LDZ. It is currently calculated as set out below:

$$\text{WCF} = (\text{Total actual LDZ demand} - \text{Total SND for LDZ}) / (\text{Total SND for LDZ})$$

As SND is derived from both NDM and Daily Metered (DM) demand, and because DM demand levels can vary significantly from year to year, the calculated value of WCF may result in inconsistent NDM nominations and allocations. This effect was more pronounced in those LDZs with larger differences between actual DM demand and the forecast of DM demand.

The modification proposal

The modification proposes that Transco changes the method of WCF calculation, so that it is based only on NDM demand within an LDZ. The revised calculation is proposed to be:

$$\text{WCF} = (\text{LDZ aggregate actual NDM demand} - \text{LDZ aggregate NDM SND}) /$$

(LDZ aggregate NDM SND)

This removes the impact on WCF accuracy of estimates of DM demand. The proposal notes that while the NDM attribution calculation defined in Section H 2.2.1 of Transco's Network Code would be unchanged, the calculation of the Daily Adjustment Factor (DAF) would need to be adjusted to be consistent with the revised calculation of WCF.

Transco has analysed the effect on NDM demand estimation if the proposed change had applied for the last 2 years. This analysis found that the proposed change would have led to a significantly improved estimate of NDM demand.

Transco propose that the modification be implemented from October 2002.

Respondents' views

Two representations were made about this proposal. Both respondents supported the modification.

Shippers believed that the proposal would improve the consistency of the demand estimation process. Shippers also supported the proposed implementation date of October 2002.

Ofgem's view

Based on Transco's analysis, Ofgem believes that the new proposed calculation of WCF should improve the estimation of NDM demand. More accurate demand estimation by Transco will better facilitate the efficient and economic operation of its system because it will lead to better balancing decisions and better cost targeting of imbalances on shippers. Better cost targeting of imbalances on shippers should better facilitate the securing of effective competition between relevant shippers, by removing cross-subsidies.

Ofgem understands that the proposal can be implemented with limited costs to Transco, and should not materially impact users' systems or day-to-day operations.

Ofgem's decision

Ofgem has decided to direct Transco to implement this modification, as we believe that it better facilitates the achievement of the relevant objectives of Transco's Network Code in Standard Condition 9 of its Gas Transporter licence.

If you have any queries in relation to the issues raised in this letter, please contact me on the above number or Mark Vaughan on 0207 901 7009.

Yours sincerely,

Nick Fincham
Director, Gas Trading Arrangements