CODE MODIFICATION PROPOSAL No 0204
Amendment to the calculation of WCF
Version 1.0

Date: 05/03/2008

Proposed Implementation Date: 1st October 2008

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this Proposal

The current methodology for allocation of gas throughput post close out, and for estimation of NDM nomination values prior to and on the gas day, has been in place since work with Touche Ross during development of the network code regime.

The formula used to allocate energy between shippers is defined in section H2.2 using the familiar parameters of AQ, ALP, DAF and WCF. Demand is derived in advance of the gas day using forecast total gas demand and shared to each shipper pro-rata using the formula. Post D+5 the allocation is scaled to ensure all gas transported on the day is allocated. The scaling factor necessary to balance the calculation should be close to 1.

The NDM parameters are calculated by xoserve on behalf of the gas transporters using sample information. To enable the parameters to apply to the population the DAF and WCF are currently scaled to a forecast Seasonal Normal Demand (SND).

Historically the SND values were calculated by National Grid providing one view of the future. Since Network sale each Network has produced its own view of SND and National Grid Transmission has produced a second, sometimes different, view. The level set by the forecast SND impacts the WCF values, bias in which can feed through to the scaling factor and final allocation. This has potential to increase misallocation between market-sectors directly influencing the level of reconciliation required.

Over the past two years there have been representations through DESC (Demand Estimation Sub Committee) on the annual "NDM Profile and Capacity Estimation Parameter" proposals as per H1.8. In each of the last two years there have been questions about the appropriateness of the SND levels for the future. UNC provides no route for Shippers to question the transporters SND forecasts. While forecasts for transportation purposes are clearly a transporters issue the impact on allocation ensures that Shippers have a vested interest.

Analysis over the previous gas year has shown that SND levels have consistently produced a WCF that is highly biased. This has lead to the scaling factor having to compensate. Over the past year the scaling factor is consistently away from the expected value of 1.

The E.ON representation in July suggested that investigation take place to replace the use of SND to produce DAF and WCF variables with an alternative. This has been discussed through review group 176 and a decision on how an appropriate alternative would be derived has been determined through industry discussion involving experts from xoserve and shippers. This would allow a replacement WCF to be derived independent of SND. This modification is a direct result of the review group recommended approach.

It is recommended that the SND values within the WCF formula be replaced with AQ/365 * ALP. That these values are calculated by EUC band using the AQ that will be live on 1st October of each gas year. The values should be reviewed quarterly and where the LDZ aggregate AQ varies by more than 1% the system be updated with the new values.

DAF will continue to be derived from the demand estimation sample data and scaled to Gemini connected load but will not use the Transporters view of future SND.

Due to timescales any implementation for October 2008 will require agreement in time to enable xoserve to calculate and load the necessary base data into Gemini during September.

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

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.

As this modification follows an industry review group proposed solution it is recommended that this proposal proceeds directly to consultation.

2 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

Standard Special Condition A11.1 (d): the securing of effective competition

(i) between relevant shippers;
(ii) between relevant suppliers;
(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

Improvement in the allocation profiles will ensure that energy is allocated more accurately on the original commodity invoice and minimise movement of energy between market sectors through reconciliation.

Analysis using the data from the data recorders and data loggers used to derive the NDM profiles shows that a reduction in variability of the WCF and a scaling factor closer to one would have produced allocation (for these sites) 32% closer to actual

consumption than that actually derived during the 2006/7 gas year. This would have reduced reconciliation volumes leading to lower costs for the industry from both processing reconciliation and from reduced volumes failing the filter. This would be evident both in original commodity invoices being more accurate and in the reduction of reconciliation for the large supply point market and reduced RbD charges for the small supply point sector.

This could be expected to facilitate competition between relevant Shippers, minimise uncertainty for new entrants and increase revenue certainty for DNs.

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

It is not envisaged that there would be any impact.

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

a) The implications for operation of the System:

There are no implications for operating the Transportation system.

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

The only cost of implementation will be some increase in calculation required by xoserve. This is expected to be manageable within their current resource levels.

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:

It is not expected that there will be any requirement to recover costs.

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

This modification is not felt to materially impact the level of contractual risk of each Transporter.

5 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)

The modification does not impact health and safety.

6 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

The only cost of implementation will be some increase in calculation required by

xoserve. This is expected to be manageable within their current resource levels. The modification will not impact User systems. The replacement base data for WCF calculations will be issued later in the annual cycle than currently (September rather than June) but this is not envisaged to cause any problems for Users.

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

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

There will be no impact to Users of implementing the modification.

b) The development and capital cost and operating cost implications

There are not expected to be any cost implications for Users.

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

The level of contractual risk for Users is expected to reduce under this modification. Improved allocation should provide more certainty for Shippers in levels of commodity charges and reconciliation. Less misallocation between temperature sensitive and less temperature sensitive EUC bands will also provide greater assurance of appropriate charging. Analysis has been provided to the Review Group 176 showing the improvement to the scaling factor and reduction in variance over the difficult summer period.

8 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)

Improved allocation has benefits to everyone involved in the process.

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

None

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal not otherwise identified in paragraphs 2 to 9 above

Advantages

Improved allocation, as evidenced by the improvement in scaling factor. This will reduce misallocation between weather sensitive EUC bands and less weather sensitive EUC bands.

No reliance on Transporter estimates of future demand.

Emphasis on AQ, which is industry data and derived in a transparent, controlled manner.

No system changes are required.

Disadvantages

Places increased reliance on AQ which has known faults

11 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)

Representations are sought, although this modification is based on discussions across the industry through review group 176.

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

13 Any other matter the Proposer considers needs to be addressed

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

It is recommended that the modification be implemented in time for the gas year commencing 1st October 2008.

15 Comments on Suggested Text

16 Suggested Text

Replace H2.5 with:

2.5 Weather Correction Factor and Scaling Factor

2.5.1

For the purposes of paragraph 2.2 the "Weather Correction Factor" ('WCFt') and "Scaling Factor" ('SFt') in respect of an LDZ are (respectively) the factors determined as follows:

$$SF_t = ASD_t \ / \ NDMD_t$$

$$WCF_t = (ASD_t - (\Sigma AQ_{EUC}/365 * ALP_t)_{LDZ}) \ / \ (\Sigma AQ_{EUC}/365 * ALP_t)_{LDZ}$$

ASDt is:

(a) for the purposes of Nomination Determination, Forecast LDZ Demand (at the relevant time of Nomination Determination) determined in accordance with paragraph 5.2 less the aggregate sum of DM Output Nominations (at the relevant time of Nomination Determination) at all DM Supply Point Components and relevant Connected System Exit Points in the LDZ and adjusted by deducting LDZ shrinkage;

(b) for the purposes of Offtake Determination, that quantity comprised in the LDZ Daily Quantity Offtaken attributable to NDM Supply Point Components and relevant Connected System Exit Points (determined as the LDZ Daily Quantity Offtaken less the aggregate sum for quantities offtaken at all DM Supply Point Components and relevant Connected System Exit Points in the LDZ and adjusted by deducting LDZ shrinkage);

NDMDt is the aggregate for all NDM Supply Point Components and for any relevant Connected System Exit Point in the LDZ of the amounts determined by calculating Supply Point Demand for Day t in accordance with paragraph 2.2 with a Scaling Factor equal to one or (as the case may be) calculated in accordance with the relevant provisions of the CSEP Network Exit Provisions.

AQ_{EUC} is the aggregate Annual Quantity for the End User Category, fixed at 1st October for the relevant gas year and amended subject to 2.5.2

Σ_{LDZ} is the summation over the relevant LDZ

2.5.2

For the purposes of 2.5.1 the aggregate Annual Quantity for each LDZ will be reviewed quarterly in December, March and June. Where the change is more than 1% the revised AQ_{EUC} values in 2.5.1 will be used to calculate WCF from the 1st of the following month.

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) H2.5

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