Modification Report
Change to the Provisions Determining the Earliest Reading Date Applicable within the AQ Review
Modification Reference Number 0268
Version 2.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Background

The outputs from the 2010 Seasonal Normal (SN) Review (undertaken pursuant to Section H1.4.2 of the UNC TPD) will be revised Seasonal Normal Composite Weather Variables (SNCWVs), which give a view of average weather for the next five years, and revised historical Annual Load Profiles (ALPs), Daily Adjustment Factors (DAFs) and Estimated Weather Correction Factors (EWCFs) values based on the new SN basis.

These revised values will be used to derive revised Weather Adjusted Annual Load Profiles (WAALPs) which will subsequently be used in the calculation of all Non-daily Metered (NDM) Annual Quantities (AQs). AQ's utilise the historical WAALP to adjust the metered quantity of the AQ to a SN value (as specified in UNC H3.1.1).

As a result of timing, volume of analysis and time taken to re-run the models to create these parameters, WAALP values only pertaining to the period post 1 October 2006 can be derived. As a result, the models that will be used to derive the new parameters are based on EUC sample sets covering analysis years 2006/07, 2007/08 and 2008/09. Using models to derive WAALPs for any period prior to 1 October 2006 is not practical since the data underlying the models does not cover periods prior to this date.

UNC TPD Section H3.2.3 specifies the earliest possible date of a starting Meter Read that can be utilised to derive an AQ for a Supply Meter Point. Pursuant to the implementation of Modification 0018 on 1 June 2005 this date was specified as 1 October 2002 (the 'AQ backstop date') in order to ensure that AQs would only be calculated from Meter Readings subjected to prevailing WAALPs. The date of the 1 October 2002 reflects the earliest applicability date for the current WAALPs that will be superceded by the 2010 values.

Proposal

In order to prevent the application of outdated WAALPs to Provisional and final AQ values on an enduring basis, it is proposed to replace the current fixed AQ backstop date specified within section H3.2.3 with a 'Backstop Date' which rolls forward upon the occurrence of a SN Review.

This proposed 'Backstop Date' would be 1 October in the 4th year prior to the start of the Gas Year in which a SN Review becomes effective and the new

'Backstop Date' would become effective from 1st February of the preceding Gas Year.

For example:

- For a SN Review which becomes effective from 1 October 2010, from 1 February 2010 the backstop date will be 1 October 2006
- For a SN Review which becomes effective from 1 October 2015, from 1 February 2015 the backstop date will be 1 October 2011

A reflective change will also be required within section H3.2.4 which also currently specifies the 1 October 2002 earliest reading date.

Implications
In absence of the proposed 'Backstop Date', the period which an AQ can be calculated using the earliest read date that will be used in an AQ calculation in 2010 (as per UNC TPD H3.2.3) is anticipated to be March 2004. As a comparison, in 2005 the AQ backstop date was changed to 1 October 2002. This initially resulted in a shorter period than being proposed now – the 2005 AQ Review utilised reads back to October 2002 (3 years preceding the AQ effective date) whereas it is proposed this period is between 4 and 8 years on an enduring basis.

The number of meter points that did not calculate as a result of the new backstop date being implemented in 2005 (i.e. due to the inability to utilse readings taken prior to 1 October 2002) was 446. This comprised 11 Smaller Supply Points and 435 Larger Supply Points. This was 446 out of a total of 4.5 million that did not calculate that year (for various other reasons).

In summary, in 2005, 99.99% of non-calculations were due to these other reasons and 0.01% was due to the backstop date.

As the proposed rolling backstop date allows a wider measurable period than in 2005 it is believed that the imposition of such will have even less of an impact than identified in 2005.

For those Meter Points where an AQ is not recalculated (e.g. due to lack of reads), a multiplicative factor (representing the difference between the old SN basis and the new SN basis) will be applied to the current AQ, thereby enabling the 'carried forward' current AQ to be reflective of the new SN basis (as per UNC section H3.4.4).

2 User Pays

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

There are no User Pays aspects to this 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 the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Scotia Gas Networks considers this Modification Proposal better facilitates this relevant objective by allowing the adjustment of AQs to the most up to date seasonal information.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (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;

The removal of the static backstop date will lead to more accurate AQs and increase the accuracy of energy allocation and therefore impacts the amount of energy passed for reconciliation. This may subsequently impact the amount of

misallocated energy applied to RbD.

By having more cost reflective information within the systems will allow more confidence in the accuracy of AQs allocated to Supply Points.

More up to date AQs will be reflective of changing consumer behaviours.

The Proposer has provided more detailed analysis in their representation to demonstrate how AQs will be more accurate and their associated benefits, which in their view demonstrates that increased performance in AQ accuracy is likely to be forthcoming. The resultant timely and correct allocation of energy reduces any risk of misallocation of charges occurring between Users and improves cost reflectivity. Therefore National Grid Distribution believe Standard Special Condition A11.1 (d) the securing of effective competition between relevant Shippers and between relevant Suppliers is better facilitated.

Wales & West Utilities agree with the Proposer that the implementation of this Modification Proposal better facilitates Standard Special Condition A11.1(d)(i) by ensuring AQs are only calculated using meter readings that relate to the updated WAALPs. Having more accurate AQs will facilitate the allocation of energy and in turn cost targeting and therefore assist in securing effective competition between relevant Shippers / Suppliers.

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (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 sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Scotia Gas Networks and Wales & West Utilities felt that by negating the requirement to adjust the AQ backstop date on a rolling five year programme within the UNC, implementation would better facilitate A11.1(f), 'the promotion of efficiency in the implementation and administration of the network code and / or the uniform network code.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

5 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:

There are likely to be minor development costs associated with implementation of this Proposal as xoserve will be utilising existing system capability.

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

No additional cost recovery is proposed.

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

No such consequence is anticipated.

6 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

No such consequence is anticipated.

7 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 WAALP data per End User Category for every day going back to 1 October 2006.

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

Administrative and operational implications (including impact upon manual processes and procedures)

No such implications have been identified.

Development and capital cost and operating cost implications

Implementation of this proposal without sufficient notice will result in increased development, operational, administrative and User Pays charges for Shippers.

EDF Energy suggest a six month lead time for implementation of this proposal and felt that Shippers will experience a development and capital cost increase as a result of implementation. Failure to provide six months notice of implementation will result in an increase of EDF Energy's administrative and operational costs for the next AQ Review. If their systems do not replicate xoserve's, then they will be producing different AQs to those expected from xoserve. This will require manual intervention and validation for these AQs prior to submission to xoserve. They also note that if their systems are not updated there is a risk that the systems will submit invalid reads to the AQ Spec Calc service provided by xoserve. These will be charged for under User Pays arrangements but will not calculate, as a read may be invalid.

Consequence for the level of contractual risk of Users

No such consequence has been identified.

9 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.

10 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.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

Implementation of this Modification Proposal will have the following advantages:

- More accurate and timely AQs
- Availability of more accurate demand data
- Provides a mechanism for an enduring solution without the need to raise subsequent Modification Proposals to change the static backstop date
- Removes the need to develop operating procedures to manage outdated AQs

Disadvantages

- Marginally more meter points will require intervention and the application of a factor to calculate the AQ

  EDF Energy Offered the following disadvanatges

- Requires subsequent changes in Shipper system and processes, which require sufficient lead time.
- Creates an expectation of fast and efficient system changes for Shippers which may not be met.

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

Representations were received from the following parties:

Organisation	Position
EDF Energy	Supports
E.ON UK	Qualified Support
National Grid Distribution	Supports
Northern Gas Networks	Supports
Scotia Gas Networks	Supports
Scottish and Southern Energy	Supports
Wales & West Utilities	Supports

In summary, of the 7 representations received, 6 supported and 1 offered qualified support for implementation of the Proposal.

EON UK considers this proposal is necessary to align the revised derived Weather Adjusted Load Profiles to the AQ process. However, they are concerned that the extremely short notice period will require shippers to implement manual processes to augment their automated AQ calculation methods and thus will incur potentially significant cost.

EDF Energy also highlight that any amendment to xoserve's systems requires Shippers to replicate this amendment within their systems. EDF Energy having reviewed this requires six months notification of implementation of this reform in order to amend their IT systems. Failure to allow sufficient time for Shippers to replicate this change in their system will result in Shippers having to undertake significant manual work and analysis.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

14 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

Implementation is not 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.

15 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works would be required as a consequence of implementing the Modification Proposal.

16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

It is recommended by the Proposer that, subject to the appropriate direction by the Authority, this Proposal is implemented by 12 February 2010 to enable revised values to be in place for the calculation of Provisional Annual Quantities for the 2010 AQ Review.

Failure to implement this Modification Proposal will require the implementation of contingency procedures:

Implementation by 12 February 2010 no additional contingency costs anticipated

Implementation by 01 April 2010 marginal contingency costs

Implementation after 01 April 2010 will require the implementation of contingency procedures and their additional costs until 2011.

Contingency costs are to be borne by Transporters who do not consider these to be material.

However EDF Energy considers a six months notice period for implementation is required to support this proposal. This will ensure that systems have been developed and avoid manual workarounds and queries for both Shippers and xoserve.

17 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

19 Transporter's Proposal

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

20 Text

UNC TPD: SECTION H

Amend paragraph 3.2.3 to read as follows:

3.2.3 The starting Meter Read shall be:

(a) the latest Valid Meter Read before the target opening date, or if there was no such Meter Read less than three years before the target opening date;

(b) subject to paragraph 3.2.4, the first Valid Meter Read after the target opening date.

Provided always that ~~the starting Meter Read shall be no earlier than 1 October 2002~~ where the seasonal normal values of the Composite Weather Variable for an LDZ are revised in accordance with paragraph 1.5.3 the starting Meter Read shall be no earlier than four years prior to 1 October in the Gas Year that the revised seasonal normal values of the Composite Weather Variable are first used (the "Longstop Date").

3.2.4 If there was no Valid Meter Read less than three years before the target opening date or more than 6 months before the ending Meter Read, or the first Valid Meter Read after the target opening date was earlier than ~~1 October 2002,~~ the Longstop Date, paragraph 3.1.2 shall apply.

For and on behalf of the Relevant Gas Transporters:

Tim Davis

Chief Executive, Joint Office of Gas Transporters