

CODE REVIEW PROPOSAL No 0280
Review of Demand Estimation UNC Section H Processes and Responsibilities
Version 1.0

Date: 22/12/2009

1 Nature and Purpose of Proposal

Demand Estimation processes as outlined in Section H of UNC have been essentially unchanged since code inception. The profiling and capacity estimation parameters and seasonal normal CWV derivations and use were set out at a time when all expertise for gas allocation resided within National Grid (Transco as was).

Over the past decade there have been a number of changes within the industry. Shipper organisations bear the impacts from the allocation mechanism and have a vested interest in ensuring the process and parameters operate smoothly and are as accurate as possible.

Climate change has meant that Shippers are spending increased time and resources assessing impacts. Many organisations now have meteorologists and expert forecasters embedded within their organisation.

Over the past few years there have been comments in the annual Shipper representations on how ineffective the current consultation process is. Last year we commented that:

Demand Estimation Review

We noted concern in last year's representation that the level of understanding across Transporter organisations in this area was less than ideal and is impacting the speed with which decisions can be made in this area. We understand that the impact is greatest for Shipper organisations, as we directly feel the impact of allocation and reconciliation. Given the issues and discussions raised as part of the seasonal normal weather review it suggests to us that responsibility is weighted inappropriately toward Transporters who have less impact from this area. We have also raised a number of inaccuracies with profiles in the past three years representations, each time the response has conceded the flaws but maintained the view that there was not time to make corrections. This suggests that the consultation process is not a true consultation, nor is it aimed at improving the profiles.

We would appreciate a Transporter response on the idea of a fuller review in this area over shared responsibility across the industry. Concerns over responsibility for definition of an appropriate seasonal normal weather and over timing allowed for representations could be assessed with a view to defining a more appropriate schedule and level of responsibility.

The seasonal normal discussions over the past 18 months have been far from ideal. The situation where a unanimous Shipper community view can be overruled and what Shippers view as an unsuitable methodology employed

because UNC gives sole agreement to Transporters cannot now be suitable.

We would like to see this section of UNC reviewed and appropriate processes and responsibilities derived to match current industry requirements. This proposal is raised as a review group to ensure whatever is designed meets both Shipper and Transporter requirements providing a solid foundation for moving forward.

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User Pays

- a) Classification of the Proposal as User Pays or not and justification for classification**
- b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**
- c) Proposed charge(s) for application of Users Pays charges to Shippers**
- d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

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Any further information (Optional)

The following excerpts from a letter issued on behalf of six major Shippers to Transporters and Ofgem during the recent discussions on seasonal normal covers some of the issues and impacts:

SNCWV forms a key part of the allocations process. Allocation is used to share daily energy across Shipper portfolio. From a Transporter perspective the allocation methodology is designed to fully allocate all energy, and therefore Transporters income for each day is mostly complete with risk for incorrect allocation and subsequent movement sitting with Shippers. It is essential for Shipper organisations to minimise this risk as the differential between purchasing energy for final reconciled position against initial allocation can be significant given price movements. For example, reconciliation for 2009 to date has adjusted over 1TWh of the initial allocation for January 2009 from LSP to SSP markets. Given price changes between purchase could be large this is a high value risk. For example the differential between Sept 2008 purchase prices and Jan 2009 SAP used for reconciliation, only a 4 month difference, was up to 23pence per therm and this amounts to just under £8million on a 0.2% volume change for a single month. It can be seen from this that the risk to Shipper organisations can be significant.

At the time the industry was set up in its present form all the expertise in weather demand relationships and CWV formulation was within the team that currently sits in National Grid Transmission. The historic data from each region was moved to this team. This has produced a transparency issue that is now causing significant problems. Given the significant impact on costs for Shipper organisations many have made investment in teams who have developed demand modelling experience. There is now knowledge across the organisation of equal technical ability as that within Transmission. However, it is impossible for Shippers to replicate the base data used for analysis and therefore not possible to fully identify the impact. As the gap filling and interpolation of historic weather data is not replicable there is a clear lack of transparency which needs to be removed.

4 Code Concerned, sections and paragraphs

- a) Uniform Network Code
- b) Transportation Principal Document

Section(s) H

Proposer's Representative

Sallyann Blackett, E.ON UK

Proposer

Sallyann Blackett, E.ON UK