

DEMAND ESTIMATION SUB COMMITTEE

Minutes

Friday 02 October 2009

31 Homer Road, Solihull, B91 3LT

Attendees

Bob Fletcher (Chair)	(BF) Joint Office
Lorna Dupont (Secretary)	(LD) Joint Office
Dave Parker*	(DP) EDF Energy
Dean Johnson (Transporter Agent)	(DJ) xoserve
Gavin Stather (Member)	(GS) ScottishPower
Jonathan Aitken (Member)	(JA) RWE npower
Leyon Joseph*	(LJ) Scotia Gas Networks
Louise Gates (Member)*	(LG) EDF Energy
Mark Jones	(MJ) SSE
Mark Linke	(ML) Centrica
Mark Perry	(MP) xoserve
Matthew Jackson (Member)	(MJ1) British Gas
Matthew Pollard (Member)*	(MP1) EDF Energy
Mo Rezvani (Member)*	(MR) SSE
Richard Pomroy	(RP) Wales & West Utilities
Russell Somerville	(RS) Northern Gas Networks
Sally Lewis (Member)	(SL) RWE Npower
Sallyann Blackett (Member)	(SB) E.ON
Sarah Maddams	(SM) E.ON
Simon Geen	(SG) National Grid NTS
Stefan Leedham*	(SL) EDF Energy
Steve Marland*	(SM) National Grid Distribution
Steve Thompson	(ST) National Grid NTS

* *via teleconference*

1. Introduction

BF welcomed all attendees.

2. Confirmation of Membership

2.1 Membership and alternates

The membership was confirmed and the meeting was declared quorate.

3. Review of Minutes and Actions from the Previous Meeting

3.1 Minutes

Comments received from SB were reviewed and discussed. It was agreed that in the interest of clarity the following amendments would be made to the minutes of the previous meeting:

Page 2: 4. Seasonal Normal Review Update

Paragraph 1: “DJ reported that relevant material had been sent out at the end of August (28th August), and”

4.1 Application of EP2 in derivation of SNCWV

Paragraph 1: “....The principles for applying EP2 data to derivation of SNCWV were outlined and it was demonstrated how the EP2 output data ~~would~~ could be applied to the SNCWV calculation.”

Paragraph 2: “The data ~~required for the CWV formula~~ supplied from EP2 included hourly smoothed average temperatures for the forecast period of 2008 to 2018, and the hourly smoothed average wind speeds for the base period of 1971 – 2006 (36 years).”

Paragraph 3: “JA was concerned that the data may potentially be being misrepresented and went on to describe his understanding of how the model worked, using sets of 15 years historical data and looking 15 forecast years forward to provide a 30 year average centered around each year in question.”

Paragraph 5: “....In SB’s experience, she would not expect the new SN to come out as colder....”

Page 3

Paragraph 1: “Referring to the ~~Met Office xoserve~~ data, SB commented that potentially the data was being skewed by using the same increment for all the base period average years, and that less would cause more emphasis should to be put on the wind factor. DJ was not aware that these increments were available. (SB had obtained illustrative charts from the Met Office - EP2 output of increments relating to each year in the period showing how different they were historically.)”

Paragraph 2: “.....EP2 shows that the maximums were increasing more rapidly than the minimums, therefore the flaws with using averages would be less of an issue in the future.Applying the average temperature and wind speeds to create a CWV is a lot closer to what was originally proposed, but using SN as xoserve proposed for the next 5 years that cold was not good.”

Paragraph 7: “.....SB believed that there would be understatement of wind speed in the EP2 averages and that SNET would be reshaped as part of the CWV review anyway. ...”

Paragraph 8: “.....Over the last few years SFs have had to change massively at that point in the process shoulder months.”

Page 4

Paragraph 1: "...The result is that seasonal normal based ALP profiles for EUCs will be much lower than they ~~should be~~ currently are in the summer and correspondingly peakier in the winter."

Paragraph 2: "The Transporters' proposed approach was therefore to apply EP2-WP8 temperature increments to individual years of gas industry data (36 years) to get 36 different incremented daily temperature streams for each target forecast year (eg 2012/13)."

Page 5

Paragraph 4: "...Under EP2 a warming element was applied to ~~SN~~ an average base and the methodology was differently applied. This gives a small difference but because it is derived slightly differently the mathematical difference ~~is~~ has the potential to be quite large. Using a single set of increments will give a result skewed across 36 years and would give a significantly bigger difference."

Paragraph 9: ".....SG referred to other analyses performed (UKSCIP 2020s, based on emissions) which gave the same level of warming as with EP2 data, but cautioned against going too warm."

The suggested amendments were accepted and the minutes from the meeting held on 23 September 2009 were then approved.

3.2 Actions

Outstanding actions were reviewed (see Action Log below).

Action DE1068: xoserve to consider and discuss with the Transporters possible amendments to the consultation process, and report back at November meeting.

Update: Discussions ongoing. **Action carried forward**

Action DE1070: xoserve to consider if it is possible to provide Shippers a full set of SNCWV results for all LDZs for review.

Update: MP reported that the daily values for SNCWVs for both approaches were not available. The values are created in aggregate and values to the level required are not available. Time and resource to create these would be very constrained and would stretch the time limits beyond current capabilities. It was agreed that though these could not be looked at now they would be provided at the December DESC meeting if this basis is adopted. It was observed by JA that in not providing this information, no other party was able to scrutinise the output and understand it. It was pointed out that most of the impact rested on the Shipper community and the community really should have the opportunity to validate the information and, if necessary, question it. JA stated that he believed data should be made available for checking and replication in Shippers' own systems.

RP commented that the Transporters would need to understand what exactly was wanted and for what purpose; a Modification Proposal might be required to enable the provision of access and so that consideration could be given to any wider implications.

JA commented that the history of weather data held by National Grid was derived data and had many gaps; this data must have been cleaned/modified in some way. Shippers would not be able to replicate it by buying it. SG responded that new weather station histories had been created for DESC and equations etc, had also been presented. If these had been kept up to date then Shippers should be able to match the data. When a weather station changes a new CWV is created and a history provided (back to 1928) to Shippers. SB pointed out that the issue was that a SN could not be derived from CWVs under the current approach.

JA provided a slide to illustrate his point regarding missing data, and questioned how National Grid had filled the gaps.

It was noted that the Shippers still required the data to be provided, and that the Transporters were not in a position to provide it to them for reasons that the Transporters still considered to be valid. This action was agreed closed and Shippers will consider addressing the issue through other means. **Action closed**

4. Seasonal Normal Review Update

4.1 Conclusion of Seasonal Normal Review Discussions on the Application of EP2 in derivation of SNCWV

To continue with the current approach was not seen to be an option and all parties agreed change is required. Recognising that an impasse had been reached at the conclusion of the previous meeting, DJ (for xoserve) reported that further discussions had taken place with the Transporters, the outcome of which was that Transporters had reached a unanimous decision to support the xoserve approach, commonly referred to as the 'EP2 Daily' approach presented at the previous DESC meeting.

The Transporters believed that a new seasonal normal basis must be based on a sound methodology and must not be determined by a preference for a particular outcome; a methodology had therefore been developed that was technically consistent to apply to the actual data available. It was noted that Modifications 0218 and 0254 were promoted by their sponsors as enabling modifications that would allow Transporters to adopt a historically based or forecast based seasonal normal basis, however the decision as to what approach to adopt remained the responsibility of the Transporters.

The Transporters believed they have acknowledged the sentiment implied in these Modifications and have moved from considering only historically based approaches (12 year basis), to accommodate what Shippers had felt to be of key importance, ie considering the use of forecast data and the application of a seasonal normal profile that retain various kinks and bumps due to meteorological phenomena.

The Shippers disagreed that the 'EP2 Daily' approach was a sound basis as there was a fundamental flaw in calculating and obtaining the daily values. SB explained the calculation and how she believed it to be skewed through

the use of the wrong primary data. SG disagreed with this view and stated that the WP8 report made it clear that the SN base period values were calculated separately from the increments, and did not rely upon historical data used in EP2. SB considered they were calculated in a different way to the history used for other analysis used by National Grid, there was a disjoint. SG considered the WP8 based history is purely a view of SN. The smoothing is done on a SN basis. There is no alternative history to the National Grid history, and the differences between the 2 SN temperatures are the key difference in the results obtained by the two methods. If considering SN base period as part of the WP8 package this would mean using two sets of data for analysis; it makes more sense to use a consistent history for both.

SB remained of the view that there was still a fundamental problem predicated on a misunderstanding in the initial calculation; increments and base period give the centred forecast. SB referred to page 7 of the WP8 report, and there was a short debate relating to information on the base periods.

Given the differences in perception as to the interpretation of WP8, DP suggested that the Hadley Centre should perhaps be approached for further clarification. SB said that they had used a different model to produce their forecast and had created a new base period, etc; this was not under dispute, but the way they expressed it is relative to a consistent base period.

SG said that if a weather station was lost the process was to create a new history using the relationship between two weather stations. Where there are differences between an existing history and WP8 SN then this was effectively like having a different weather station for the same area, based on slightly different sets of data. To use WP8 data would require the creation of a new history from which to calculate new parameters to create new data. JA thought the risk of losing a weather station to be small compared to the inherent error of using the scaling factor against a different historical base.

DP suggested that perhaps there should be an agreement not to wait 5 years for another review, but to start a further review next year to reconsider the issues and identify solutions. DJ responded that to carry out another SN review so quickly, for application in 2011, would impact on multiple areas, not just DESC and create a significant volume of work and urgent planning outside of the already heavily committed 2010 work plan. SL pointed out that the issue with EP2 data was raised back in 2007 and it was disappointing to have gone through two Modifications and this year's work to recognise at this late stage there was an issue with the data. It was not right to have to accept a 'poor' solution because there was no longer any time to do anything else. The industry should primarily be looking to see that costs were correctly targeted. MR agreed with SL and believed that SB and JA had given adequate reasons to support their view; EP2 was shown to have provided a better representation of future weather and this should be used unless the Transporters could give acceptable reasons and provide the Shippers with a fuller understanding of what the commercial impacts were likely to be on the Transporters' businesses, to justify their reluctance to use it.

DJ said that the obligation to decide the new SN basis sat with the Transporters; analysis had been presented to DESC and there had been extensive consultation on SNR; a couple of Modifications to look at using forecast data had also been accommodated. Any further analysis would put

other deliverables at risk. MR still felt that Shippers needed to understand the commercial impacts on the Transporters of using SNs.

Acknowledging that EP2 may give too warm a value, SB gave a short presentation demonstrating how this could be addressed using a valid methodology centred on 2010. The presentation set out SB's concerns relating to increment changes and wind impact. The chart (increment changes) on slide 3 indicated, in SB's view, why there were such significant issues with the data. Using inappropriate increments appeared to be having more of an impact than wind. There was an opportunity for choice as to where to centre the EP2 averages; the position chosen would give a difference. 2010 could be chosen on the basis of overstatement of wind impact (too warm) but not warm enough given the rate of climate change. If it was centred on 2010 there will be an understating by the end of the SN period, acknowledging the slight flaw with the wind speed. SB's suggested option was to use 2010 as the base year to compensate for the lack of cooling impact from averaging methodology.

It was commented that everyone would have the same access to data to recalculate and verify without any extra data provision. However, SG felt that this may give the worst of both worlds.

Irrespective of what base periods it was applied to SB pointed out that the increments contain a highly significant flaw. Shippers feel the impacts and the costs could be very significant. This was currently the Transporters' responsibility but it could be questioned if this was really appropriate and perhaps a change of responsibilities in UNC might be in order, as Shippers continue to carry the risk. Other Shippers expressed similar views and were particularly concerned regarding what they perceived as the fundamental flaws. RP recognised that there were issues with both proposals and that both could be criticised. The inaccurate allocation of energy is of great concern and MR believed that SB had adequately demonstrated that the impact is less, on balance, using the EP2 approach. SB added that impacts on Shippers included hedging and purchasing the right amount of gas (coloured by the values of SN), as well as on costs before, during and after the day, all of which eventually are passed on to the consumer. EP2 is a reasonably sound methodology, and all parties should be following a methodology that could be supported and accepted. The methods used in the past have not picked up on climate change whereas EP2 helps to factor this in, in advance. Using EP2 'as is' although flawed, is less flawed in terms of impact. SB pointed out that she was not proposing something based on the answer, but had attempted to find a method to mitigate using EP2 data centred on 2012 (there had not been a choice of centring before, so there was no process to restrict or constrain what could be done). This may take away some of the issues and will give a methodology that can be replicated and would have much wider industry support.

The Transporters did not immediately accept the compromise solution, as put forward by SB, and the meeting was adjourned for a short time to enable the Transporters to confer and reconsider their position.

Following their interim discussion, DJ confirmed that the Transporters' views remained unchanged, ie the Transporters' unanimous decision was to use the EP2 approach as proposed by xoserve at the previous meeting.

BF then confirmed the position of the participating Shippers. No Shippers were in favour of the Transporters' decision.

It was therefore clear that no further movement towards consensus regarding the application of EP2 data had been reached at this second meeting.

BF then asked that the parties participating in the meeting clarify what actions, in their perception, might usefully be taken forward.

SB and SL requested that the DESC Chair report on the position reached at DESC to the next UNC Committee (15 October 2009).

Action DE1071: Chair to report to the UNC Committee, on the failure of DESC to reach consensus regarding the application of EP2 data at the conclusion of the Seasonal Normal Review discussions.

SL expressed his dissatisfaction and disappointment with the progress of the consultation and its outcome after the past two years, and considered the reason of 'run out of time' to be unsatisfactory.

SM responded that the changes associated with the Modifications had somewhat forced a position, and that the next time the process was to be operated it would be started earlier and would be better planned. SB replied that the Shipper community was not prepared to accept this position for the next 5 years.

SB expressed her dissatisfaction and stated that she would raise a Modification Proposal to require that a further Seasonal Normal Review be undertaken next year. It was also suggested that a Modification Proposal might be raised to transfer the responsibilities in this area from the Transporters to the Shippers. The Shippers stated that in the meantime they would approach Ofgem to disallow the Transporters' proposal.

SL said that the Shipper community would like to work more closely with the Transporters and that greater co-operation and transparency would be appreciated. Energy costs were huge and Shippers cannot replicate accurately if they are unable to access the appropriate data; even a very small difference can have a very significant effect.

It was questioned that the impact on xoserve was just a timing issue; RP pointed out that other obligations that xoserve must fulfil would be threatened and at risk.

BF asked the Transporters if they were likely to produce a report to explain the consultation process, how they had fulfilled their obligations, and the reasons why they had reached a particular decision.

SM pointed out that the Transporters wanted to get the right approach in place with a sensible basis; most of the EP2 data was acceptable but they were not happy with the base history data. It was recognised that the Shippers were dissatisfied and that it was likely that a Modification Proposal

would be raised. MR added that funding the process did not confer a right to force a decision on other parties.

SM recognised the concerns with EP2; these could be refined and improved, but there were cost/time implications. The Transporters had tried to be open and supportive of the Modifications raised to widen the scope, but recognised that an impasse had been reached at this point, with diametrically opposed views. MR commented that the process had not been as open and as collaborative as he had expected. SL agreed, and other Shippers' disappointment was also evident.

SB and DP stated that they believed that the Transporters were deliberately ignoring a fundamental flaw in the methodology and thereby increasing costs and risks to Shippers, and requested that this view be formally recorded.

BF then summarised the position in that the Transporters would continue to follow their process, and that the UNC Committee will be notified of DESC's failure to reach a consensus regarding the application of EP2 data at the conclusion of the Seasonal Normal Review discussions.

4.2 Amendment of the AQ Backstop Date to accommodate Seasonal Normal Changes

SL pointed out that the Shipper's processes were designed to replicate xoserve's to manage AQs, and that he had not managed to discuss this internally yet. DJ explained that as everyone was in attendance at this meeting it was a good opportunity to raise the issue to give parties some initial awareness and understanding, before discussion in more detail at the November DESC meeting. It was not the intention to reach an agreement at this October meeting, and there was no expectation on any party to finalise views at this preliminary stage.

DJ gave a presentation summarising the position, and pointed out that AQs had gone live the day before (01 October 2009) there would be some slight amendments to the data included in the presentation as this was provisional information. The background was outlined and an explanation of the AQ calculation and WAALPs.

AQ calculations were based on historical consumption that was used to represent a view of expected consumption in the next 12 months adjusted to SN. However, historical WAALP values have to be recalculated to the new SN basis to allow all AQs that are effective from 01 October 2010 (latest SN Review) to be reflective of new basis. WAALP values are recalculated to the new SN basis using the most recent Demand Estimation demand models, i.e. from 2008/09 to apply 2009/10 (UNC TPD H3.4.3). The recalculated values will be used in March 2010 (onwards) AQ Review calculation processes for AQs going live on 01 October 2010.

DJ then explained how AQs that are not calculated would be treated, and described the timeline to derive and implement WAALPs.

Certain issues had been identified. Timescales were tight to derive the new

SNCWV and parameters based on the new SN basis, as it is a very defined process. Most recent demand models have to be re-run to derive the new values. Timescales allow WAALP values to be derived using the latest models calculating back to 01 October 2006. Calculating additional historical WAALPs would require significant additional modeling as the models being used (as per UNC) only utilise data post 01 October 2006.

Models used to back calculate new WAALPs are based on data pertaining to 01 October 2006 onwards (06/07, 07/08 and 08/09), and using these models to derive WAALPs for any period prior to 01/10/06 could be deemed as inappropriate. Models are not representative of the period prior to 01 October 2006, therefore WAALP data will only be available back to 01 October 2006 for AQ calculations.

Under UNC, systems would currently have to contain WAALP data back to 01 October 2002. This presents a conflict position, ie what is possible and appropriate, as against what is required under UNC. If Aqs are calculated using the old (or a mixed) SN basis, then SN basis is anticipated to create warmer SNCWVs; old basis WAALPs creates Aqs that are too high (allocation, charging, reconciliation, etc); and this would not adhere to UNC (two SN basis).

Fixing a date in UNC is not a preferable option from a Transporter/xoserve perspective, as the same issue will arise in the future. Therefore it is proposed to change the AQ backstop date in UNC from 01 October 2002 to be the start of the gas year in which a Seasonal Normal Review becomes effective (01/10/xx) – 4 years. For example 01/02/10 backstop becomes 01/10/06, and 01/02/15 backstop becomes 01/10/11. The change would be effective on 01 February the preceding year therefore the backstop date would be, at its shortest point (February prior to SN change effective year) 3 years 4 months, and at its longest point (January prior to SN change effective year) 8 years 4 months.

DJ presented an illustrative example, the key point of which was that the change to the backstop date has to be undertaken prior to March to allow use of the WAALP data in the AQ calculation. A Modification Proposal would need to be raised, reviewed and, if agreed, be implemented by 12 February 2010. DJ then went on to explain the analysis of the impacts of the Proposal in greater detail, together with a suggested timeline, and outlined the consequences of not changing the backstop date. Some contingency plans were also in place should the decision be made to not to implement, or to implement at a date later than that initially proposed.

DJ reiterated that updated data would be made available as soon as possible or at the next DESC meeting and that the Modification Proposal would be raised as soon as possible.

SL questioned if this was trying to create a future proof model. DJ pointed out that if the methodology was to change there would potentially be other issues but this could be clarified in discussions. SB added that the modeling basis used to support the NDM basis at the time only gave three years' worth of

models.

SB asked why this issue had not been raised during the SN process. DJ had hoped to raise this earlier but unfortunately aspects of the SN Review had caused delays to this aspiration, and xoserve apologised for the short notice.

BF pointed out that the Distribution Workstream would prefer to get the expert views from DESC in advance, which may cause a delay. DJ noted this. xoserve would welcome views/comments prior to taking this to the Distribution Workstream and will be presenting this at the November DESC meeting. It was noted that sight of a draft Proposal would be appreciated in order to comment more fully.

SL stated that there had been no time to analyse any impacts yet and he would not want to have it said at the Distribution Workstream that it had been adequately discussed at the DESC meetings yet. BF reiterated the need to see a draft Proposal, to be raised by a Transporter as soon as possible, and this would then be added to the next DESC agenda for review and discussion.

5. Any Other Business

5.1 Forward Work Plan

GS suggested that a forward Work Plan be made available so that impacts can be assessed, and it could be ascertained where some adjustments might be suggested to accommodate items that may require urgent treatment.

Action DE1072: Demand Estimation Work Plan to be provided.

6. Date of the next meeting

The meeting is scheduled to take place at 10:00 on Tuesday 10 November 2009, at the Energy Networks Association, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF.

Dates for other 2009 scheduled meetings are set out below, together with the topics expected to be covered.

Date	Work Items	Venue
10 November 2009	1) Re-evaluation of NDM Sampling sizes; re-evaluation of Model smoothing methodology 2) Re-evaluation of EUC definitions and Demand Model Performance: Scaling Factor and Weather Correction Factor 3) Review of demand attribution to	10:00am Energy Networks Association, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF

	EUC models newly with/without cutoffs in 2008/09 4) AQ Backstop Date 5) Seasonal Normal Review update	
22 December 2009	CWV Review: Present revised CWVs for all LDZs	10:00am 31 Homer Road, Solihull B91 3LT

Action Log: UNC Demand Estimation Sub Committee 02 October 2009

Action Ref*	Meeting Date(s)	Minute Ref	Action	Owner**	Status Update
DE1068	24/07/09	4.0	xoserve to consider and discuss with the Transporters possible amendments to the consultation process, and report back at November's meeting.	xoserve (DJ/MP)	Carried forward
DE1070	23/09/09	4.1	xoserve to consider if it is possible to provide Shippers a full set of SNCWV results for all LDZs for review.	xoserve (DJ/MP)	Closed
DE1071	02/10/09	4.1	Chair to report to the UNC Committee, on the failure of DESC to reach consensus regarding the application of EP2 data at the conclusion of the Seasonal Normal Review discussions.	DESC Chair (BF)	
DE1072	02/10/09	5.1	Demand Estimation Work Plan to be provided	xoserve (DJ/MP)	

* TF – Technical Forum

** Key to initials of action owner:

ALL: all present, MP: Mark Perry, DJ: Dean Johnson; BF = Bob Fletcher; LD =Lorna Dupont