

**Extraordinary meeting of the
DEMAND ESTIMATION SUB COMMITTEE**

Minutes

Wednesday 02 December 2009

31 Homer Road, Solihull, West Midlands B91 3LT

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Abid Sheikh*	(AS)	Ofgem
Alison Chamberlain	(AC)	National Grid Distribution
Chris Warner	(CW)	National Grid Distribution
Dave Parker*	(DP)	EDF Energy
Dean Johnson (Transporter Agent)	(DJ)	xoserve
Dennis Aitchison	(DA)	Scotia Gas Networks
Gavin Stather (Member)*	(GS)	Scottish Power
Joel Martin	(JM)	Scotia Gas Networks
John Stewart (Alternate)	(JS)	RWE npower
Jonathan Aitken (Member)	(JA)	RWE npower
Leyon Joseph	(LJ)	Scotia Gas Networks
Linda Whitcroft	(LW)	xoserve
Louise Gates (Member)*	(LG)	EDF Energy
Mark Perry	(MP)	xoserve
Matthew Jackson (Member)	(MJ)	British Gas
Matthew Pollard (Member)*	(MPo)	EDF Energy
Mo Rezvani*	(MR)	SSE
Russell Somerville	(RS)	Northern Gas Networks
Sallyann Blackett (Member)	(SB)	E.ON UK
Sean McGoldrick	(SMc)	National Grid NTS
Simon Geen	(SG)	National Grid NTS
Simon Trivella	(ST)	Wales & West Utilities
Steve Marland	(SMa)	National Grid Distribution
Steve Sherwood*	(SS)	Scotia Gas Networks
Zoe Ireland*	(ZI)	British Gas

**via teleconference*

1. Introduction

BF welcomed all attendees, and explained the purpose of the meeting. This extraordinary meeting of the DESC, had been convened in response to a request for a specific meeting between Shippers and Transporters, to discuss the points set out in a letter submitted by the Shippers to the Transporters regarding issues relating to the Seasonal Normal Review.

2. Confirmation of Membership

2.1 Membership and alternates

The membership was confirmed and the meeting was declared quorate.

3. Seasonal Normal Review Discussion

3.1 Transporters' Response to Shipper Letter

MP gave a presentation outlining the background and events leading up to the call for today's meeting. It was pointed out that the CWV work was not affected by the SN decision and the options being discussed today. SB pointed out that it was not clear from the presentation that the industry had started looking at the EP2 procedure and methodology two years ago. DJ responded that in regard to the current issue, application of the EP2 data in demand modelling, the relevant data and agreement for use had only become available in June this year and understanding of the subsequent analysis had led the Transporters to the current position. SB believed this could have been reached earlier and it was due to issues and a lack of support with the first Modification Proposal, which needed to be revised by a second Modification Proposal, which caused some of the delays. ST observed that a lack of understanding by all parties had been apparent with the first Modification Proposal; it was not due to a lack of support that made a second Modification Proposal required. MR supported SB's view that it was important to note that this process had laboured on for quite a while and Transporters have not provided a methodology which is acceptable to DESC members.

MP then referred to the letter, which the Transporters had received from the Shippers. Within the letter, three actions to be addressed were identified:

1. *"xoserve should stop all work they are currently undertaking to implement the proposed methodology for 2010. The view of Shippers is that this is fundamentally flawed. It would therefore be neither economic nor efficient to undertake work that will have to be duplicated in the future."*

2. *"The current methodology employed to calculate Seasonal Normal Weather and the SNCWV is rolled over for 1 year. This will allow Shippers and Transporters time to develop a mutually acceptable solution."*

3. *"Shippers and Transporters should meet immediately to identify what work and actions that need to be completed to ensure a revised view of Seasonal Normal Weather and SNCWV is implemented for 1 October 2011."*

MP proceeded to address these points in reverse order.

In respect of point 3, it was the view of the Transporters that the DESC forum was the appropriate place to address the issues raised, and the Transporters would be issuing a formal response in the form of a letter to the Shipper signatories. SB stated that Shipper Total Gas & Power also supported the letter but was not a signatory and asked if the letter could also be sent to Total. ST confirmed that if SB wished to forward a copy of the letter to Total Gas & Power then that was acceptable.

MP then gave the Transporters' views on points 2 and 1. The analysis undertaken by xoserve and presented to DESC had shown that the current 17 year basis is no longer appropriate to represent SN weather and Transporters believe more appropriate views of SN now exist; these views now incorporate a view of forecast weather which DESC members had raised as a requirement. The Transporters do not believe the current 17 year SN basis should be rolled forward for gas year 2010 and believe that their approach is robust and appropriate to be implemented.

xoserve and the Transporters have reviewed the Shippers' independent Met Office assessment and believe that the Met Office report does not state nor suggest that the Transporters' approach is fundamentally flawed. Also the report does not say that EP2 averaged history and EP2 increments must be used together.

The report states that the use of fixed increments is *"questionable but reasonable given current understanding and given the prediction is for the relatively near future."* With respect to the increments the review does offer a technical refinement using a linear trend assumption to produce variable increments.

This adjustment proposed by the Shipper independent assessor could be implemented now for the current SN review, and the Transporters are willing to make this further change if DESC supports this. The Transporters were hopeful that DESC could agree to adopt the adjustment that has been suggested by the Shippers' independent source.

SB referred to page 9 of the Met Office Report, which had been submitted alongside the Shippers' letter, and quoted a passage relating to the use of increments with another history, namely *"the EP2-WP8 corrections are designed to be applied to observed 1971-2006 average temperatures"*. MP commented that the report was not stating that the EP2 history and increments had to be used together, since the report was offering a recommendation on the Transporters approach. SB also commented that she did not agree with the Transporters' view that the approach was not fundamentally flawed.

SB had gone back to the Met Office, and the Met Office could have provided an optimum increment. DJ stated that this would not be to the timescales required to implement SN. In addition to this SG believed the use of an optimum increment as suggested by SB would be irrelevant and explained there would be no change in the end result. SG then referred to the schematic on page 7 of the Met Office Report. DP observed that this was just looking at temperature; the National Grid analysis was including wind. SG said that wind was of secondary order in the equation and of minor effect; using mean temperatures in CWV equations would have a greater effect. DP pointed out that half a degree represented 2 – 3% of gas consumption. SB drew attention to the perception that the Transporters were providing inconsistent responses at various meetings and this was leading to a lack of confidence. The main aim was to try to establish a robust methodology and set of analyses.

SG said that temperatures could vary by as much as 10 – 15 degrees over any single day, and that level of change in temperature has a big impact on

the CWV. The same issue will apply to different increments (up to half a degree) a wind chill impact on half a degree of temperature as opposed to a 15 degree range of temperature is not so significant. By the time it is aggregated and smoothed the impact is minimal. The impact is based on how the increment is done.

MP then explained the options put forward by the Transporters.

The proposed options were:

- a) Continue with the Transporters' proposals as consulted upon; or
- b) Adopt a modifier based on the Met Office Report (xoserve would use the Met Office Report formula as appears on page 9 and 10 of the report to adjust the increments).

SB said that these options still presented a problem as a robust methodology would not be achieved; they were more of an interim solution without properly resolving the problem. She had concerns that the Transporters appeared to be happy with the current analysis and were prepared to push through a decision that was clearly against the opinion of the DESC members. The Met Office has said that it is a slightly better solution, but it has not said it is the best solution. The whole point of this is to arrive at a better methodology that will last. DJ agreed that an appropriate methodology was key, but restated that from the Transporters' point of view the analysis was robust and had been consulted upon. The second option acknowledged the Shipper independent Met Office expert view that improvements could be made as to how EP2 data was applied, and the Transporters were willing to improve this accordingly in light of Shippers concerns. In the Transporters' view, the 17 year basis is no longer appropriate and they are happier and confident with the new basis, but they are keen to improve the methodology using the Met Office adjustment and also understand if there is additional analysis that could be done next autumn.

MR commented that to approach half way to a goal was not ideal, and there would still be additional problems going forward as Shippers still did not have access to base data. Also, Shippers did not really know how the adjusted methodology would impact going forward, whereas the shortcomings of the 17 year basis were already known. When asked what the Shipper goal was, SB replied that it was to use the EP2 analysis.

DP questioned that if Shippers were happy with the compromise position, how committed were the Transporters to commission/produce the values/data next year? [SMSMA](#) thought that would depend on cost; the Transporters were still not in full comprehension of what Shippers perceived to be wrong with the proposed methodology. [SMSMA](#) had read the letter and the report and his understanding of it had given him more confidence that the interim solution offered mitigates any perceived issues. MR said that when the whole EP2 project was started the intention was to provide the most appropriate set of data to replace the long-term averages currently used because of climate change. Using EP2 expert data seemed to be the best option without constant change. It was disappointing to be two years further on and still discussing the same problem; any issues with the EP2 data should have been raised and resolved previously. JA added that expert user groups were set up

when with WP8, three members of which (JA, MR and DP) are opposed to the way this is now intending to be implemented.

SG responded that WP2 looked at the way climate change increments could be applied; a reasonable thing to do but being aware of imperfections with regard to wind data (spread of distribution; applying single increment gives a wider distribution than is ideal) and if wind speed should change in the future and be very different from the past this could be an issue. CWV is affected by the relationship of temperature and wind speed and the wrong average CWV and the wrong shape of mean CWV can be obtained.

SB referred to the Met Office paper – which in her view referred to the Transporters' option as questionable on 7 out of 12 steps. To be 100% correct the Met Office would need to apply their increments year on year on their climate models.

SG pointed out that the Met Office does not have an alternative history. National Grid's average climatology data uses different sources and is backfilled on a consistent basis. Presumably an alternative could be purchased, but it would have to be assumed that it was created on the same basis as the current gas industry history is now, which begged the question why use a different set of data for SN than for anything else. SG believed that the Shipper challenges were not made using a business case and was concerned that SB was raising issues and making statements at DESC that were not supported by any analysis. SG was concerned that such statements were driving these arguments and more justification needed to be provided.

SB responded that data created average temperatures was available; the Met Office could calculate the CWV. In respect of the SN issue getting correct distribution and levels – this can be obtained from the Met Office. The idea of using the EP2 methodology is to obtain a transparent, clear methodology capable of validation. SG again challenged SB to justify her stated view that the Transporters' proposal and xoserve analysis was not a robust piece of analysis.

ST then reported that he had spoken to the authors of the Shipper requested Met Office report, Richard Graham and Andrew Colman, to clarify his understanding. ST stated that the authors of the report did not confirm that that the Transporter's approach was fundamentally flawed neither did they confirm that it was not suitable, though applying the adjustment would be considered a better basis. ST appreciated the Shippers' concerns about not knowing the impacts, but the proposed method is an improvement on the current one. He added that xoserve had looked at the potential impacts of using the Met Office adjustment and were comfortable with the methodology. The Transporters would be more than happy to carry out more defined work next autumn but the implementation of a new basis is a long step in the right direction. ST added that the concern regarding base data was really a separate discussion.

DP referred to the linear trend 1971 – 2008, and asked if ST was saying that the Met Office believed this to be a reasonable assumption, as the Met Office did not give DP that impression – the reality is far from linear. ST responded that the Met Office was not fully aware of the extent of the analysis carried out by xoserve.

BF then refocused attention on the two options put forward. SB believed that if an option had to be chosen, option 2 to be better than option 1, though it was not ideal and her preference was for the adoption of the EP2 methodology, which is sound. JA referred to the potential reassessment of the methodology next autumn and asked if the Transporters would commit to this? ST responded that it would be difficult to commit to commissioning something that the Met Office believed would need more work again the following year, but would be happy to look at next year again with a view to seeking improvement. JA then asked if this would fit with xoserve's workplan as xoserve had stated previously that they were unwilling to do any further work.

DJ stated that he did not agree with JA statement, xoserve were not unwilling to undertake any additional work. DJ stated that he had previously indicated that it would be difficult to undertake additional SN work during 2010 due to the implementation of the new SN basis and also what was already a busy work plan for 2010. DJ stated that work could be undertaken next year, with a view to possibly defining the analysis during quarter 1 and 2 2010 and potentially presenting the analysis during autumn 2010.

JA then requested that the Transporters include details of their level of commitment to possibilities for review etc, within their formal response to Shippers to provide some level of assurance.

MR was concerned that Shippers cannot work with data if they do not know the impact and would prefer if the 17 year option was retained.

[SMSMA](#) commented that this option must be better than the 17 year basis, reduces risk and was a step in the right direction.

SB advocated spending more time to get it right, as in her experience once something was implemented you were stuck with it. She agreed that the 17 year basis was not right, but benefits for a correct methodology would be greater. JA pointed out the difference between a known and unknown risk.

ST referred to the figure of £8million indicated in the letter – this would appear to be a worst case scenario/maximum exposure. There were lots of issues around AQs and this is significant for work on this. SB was concerned that in autumn 2010 the Transporters could be turning round and saying that changing the AQs would not be justified because of this view.

SB pointed out that there was a business case for this; most risk sits with the Shipper community. The Shipper opposition to this course is very clear, but they have little influence under the current governance process.

JA pointed out that on numerous occasions MR had asked what was the risk to the Transporters' business but to date had received no answer, so the question should be asked again. ST responded that it was not a 'risk matter' – it was about getting a robust methodology that was correct. From a DN point of view and allowed revenue there was very little risk. He appreciated that there were some unknown factors and the risk to Shippers, but what methodology to apply was the issue.

SB would prefer to go away and get the methodology right and then apply it; doing the analysis next year did not give any guarantees. MR agreed that taking time to get it right would be of more benefit. SMC pointed out that the

17 year model was known to be inappropriate and to continue with it was therefore not appropriate. Continuing with the Transporters' proposal was better and he would be happy to accommodate the change to the increments. He added that as a business National Grid NTS was constantly looking to improve the data it prepared so such a review would happen as a matter of course.

AS asked what sort of risk was involved if the current methodology was rolled over for one year. MR added that the risks were known so there would be no problem to work around if rolled over. SB pointed out that the level of risk that was trying to mitigate was circa £8 million, and that no one was saying that the 17 year basis was right or the risk higher. AS then commented that perhaps each option was in fact 'a different wrong answer'. [SMSMC](#) responded that the whole point was to get an improved methodology, and it would be incorrect to say that the options were all 'equally wrong'. AS pointed out that all three options were imperfect.

DJ stated that the Transporters were happy with their approach and were willing to undertake extra, defined analysis next year with a view to further improvements. SB would like a guarantee that this analysis would be done. DJ asked if the analysis gave an anomalous or the same answer/view would SB still want that accepted? Ideally SB would like to see full implementation of the EP2 methodology using the Met Office data.

JA did not believe that there was a fully consistent history; the backfilling and how it was achieved was only visible to the owner of the data. SG stated that DESC had full visibility of the data when weather stations changed as the methods employed are discussed and presented to DESC; JA referred back to his presentation at the previous meeting, which did not support the view of consistency/visibility. DJ stated that xoserve had not been able to replicate the table shown at DESC by JA previously.

SG believed that how a separate history going backwards was created was a different issue, and that Shippers would like the Met Office to create a new history and then apply the increments to it, different for each base year.

The Met Office does not have an alternative history, and there would be no guarantee that one would be better, but it would cost more in time and money. This was a totally separate issue as to how SN was calculated. The Transporters would be paying for something that was not necessarily better than what already existed. JA agreed that it might not be better, but would be better in terms of visibility and the understanding of how it had been constructed.

[SMSMA](#) asked if perhaps the Transporters could help with the release of such data. SG said that it was not released because it was Met Office data. Processed data could be released but not raw data. JA believed that the base period data was not purely Met Office data – this may have to be clarified through lawyers.

Following a short break, BF then recapped on the two options put forward by the Transporters, pointing out that Shippers also believed that a third option was available, ie EP2 could be used as proposed previously. The inaccuracies of each had been discussed and, while it had been noted that

Shippers were not keen to move towards either Transporter option, agreement as to the way forward was now sought.

On behalf of RWE npower, JA was in favour of neither, but of the two options the second was to be preferred. Whilst understanding that the Transporters were unable to give a guarantee, he would like to see access to the base data and some kind of reassessment of it and, if necessary, a change to the SN basis in a year's time. It should be considered as an interim solution and not something that is expected to stand unchallenged for the next 5 years.

ST responded that if a change were required it would have to go through the full DESC consultation; SB pointed out that the Shippers had been disappointed with this consultation process and had felt ignored; the same feeling was experienced with the representation process in June/July. She stated that she was reserving the right to request a disallowal of the proposals next year. E.ON preferred option 2 though this was not to be seen as a final solution, and it would be looking for some assurance that it will not be too hard to change if necessary next year. CW pointed out that it was unlikely that such a position would be reached where a review would be refused. SB said that there was intention to raise Modification Proposals to look at the way this whole area operates.

MR, for SSE, preferred an option to carry on with the 17 year basis and an undertaking to cooperate to find a more acceptable solution. AC pointed out that no Transporter is comfortable with continuing on that basis because analysis logically suggests that the new proposals are better and failure to move to a more appropriate basis could be construed as breach of Licence. MR believed that a best way forward had not been established and therefore the 17 year basis should carry on. SB added that it did not seem right to carry on regardless with a process where the Shippers view was unanimously opposed to such a course. ST pointed out that the process had to be applied as enjoined under UNC.

DP, speaking for EDF, was uncomfortable with the two options, but in this event preferred option 2, and required some assurance of what would be the next steps. He would like an undertaking to look at the effect of actual trends in climate, i.e. non-linear. This analysis needs to be done and all parties would like to see it. DP felt it to be very important that the linear trend was questioned and tested.

MR thought that the Met Office should be approached to look at the problem posed by wider issues (combination of temperature and wind speed). He also pointed out that there was still no access to National Grid data used in the analysis. This may have to be addressed through a Modification Proposal, which other Shippers would support. If data has been processed it should be possible to share it. SG thought that the Met Office's agreement may need to be sought rather than a Modification Proposal be raised, and there may be associated charges for data released to Shippers.

[SMSMA](#) thought it would be worth defining what was wanted from a methodology and how access to data might be made more transparent. It was important to work together to achieve this.

GS, for Scottish Power, and MJ, for British Gas, both had similar views to the other Shippers present in not wanting either option, though of the two options

presented, preferred option 2 subject to a review next year. They shared the concerns of the other Shippers with respect to the consultation process and believed there should be more cooperation and collaboration to achieve an acceptable outcome.

MP explained what data would be available to Shippers, and pointed out that, as previously indicated at the last meeting, some was to be made available earlier to enable Shippers to take more time to carry out analysis. SB reiterated that if the data was found to be skewed then it was likely that a request for disallowal of the proposals would be made. DJ stated that disallow of the proposals was not directly related to the SN review decision. Also DJ stated that consideration and justification for any request to disallow next years NDM proposals should take into account that this action would also impact all AQ values calculated in 2010 and have significant widespread industry implications. SB noted this but reserved her right to make such a request.

CW felt it would be appropriate if there were a review of governance of DESC and its consultation process to ensure the review runs more smoothly in future.

BF then summarised the views of the Shippers. Option 2 was clearly preferred to Option 1. Though it was acknowledged that the Shippers favoured neither option, as they did not believe that the right solution had been offered. It was agreed that more work and discussions would therefore continue next year in an effort to improve the position. CW then confirmed that the Transporters' formal response to the Shippers would reflect today's discussions.

4. Any Other Business

4.1 Change of Role

DJ reported that he would be changing roles at the end of December 2009, and that he would be replaced by Linda Whitcroft (xoserve).

5. Diary Planning

Given recent discussions and changes to the SN review timetable there is a risk that xoserve will not be able to publish the results 5 days in advance of the next meeting on 22 December 2009, however a full presentation would be made at the meeting.

6. Date of the next meeting

The next meeting is scheduled to take place at 10:00 on Tuesday 22 December 2009, at 31 Homer Road, Solihull, West Midlands B91 3LT.

Dates for 2010 scheduled meetings are set out below, together with the topics expected to be covered.

<i>Date</i>	<i>Work Items</i>	<i>Venue</i>
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22 December 2009	1) CWV Review: Present revised SNCWVs for all LDZs	10:00am 31 Homer Road, Solihull B91 3LT
05 February 2010	1) Evaluation of Algorithm performance: Strands 2 and 3 (RV and NDM Sample Data) 2) Spring 2010 Approach	10:00am 31 Homer Road, Solihull B91 3LT
04 June 2010	1) Demand Estimation Technical Forum - Consultation on proposed revision of EUC definitions and demand models 2) Demand Estimation Sub Committee	10:00am Energy Networks Association, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF
23 July 2010 (if required)	1) Response to representations	10:00am 31 Homer Road, Solihull B91 3LT
10 November 2010	1) Evaluation of NDM Sampling Sizes 2) Evaluation of Algorithm Performance: Strand 1 – Scaling Factor and Weather Correction Factor	10:00am Energy Networks Association, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF