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Subject: Comments on DESC 31 March 2009

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Please see below EDF Energy's comments on the information presented to the DESC on 31 March 2009. I can confirm that we are happy for a copy of these to be made available on the Joint Office website in preparation for the next meeting.

The gas industry has struggled to cope with defining a normal base climate, relevant to present conditions, for some time. This experience is by no means unique and many other industries have also struggled to find a solution to this problem. The last review by the DESC five years ago adopted a somewhat arbitrary use of a statistical quirk in the temperature series defined as 'break point analysis'. This analysis, when repeated given an additional year's data, does not usually define the same break point, nor does it consistently agree the same break point for all LDZs. Further, the break points identified cannot be explained by climate experts; no attempt has been made to explain the break points rationally or meteorologically. Although arguably the methodology was no worse (and probably better) than alternatives available five years ago, reputable scientific advances have established a significantly more robust and repeatable methodology and EDF Energy is surprised and dismayed this has not been adopted.

Apart from the arbitrary nature of break point analysis, the methodology has several obvious and serious drawbacks. The most important of these is the methodologies inability to accurately resolve the climate at daily or even seasonal level. Problems are compounded by applying further arbitrary smoothing algorithms to the 'noisy' data that the methodology produces. Suppliers are heavily exposed to errors in allocation that are evident as a result.

The EP2 climate methodology is fully adaptable to changing circumstances, has been tested and benchmarked scientifically with several competing methods; it has been shown to be significantly more accurate than other solutions tested. Given its superior ability to provide an accurate representation of detail (both daily & seasonal) and given that it produces results similar (at an aggregate annual level) to the break point analysis, EDF Energy believes the EP2 methodology is the most widely acceptable and rational approach available. To suggest otherwise, Xoserve would need to convincingly address the following points:

- How accurate will daily and seasonal data be? Can accurate allocation be guaranteed?
- How will recognised climatic features (e.g. Buchan Spells) be incorporated?
- How will the data be smoothed? The explanation will need to allow the process to be easily understood and repeated. Why is the existing process so complex and ill-defined?

Regards

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