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Your Reference: Modification Proposal 0218

Dear John,

Re: Modification Proposal 0218: 'Amendment to the base period used to define Seasonal Normal Weather'.

Thank you for your invitation seeking representations with respect to the above Modification Proposal.

National Grid Gas Distribution plc (NGD) is unable to offer support for this proposal.

The Proposal seeks to improve the accuracy of the seasonal normal base and thus improve the allocation of energy between non daily metered Users. It proposes to do this by removing "the requirement to base "seasonal normal" on purely historical data where use of forecast data would provide benefit". NGD accepts that it may be possible to make improvements in this area however we believe that the current process has proven to be robust over a number of years and currently there is insufficient evidence to suggest that the inclusion of forecast data would improve the seasonal normal basis. It is entirely possible that the use of forecast data could cause more significant volumes to pass through reconciliation than result from the current arrangements. Further analysis is required, perhaps as part of a wider review of the seasonal normal basis, to give more clarity of the benefits and implications before the current arrangements are amended.

Until there is a higher degree of certainty that the use of forecast data would provide benefit, together with a less subjective proposal, then NGD is not in a position to offer support for a change in this area. The optional use of forecast data would place the onus on DNOs to procure and model such data, alongside historical data, and then take a view on whether to use the forecasts. The Proposal would introduce further subjectivity into code leaving the discretion and justification of introducing forecast data to the DNOs. This could lead to increased costs and more discussion over the final base level. A clear direction on how the basis is calculated would be preferable to avoid unnecessary analysis and procurement costs.

NGD notes that the project board for the Hadley Centre/Met Office study has on this occasion agreed to release information to xoserve for analysis at no cost. Costs would however result from the additional analysis/modelling that would be required and should a different information provider be chosen it is possible that further costs may be incurred. No investigations have taken place at this stage to address securing the supply of forecast data into the future. This could be a challenge as the current data is only available until 2018.

In relation to the comments identified in the Draft Modification Report (DMR) on the better facilitation of the relevant objectives NGD would like to make the following observations:

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

The DMR asserts that " the AQ forms the building block of many of the planning and system security activities of Transporters. As such improving the accuracy of AQs through the appropriate weather correction will improve

the opportunity for Transporters to operate the pipe-line system in an efficient and economic manner". NGD believes that whilst this is true to a limited extent this proposal does little in practice to improve the modelling undertaken by Transporters. This is because peak flows are more important to Transporters than annual flows. Furthermore when analysing the relationship between peak and annual flows and carrying out modelling NGD takes into account a significant amount of other information e.g. real pressure measurements so that network models as far as is possible reflect experienced conditions.

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;

The DMR asserts that .."through more accurate allocations of demand, implementation may provide the opportunity to improve cost reflectivity of charging and therefore be expected to better facilitate this relevant objective". NGD believes that this relies on a premiss that the forecasts would be more accurate thus resulting in a more accurate initial allocation.

***Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (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 DMR states that .."potential improvement in the seasonal normal values will feed into the calculation of AQs and hence to the allocation process. This would ensure that energy was allocated more accurately on the original commodity invoice and minimise movement of energy between market sectors through reconciliation. This could be expected to facilitate competition between relevant Shippers, minimise uncertainty for new entrants and increase revenue certainty for DNOs". NDG believes that there is a significant risk that the energy could be allocated more inaccurately if the forecasts were proven to be less reliable than the current methodology.

Please contact Alison Chamberlain on 01926 653994 (alison.chamberlain@uk.ngrid.com) should you require any further information with respect to the above.

Yours sincerely

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