

**Project Nexus**  
**High Level Allocation 2 Workgroup Minutes**  
**Friday 29 January 2010**  
**National Grid Office, 31 Homer Road, Solihull**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office of Gas Transporters
Mike Berrisford (Secretary)	(MiB)	Joint Office of Gas Transporters
Alan Raper	(AR)	National Grid Distribution
Bali Dohel	(BD)	Scotia Gas Networks
Bill Goode	(BG)	National Grid NTS
Christian Hill	(CH)	RWE npower
David Watson	(DW)	British Gas
Fiona Cottam	(FC)	xoserve
Gareth Evans	(GE)	Waters Wye
Joanna Ferguson	(JF)	Northern Gas Networks
Joel Martin	(JM)	Scotia Gas Networks
Karen Kennedy	(KK)	ScottishPower
Lisa Harris	(LH)	Shell Gas Direct
Mark Jones	(MJ)	Scottish & Southern Energy
Michelle Downes	(MD)	xoserve
Peter Thompson	(PT)	Customer Representative
Russell Somerville*	(RS)	Northern Gas Networks
Sallyann Blackett	(SB)	E.ON UK
Simon Trivella	(ST)	Wales & West Utilities
Stefan Leedham	(SL)	EDF Energy
Steve Mulliganie	(SM)	Onshore Consulting
Steve Nunnington	(SN)	xoserve

\* via a teleconference link

**1. Introduction**

BF welcomed all to the meeting.

**1.1 Review of Minutes**

The minutes of the 15 January 2010 meeting were accepted.

**1.2 Review of Actions**

**Action ALLO001: xoserve to contact response owners to seek their views before preparing a 'high level principles strawman' (inc. the impact of moving to a daily read regime).**

**Update:** FC & BF informed members that this would be covered under item 3.2 below.

**Closed**

**Action ALLO002: xoserve to provide some alternative scenarios for utilisation as comparators to the E.ON based proposals.**

**Update:** FC & BF informed members that this would be covered under item 3.3 below.

**Closed**

## 2. Consider Terms of Reference

*Copies of all the presentation materials are available to view &/or download from the Joint Office web site at: <http://www.gasgovernance.co.uk/nexus/290110>*

### 2.1. Review Terms of Reference

In opening, BF explained that the draft Terms of Reference v0.5 were presented at the Project Nexus Workstream meeting on 18/01/10.

## 3. Scope and Deliverables

### 3.1 Identification of Issues with the Current Principles

xoserve (FC) informed members that this agenda item had been requested to fill a void between the discussions at the 15/01/10 meeting on the current principles and the proposed way forward as presented by E.ON and to capture users' concerns and issues with the current principles.

In discussion, members highlighted the following concerns:

- DM impacts upon NDM Demand;
  - Discrepancies between users and National Grid's forecasts (ranging from 10 – 15% difference in some cases);
  - Some users believe they can forecast (D+5) demand more accurately than National Grid, but have to 'balance' to National Grid's figures;
  - Discrepancies related to 'Subtraction Principles' used to derive NDM forecasts;
  - National Grid's have concerns over NDM/DM forecasting (System Operator is only incentivised on total LDZ forecasts);
- Shippers could be made responsible for their own Nominations;
  - Concerns that costs associated to a change of this nature are presently unknown;
  - Some users believe that their respective companies would be able to accommodate this move easily, as they already forecast for their own demand;
- Allocation Process concerns associated with;
  - AQ calculation methodology issues;
  - If users were able to treat more of their (portfolio) sites as DM, many issues with AQ inaccuracies and the subsequent reconciliation problems would disappear;
    - Moving all sites into the DM arena would enable users to balance and trade their portfolios better;
    - D-7 information would be preferable to utilising algorithms;
    - Provision of greater information granularity from Smart Metering delivery (hourly/daily read capability) should enable users to enhance their services;
    - Will involve additional costs to migrate;
  - Extension of the DM principle(s) could be utilised to minimise risks;
    - Provides an incentive to get DM right;

- National Grid NTS remain cautious over adopting NDM incentives, and
  - Some methodology concerns remain.

In closing, GE wondered if the best way forward would be to ‘tweak’ the current processes or simply adopt completely new ones. SM also reminded members they also need to consider, whether or not, to base the processes on readings or energy.

SL suggested that from a Smart metering perspective, he appreciates that daily reads (energy allocated on a daily read basis) will be available to support the allocation process per se; but he still has concerns associated to the actual timing of the reads. In response, SM does not believe that the technology involved would ‘constrain’ the provision of information. However, he would like to be able to understand how the whole allocation process would work.

### **3.2 Consideration of Original Consultation Responses**

FC informed members that she has consulted with the respective consultation response owners who have individually confirmed their requirements and as a consequence, does not see a need for any new or amended user requirements.

### **3.3 Presentation of Alternative Options**

In opening, FC informed members that the terminology and language of the presentation is deliberately ‘neutral’ to keep it at a high and NOT at a business rule level. She then went on to review the main parts of the presentation (by exception only), as follows:

#### Ensuring completeness of Allocations

FC pointed out that this relates to energy and that the ‘normal’ industry value for the total LDZ throughput is an under estimation. SM in response to a question regarding whether or not this was needed, suggested that the current crop of related ‘in flight’ UNC modifications, are focusing on current processes, therefore he believes the group do need to consider these matters.

GE added that he believes this group will also need to consider the issue of estimation and shrinkage. AR suggested that measurement of known entities is easy, and it is the measurement of unknown factors that is harder, although it should be noted that estimation is conducted on a scientific basis.

SB remains convinced that there will always be issues surrounding meters with dataloggers attached to them.

Most attendees agreed that a balancing correction would be needed and that it should apply to all sites including DM.

Looking at the issue of apportionment of the unidentified energy, GE indicated a preference for a solution based at shipper level, rather than site AQ to endeavour to keep costs in check – similar to the solution proposed by UNC modification 0232 “Allocation of Unidentified Gas via the Distribution Networks Charges”.

#### Allocation Future Principle – as described by E.ON

SL suggested that there maybe value in considering the electricity model, although SB felt this is better served by utilising apportionment on a daily consumption basis allied to application of a factor for unallocated gas (not

on a site level). FC acknowledged that adoption of a factor for unallocated gas across all sites would be a significant step.

DW pointed out that consideration of the transition issues would be crucial.

#### Transition to Allocation Future Principle

SB pointed out that a problem with utilising ALP & DAF is that these only work in aggregate. One view questioned why you could not make all sites DM thereby resolving any allocation issues without the need for these. FC did not necessarily support this view, reminding members that these will be needed for the transitional period between the dumb and fully smart metering regime. AR suggested that this is similar in concept to a 'balancing correction' factor. SL suggested that it is how you would find the factor, which is crucial. Furthermore, someone would need to insert a value into any future system. Both SB & FC reminded members that the group should be looking at identification of high level principles and not detailed solutions at this stage.

In considering principles, GE asked if a new one could be added to 'cover' allocation on a portfolio basis as it makes it easier for users to manage their scaling factor(s) at the portfolio level. SM requested a caveat to state that any scaling factor would be consistent across the whole day.

In considering the Composite Weather Variable (CWV) FC suggested that it would be feasible to develop 'flexible weather correction factors' to take full advantage of this in the future Smart arena and furthermore, reconciliation will need reconsidering at some stage as there is no such thing as the 'perfect answer'.

#### Allocation Future Principle - Transitional

FC pointed out to members that the D-7 estimations for a smaller site in future could possibly be very variable due to weather sensitivity and more work is need on this. When asked if introducing a scaling factor into the DM area would include VLDM sites (on an LDZ level), FC indicated that it could. She went on to suggest that she would be happy to consider any new ideas.

#### Alternative Options - Rationale

In discussing this slide, members noted that the average daily consumption of 52 kWh excluded any WCF's and that the 3p/day would be significant if applied at a portfolio level. FC also highlighted that when considering submission of daily actuals for all 21 million domestic sites this would require something in the region of 7.6 billion separate reads per annum to support this approach should it be adopted. ST suggested that whilst important, sorting out the 3p/day for a Mr Jones for instance, is not the most important consideration, as it is all about allocation across your whole portfolio that really matters most – i.e. is the money being allocated correctly between Shippers.

#### Alternative 1 – Aggregation in Domestic sector

FC pointed out that this information does not include any transitional considerations. When considering the calculation of aggregated daily consumption, she pointed out that currently this is a 'top down' style calculation whereas the proposal relates more to adoption of a 'bottom up' style. Moving on, FC suggested that a separate process to submit site level reads for AQ processes could be seen as a disadvantage. In support, SB suggested that this could potentially penalise smart metering sites in future.

DW was less convinced and did not see this as a barrier to differentiating customers across his portfolio.

#### Alternative 2 – Daily estimates, monthly aggregated consumption

FC pointed out that this is a 'market driven solution'. SB suggested that this solution could be seen as almost enforcing reconciliation.

When asked why you would select this option over and above 'Alternative 1A – Aggregation for Small Sites', SB suggested that this would reduce charges and utilises less volume of flowing data, but it should be noted that you can still have misallocation of energy (i.e. at close out of energy positions) on a daily basis with this option and it is not her preferred solution. FC supported this by pointing out the main benefit is that users would only be placing themselves on the 'critical path' of data on a once/month basis.

When asked, FC confirmed that a monthly basis (as opposed to weekly) had been selected in line with current billing arrangements. SL suggested that this seems inconsistent with the fact that daily data will be available. DW pointed out that the role of a 'data aggregator' could potentially deliver economies of scale benefits if developed.

SL suggested that it might be prudent to keep options open as various aspects of the smart metering (roles and responsibilities etc.) regime have yet to be bottomed out. FC thought it important to stress that it should be the 'industry' telling the CCP what is required and not the other way around. SM also pointed out that there maybe issues surrounding the definition of the CCP and it could/should be a licensed entity.

#### Alternative 3 – Daily estimates, monthly site-level consumption

SB opened by indicating that she believes we will need daily allocation in future and would prefer daily balancing which utilises daily (flowed) reads + a scaling factor which she sees as delivering benefits. GE suggested that the ability of the CCP to provide information could potentially jeopardise this approach. SM believes that a weekly based solution, would require further consideration. Furthermore, he does not see the CCP as being a constraining factor as it is down to the marginal cost of delivering a daily methodology that is the important consideration here. Neither should we be scared of the actual volumes (of information) involved. Members remained uncertain if the CCP would simply 'service' the smart arena and would look to seek clarification in due course.

SB felt that with her significant AMR portfolio she would prefer to see both Smart and AMR treated in the same manner, whereas SM would like to see reads submitted over as wide a window as possible to ensure as many reads are submitted during the day. GE on the other hand believes that whilst daily reads are possible/desirable, they will come at a cost.

FC pointed out that it is desirable to understand what information is requested at a high level to include in the principle(s).

SL questioned whether or not, balancing should also be changed (e.g. extended window, same rules at the end of the day etc.). AR advised that the 15 (business) day window, is down to the claims rather than the measurement process.

#### Alternative Options - Transitional

FC pointed out that this applies regardless of which option was to be adopted in 2020.

### Evaluation of Options

FC pointed out that costs include development and ongoing running factors. It should be noted that whilst Gemini is strictly out of scope for Project Nexus, it will be impacted by Project Nexus developments and SB pointed out that, if opting for aggregated data, Gemini compatibility issues need to be considered.

When asked if a decision over which option is preferred could be reached, some members indicated a desire to reserve judgement, and to discuss with their colleagues before committing to a 'final' decision. SB suggested that it is possible to identify the potential impact that allocation will have on individual parties if deemed helpful. The general consensus amongst most Shipper members present appeared to favour adoption of 'Alternative 1 – Aggregation in Domestic sector'.

BF pointed out that the objective for the meeting was to discuss the options today with a view to agreeing the high level principle(s) at the next meeting (Allocation 3, on 08/02/10). FC took the opportunity to remind members that this is about development of a proposition to move away from what we do now. SM suggested that as the proposal(s) are technology driven, some costs are already embedded.

KK suggested that there needs to be a 'Opt-Out' (of the new DM regime) option, to allow for parties who do not wish to partake.

AR highlighted that resolution of both deployment and transitional issues will be crucial to the success of the project.

In considering the best way forward, SL wondered if starting to prepare a high level report would be beneficial, although FC pointed out that the 5 day window for publication of materials in time for the next meeting (08/02/10), means that the timescales available to prepare a draft report in time are extremely tight. Following a brief discussion, FC agreed to take a new action to prepare a draft high-level report in time for the Allocation 3 meeting.

**Action ALLO003: xoserve (FC) to prepare a draft high-level principles report outlining the preferred option in time for consideration at the 08/02/10 meeting.**

### **3.4 Development of High Level Business Rules**

Members agreed to place this item 'on hold'.

### **3.5 Risk Monitoring**

During a brief discussion, members highlighted the following potential risks:

- Lack of clarity of the final design;
- Role and scope of the CCP;
- Cost of Nexus Inter dependencies;
- Failure to reach agreement (especially timing & granularity);
- Loss of individual supply point usage (for the Transporters) if moving to a mass aggregated position;
  - Down to the Transporters, CCP & DECC to resolve, and
- Potential to forsake the Transporter's Licence Obligations.

### **3.6 Transitional Arrangements**

Members agreed that this has been sufficiently covered under item 3.3 above.

#### **4. Workgroup Report**

##### **4.1 Preparation of Monthly/Final Report**

Members agreed to place this item 'on hold'.

#### **5. Workgroup Process**

##### **5.1 Agree actions to be completed ahead of the next meeting**

New action item ALLO003 above + Members to consider the Allocation Options (as presented under item 3.3 above), with a view to reporting their findings at the next meeting.

**Action ALLO004: ALL to consider the Allocation Options (as presented under item 3.3 above), with a view to reporting their findings at the 08/02/10 meeting.**

#### **6. Diary Planning**

The next two meetings of the Project Nexus High Level Allocation 3 & 4 Workgroup are scheduled to commence at 10:30am on Monday 08 February and Wednesday 24 February 2010, all at National Grid's Offices, 31 Homer Road, Solihull, West Midlands. B91 3LT.

The next meeting of the Project Nexus Workstream are scheduled to commence at 10:30am on Tuesday 16 February 2010 as a teleconference only meeting.

#### **7. AOB**

## Appendix 1

## Action Table - 29 January 2010

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
ALLO 001	15.01.10	3.2	Contact response owners to seek their views before preparing a 'high level principles strawman' (inc. the impact of moving to a daily read regime).	xoserve (FC)	Update provided. <b>Closed</b>
ALLO 002	15.01.10	3.2	Provide some alternative scenarios for utilisation as comparators to the E.ON based proposals.	xoserve (FC)	Update provided. <b>Closed</b>
ALLO 003	29.01.10	3.3	Prepare a draft high-level principles report outlining the preferred option in time for consideration at the 08/02/10 meeting.	xoserve (FC)	Update due at 08/02/10 meeting.
ALLO 004	29.01.10	5.1	Consider the Allocation Options (as presented under item 3.3 above), with a view to reporting their findings at the 08/02/10 meeting.	ALL	Update due at 08/02/10 meeting.