

Demand Estimation Sub-Committee Minutes
Friday 09 December 2011
31 Homer Road, Solihull B91 3LT

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Dave Parker (Member)	(DP)	EDF Energy
Fiona Cottam	(FC)	Xoserve
Gareth Lloyd	(GL)	National Grid NTS
Linda Whitcroft	(LW)	Xoserve
Louise Gates (Member)	(LG)	EDF Energy
Louise Hellyer	(LH)	Total Gas & Power
Mark Perry	(MP)	Xoserve
Martin Attwood	(MA)	Xoserve
Matt Jackson (Member)	(MJ)	British Gas
Mo Rezvani (Member)	(MR)	SSE
Sallyann Blackett (Member)	(SB)	E.ON UK
Steve Baker (Member)	(SB1)	RWE npower
Tom Young	(TY)	E.ON UK

Meeting papers are available at www.gasgovernance.co.uk/desc/091211

1. Introduction

BF welcomed all to the meeting.

2. Review of Minutes and Actions from the previous meeting(s)

The minutes and actions from the meeting held on 08 November 2011 were reviewed.

2.1. Minutes

The minutes from the previous meeting were accepted.

2.2. Actions

No actions outstanding.

3. Project Nexus - New allocation algorithm**3.1 Project Nexus - Impacts on Allocation**

FC introduced a presentation, which had previously been made to the Project Nexus Workgroup in August, relating to "Settlement". The Project Nexus Workgroup believed there would be benefit in bringing this topic to the attention of the DESC. "Settlement" in this context refers to receipt of meter readings and their use in the daily determination of gas off-taken.

Under Settlement the NDM allocation processes are being reviewed. FC explained that the current process includes the use of the Scaling Factor to ensure all gas is allocated, and that DM Meters were currently exempt from scaling. (Scaling at present is unique to the NDM market.) Under the new arrangements DM meters were to be included in scaling (sharing of unallocated energy) as were the increasing numbers of Smart/AMR meters which were also to be included in Allocation Scaling.

This had led to recognition of the need for a new estimation technique. A more robust estimate was required which could be combined with actual DM/Smart/AMR measurements when calculating scaling, otherwise, new cross-subsidies would arise in allocation, which will only be corrected by Reconciliation. Ideas and suggestions were therefore being sought on how this might be approached. A solution was required to be in place by 2014, capable of enduring for 5 - 7 years to cover the whole roll-out of Smart meters, so giving time and serious consideration now to developing something robust would be well worthwhile.

FC confirmed that at present there was no talk of making daily settlement mandatory, and that Project Nexus discussions had moved away from that suggestion. It was projected that only about a quarter of the market was likely to be DM by 2014. If in 2020 the majority was Smart metered then may be the industry would look at introducing daily balancing, but there would have to be fall back arrangements and probably a workaround for the exceptions. MR observed that between now and 2020 there may be many and various options to be considered and believed that none should be discounted at this point. FC pointed out that DESC would need to work within the framework that has been set by the Project Nexus Workgroup, and there would still be a NDM service. An approach was required that would work for all and not disadvantage any party, eg dumb meters. DP commented that, if anything, the approach adopted should positively encourage the installation of Smart meters. FC pointed out that there were two parties to consider at this juncture – the Supplier and the consumer; the Supplier may have made a business decision not to install Smart meters on sites until the last possible opportunity, and this might significantly disadvantage his consumers as far as eventual allocation was concerned, as they would also pick up the residual amount (smearing) after the more accurate allocation was carried out over the Smart metered sites. It was hard to know at what point it would become too difficult to sustain any differences and the level of any such smear becomes intolerable to any remaining customers not on Smart meters. Therefore care must be taken to ensure that consumers are not disadvantaged because of the business decisions made by their Suppliers and that loads without a Smart meter are not disadvantaged prior to full roll out. FC was not sure that allocation arrangements should be used to force parties to move to Smart meters. LW pointed out that daily metered would not necessarily mean daily read, as these sites could have opted to be monthly read, daily reads submitted on a monthly basis or a Supplier may choose to leave a DM site in an NDM Product. The assumption is that reconciliation would be made with actual meter readings; any remaining unidentified energy would then have to be apportioned fairly across the market.

3.2 Suggested Approaches

Two parties had provided suggested approaches for discussion.

3.2.1 E.ON UK

TY gave a presentation. E.ON's suggestions included possible updates to the Allocation algorithm, and consideration of a continuation of the current form of CWV for demand relationship. Suggested wider principles were outlined and briefly discussed.

It was suggested that some benefit should be given to sites that had made the effort

to install Smart meters, and that different degrees of smearing might be a way to recognise this. FC said that this was under discussion with the AUGE to assess whether different levels of contribution would be appropriate. Firm measurements would be required to establish the amount of unallocated gas, which could then be apportioned accordingly. MJ observed that there were enough experts within DESC capable of arriving at a solution, rather than relying on the AUGE. MJ thought that if DESC could agree a fair way to smear the residual across the different Products this would obviate the need for the AUGE, unless very specific benefits could be seen for the independent view. FC agreed with MJ's view in respect of allocation, but believed that the independent view provided by the AUGE would still be required in relation to unallocated gas. The potential for cross subsidies should be avoided.

It was commented that the current structure of EUCs might not necessarily be the most efficient way of working in the future.

GL questioned if the principles should also be applied to Nominations. SB thought related questions should be also considered – was there a different way of arriving at accurate Nominations? Would it matter if the approach for allocations did not work in the same way for Nominations, if an improved and more accurate allocation was achieved? Any consequential impacts would have to be recognised and carefully considered. A brief discussion ensued on how samples could be proportional/ stratified (by LDZ/EUC) and the need to take into account Weather Correction Factors, and weather sensitivities and relationships. Instead of constructing profiles a robust stratified sample could be built up. It was important *not* to end up in a position where reliance was placed on less data evidence than now; ideally more data evidence was required.

Three options (A, B, and C) were put forward for consideration and discussion (it being stressed that these would be expected to be followed up with analysis).

“Option A – scaled sample”

Referring to Day Ahead Nominations FC observed that, under the Project Nexus Requirements, these would use the same process as the After the Day Allocations; signals would be traversing the whole market and concentration should be applied to narrowing the gap between the two positions. SB commented that the difference between one day and another is weather related, but consideration should be given to the day of the week and holiday scaling as well. This was briefly discussed; it was noted that although a portfolio might not demonstrate significant differences day to day, there were times when a Supplier's portfolio might exhibit a sudden substantial increase following a marketing campaign. SB believed that weather effects would override any other effect on the market, and suggested that the Nominations issues could be got round by the scaling argument; this would need some consideration and analysis to see if it was appropriate. GL questioned how SOQs would be calculated through this method. SB responded that SOQ calculation should be easier in future due to the availability of daily information, and especially for Product 3. FC added that SOQs would still be required for charging purposes.

“Option B – Variant of initial Xoserve option”

TY believed there was strong merit in this option. The utilisation of multiple relationships (demand/regression) might be possible (and could look to be improved).

“Option C – No ALP”

TY indicated that other thoughts in this direction would be welcome. SB commented that this was relying on all of the shaping being weather-related, and regression factors could still be applied. It could start with a volume and then be flexed with different multipliers as appropriate (a multiple regression); this could be building the same relationships but showing them differently. DP and MJ observed that this could use more data and would make sense statistically.

Moving to the final slide, TY concluded by offering E.ON's other thoughts on Project Nexus.

FC observed that, for simplicity, the view is that early submissions would still be treated as a reconciliation product rather than a daily balancing product and *not* used for allocation. It might be cheaper and more efficient to deliver the data in batches but there would be some safeguard in place to prevent abuse of 'advantages' in using a different product process to the one in which the site was in.

FC confirmed that at the moment it was envisaged that the Nominations process operates in the same way; the aim was to reduce the differential between allocations and Nominations rather than to widen it. SB pointed out there was no tallying up between what was nominated and what was delivered. The effects of under nomination and the resultant actions that may be taken by National Grid NTS were discussed. Continual understatement of Nominations would prove to be an issue.

FC pointed out that in future a Supplier would have to include an element of unidentified gas within its calculations (for the share of the smear ahead of the day); information on the share of allocation would be provided ahead of the day.

It was concluded that Nominations would have to be given closer consideration when devising any new approach for allocation. Any potential solution should be supported with appropriate data.

3.2.2 National Grid NTS

GL presented details of an alternative demand attribution formula (before scaling), which was a suggestion put forward by National Grid NTS. It assumed using the same sort of models as currently. SB sought clarity on what was being deemed as an EUC model.

The advantage was that it was simple, eg removal of ALPs and DAFs is implicit.

3.3 Next Steps

The Project Nexus aspiration is to design and develop a suitable approach during 2012.

DESC will agree some objectives and success criteria against which to test any approaches put forward. The principles put forward by E.ON would be used as starting point, and these were reviewed and discussed.

The need for perceived fairness versus equitability was stressed, without actively penalising for doing the right/wrong thing. A balance needed to be struck.

FC pointed out that the main perceived benefit would be in achieving compliance with a party's Licence regulations. There would also be benefits from improved accuracy of allocation (but it was noted that it was not mandatory to provide the data). Suppliers would benefit from the AQ being more up-to-date, however this benefit may not be apparent to consumers unless their Supplier passes it on. MR remarked that consumers do not really know about AQ.

Some members expressed the view that any approach should incentivise parties who move to Smart meters, not penalise them. Active consideration should be given to ascertain whether any approach is advantaging/disadvantaging any party and to what degree.

Evidence will be required to establish that what was suggested would be no worse than what was currently in place, and could be run against historical data to see if any improvement could have been obtained. DP would like to see a theoretical statistical accuracy methodology of the model itself, to indicate if one model was better than another, ie based on the model itself rather than the results. This would make it easier to see if any one factor required changing within a model. As well as comparing sample data, the facility to compare models should also be available. There should be transparency of design so that statistical accuracy can be assessed and measured.

Consideration should be given to Nominations with the aim of reducing the differential between allocations and Nominations rather than widening it; keeping the output but not necessarily derived on the same basis, and keeping consistent.

MR suggested that a timeline would be useful which DESC could work to. FC confirmed that at some point between the end of June and the end of September a methodology was required, including a view of what data items might be required and when these should be built into the system.

Responding to questions on tendering, FC indicated that Xoserve may have the skills but the timescales were in doubt. Any tender was likely to take at least 3 months, and more than one service provider might be required.

Consideration should also be given to costs.

Concluding the discussion, it was agreed to progress these options at the next DESC meeting (scheduled for 01 February 2012).

Action DE1201: Project Nexus - New allocation algorithm: Provide draft Principles and Success Criteria for review and assessment prior to next meeting.

Action DE1202: Project Nexus - New allocation algorithm: Consider the advantages and disadvantages of all Options put forward.

Action DE1203: Project Nexus - New allocation algorithm: Provide Strawmen for each Option put forward and devise and publish a Strawmen Template to which interested parties may add specific comment.

Action DE1204: Project Nexus - New allocation algorithm: Add items to February meeting agenda (Review of draft Principles and Success Criteria, and Review and Assessment of Strawmen).

4. Modification 0330 – Delivery of additional analysis and derivation of Seasonal normal weather – Update

MP gave a presentation, outlining the obligations introduced by the modification and identifying the next steps and requirements that should be met.

DESC must determine what the requirements were for the tender process and must approve the scope of the work. MP illustrated the requirements to recalculate an SNCWV and CWV parameters, and drew attention to the timescales that must be considered. A brief discussion followed. The following suggestions were made:

- Hourly wind speeds rather than 4 hourly wind speeds.
- The term “warm weather history” should be renamed

- Data and methodology should be available to all parties to be able to replicate.

A number of Shippers had already participated in may in depth discussions before the raising of this modification and they agreed to review and put forward their requirements to Xoserve for reassessment to make sure that minimum requirements could be met; Xoserve will then go to tender. (These Shippers undertook to publish these requirements at least 2 weeks prior to the next meeting to enable all parties to review.)

Action DE1205: Modification 0330 – Shippers to publish requirements, for review and assessment.

Acceptance criteria would be built into the contract(s); to ensure a 99% chance acceptance of the party Shippers must also define some criteria for acceptance for Xoserve to review with its procurement experts.

Action DE1206: Modification 0330 – Shippers to define acceptance criteria, for review and assessment.

Action DE1206: Modification 0330 – Xoserve to define a provisional timeline for the tender process.

5. Modification 0331 – Demand Estimation Section H Changes to Processes and Responsibilities - Update

On 07 December 2011 Ofgem had directed that this modification be implemented; an implementation date has yet to be confirmed by the Transporters. BF confirmed that draft terms of reference for the proposed committee structure were to be presented to the November meeting of the Uniform Network Code Committee (UNCC). The UNCC will create an Expert Group and amend the Terms of Reference for DESC.

In the meantime, BF indicated that Shippers needed to consider who should be included in the Expert Group, and a nomination process will be run to decide. For voting purposes the number of DESC Members that are permitted to exercise a vote may need to be reduced and redefined, as only 5 may vote.

Assuming the UNCC approve the Expert Group and DESC Terms of Reference, then nominations for the Expert Group will need to be sought before the next meeting. The Joint Office will then proceed to invite participation from the industry, with submissions to be provided at least 5 days prior to the February DESC meeting.

6. Any Other Business

6.1 Moving On

LW confirmed that she would be relinquishing her responsibilities for DESC within Xoserve to FC, but retaining oversight of current modifications.

BF thanked LW, on behalf of DESC, for the valued contributions she had made over the period of her involvement and wished her well in her new role.

7. Diary Planning

DESC is due to meet again at 10:30 on Wednesday 01 February 2012, at 31 Homer Road, Solihull B91 3LT.

Date	Time	Venue	Programme
Wednesday 01 February 2012	10:30	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> • Analysis of sub-bands for 0 to 73.2 MWh pa • Evaluation of Algorithm Performance: Strands 2 & 3 - RV & NDM Sample data • Spring 2012 Approach
Thursday 31 May 2012	10:30	ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	<ul style="list-style-type: none"> • Technical Forum – Consultation on proposed revision of EUC definitions & demand models.
Wednesday 25 July 2012	10:30	31 Homer Road, Solihull B91 3LT	<ul style="list-style-type: none"> • Response to representations.
Wednesday 07 November 2012	10:30	ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	<ul style="list-style-type: none"> • Evaluation of Algorithm Performance: Strand 1 - SF & WCF

NB: This programme might need to be revisited following confirmation of an implementation date for Modification 0331, and also to reflect Project Nexus developments.

Action Log: Demand Estimation Sub Committee

Action Ref*	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
DE1201	09/12/11	3.3	Project Nexus - New allocation algorithm: Provide draft Principles and Success Criteria for review and assessment prior to next meeting.	Xoserve (FC/MP)	Provide to JO for publication by 23/01/11
DE1202	09/12/11	3.3	Project Nexus - New allocation algorithm: Consider the advantages and disadvantages of all Options put forward.	ALL	
DE1203	09/12/11	3.3	Project Nexus - New allocation algorithm: Provide Strawmen for each Option put forward and devise and publish a Strawmen Template to which interested parties may add specific comment.	Xoserve (FC/MP)	Provide to JO for publication by 23/01/11
DE1204	09/12/11	3.3	Project Nexus - New allocation algorithm: Add items to February meeting agenda (Review of draft Principles and Success Criteria, and Review and Assessment of Strawmen).	Joint Office (BF/LD)	
DE1205	09/12/11	4.0	Modification 0330 – Shippers to publish requirements, for review and assessment.	Shippers (SB et al)	Provide to JO for publication by 23/01/11
DE1206	09/12/11	4.0	Modification 0330 – Shippers to define acceptance criteria, for review and assessment.	Shippers (SB et al)	Provide to JO for publication by 23/01/11
DE1207	09/12/11	4.0	Modification 0330 – Xoserve to define a provisional timeline for the tender process.	Xoserve (FC/MP)	Provide to JO for publication by 23/01/11