

“Review of Demand Estimation UNC Section H Processes and Responsibilities”

Review Group (UNC0280) Minutes

Friday 26 February 2010

Renewal Conference Centre, Lode Lane, Solihull, B91 2JR

Attendees

Bob Fletcher (Chair)	BF Joint Office of Gas Transporters
Lorna Dupont (Secretary)	LD Joint Office of Gas Transporters
Colin Thomson	CT Scotia Gas Networks
Dave Parker	DP EDF Energy
Gavin Stather	GS ScottishPower
Fiona Cottam	FC xoserve
Jonathan Aitken	JA RWE npower
Linda Whitcroft	LW xoserve
Louise Hellyer	LH Total Gas & Power
Mark Perry	MP xoserve
Matthew Jackson	MJ Centrica
Richard Pomroy	RP Wales & West Utilities
Russell Somerville	RS Northern Gas Networks
Sallyann Blackett	SB E.ON UK
Sarah Maddams	SM E.ON UK
Simon Geen	SG National Grid NTS
Steve Marland	SM1 National Grid Distribution

1. Introduction and Review Group Operation

BF welcomed members to the second meeting, and declared the meeting quorate.

2. Review of Minutes and Actions

2.1 Minutes of previous meeting (05 February 2010)

The minutes were approved.

2.2 Actions

Action RG0280 001: Joint Office to amend draft Terms of Reference in light of discussions and publish for comment on the Joint Office website. Comments to be submitted to the Joint Office by Friday 12 February 2010.

Update: No comments were received. The ToR was submitted to, and approved by the February 2010 UNC Modification Panel. **Action closed**

Action RG0280 002: SB to review UNC TPD Section H and define and

prioritise areas of particular concern, and provide in advance of the next meeting.

Update: Provided. **Action closed.**

3. Discussion of issues identified

SB ran through the list of issues that had been compiled in association with other Shippers, which comprised the major issues from the Shippers' perspective that had been identified over the last 18 months. These issues had been highlighted throughout the recent DESC consultation process and it was hoped to address these through this Review Group. It was not sensible to find that a Shipper's only current option to indicate non-agreement was the 'nuclear option', ie seeking disallowal via the Authority, with no room/time for phased discussion and opportunities for real and visible reconsideration and compromise. A discussion followed.

LW pointed out that any outcome from the Review Group would not necessarily be in place in time for 2011, and that if the issues persisted, it needed to be understood that they were under address and that we were trying to move to a better position for all concerned. SB acknowledged this but added that Shippers still had the right to seek disallowance in June.

SG observed that there might be issues related to the timings of delivery of certain elements. If there was a protracted review process then there was a risk of deliverables not being met. The algorithms have to be delivered at certain points. He agreed that the 'nuclear option' was a pointless and negative sole option and not very satisfactory for any of the parties concerned; going straight for a veto could also add more, and different, difficulties to what was already a fraught position. A phased approach to resolving disagreement was required, which could be utilised and which should obviate the need for the 'nuclear option' except in extreme cases.

DP commented that if there was more visibility at an earlier stage, there would be less chance of parties encountering such problems as had been evident over the last 18 months and objecting through the only route currently open to them. It would certainly make the process more efficient and less adversarial. JA made it clear that the 'nuclear option' was not a trivial option and was not taken up lightly; it was a big decision and had to be agreed at high levels internally.

RP pointed out that close consideration at all stages would be required to heighten awareness of any previously unforeseen consequences on other processes. BF added that any change would be subject to the raising of a Modification Proposal under the usual UNC rules, and summarised that the discussion so far was indicating agreement that better quality information was required at an earlier stage, and that parties needed to have some way of demonstrating that they were listening to each other's concerns and properly addressing these as the process progressed. The SND process and analysis raised significant concerns and the Shippers felt that they were unable to trust

the results at face value. Shippers would like to be more actively and directly involved in the process to see what is underpinning the analysis, which would in turn give them more assurance. They would also like the right to vote because of the major costs and risks that fall on the Shipper businesses should allocation be imprecise. A process designed to address these concerns should therefore work more efficiently and effectively for all concerned. The minimum requirements appeared to be provision of the appropriate data to carry out an acceptable level of analysis, and understanding of what goes on within the process and how decisions are reached, and an ability to effect changes in how the work is done should analysis lead to the conclusion that beneficial changes should be made.

SB agreed that Shippers would like involvement in defining what is done and how, and would like the ability to change the focus of the work over the year should that be appropriate and necessary. Shippers now had greater internal experience and expertise to call upon because of the risks to their businesses, and they needed to be more directly involved so that they were in a better position to minimize any impacts to their commercial positions. It should be a two way process so that Shippers and Transporters were supportive of each other.

SG referred to the highlighted sections of UNC TPD Section H and asked if these were seen to require review because of 'who decides what is done'? JA responded that it did not matter who did the work, the requirement was for visibility and the ability to replicate the analysis for a party's own reassurance.

SB added that if parties could agree the methodology jointly and be able to make changes everyone should be in a better position. At the moment there was no way to do this, and parties needed to be able to ask different questions dependent on their own individual business drivers, because different risks and costs may apply; depending on a party's commercial position, subtly different questions may need to be asked over and above the general ones. GS pointed out that there were many differences in Scottish LDZs, and added that more detailed data would give an option to analyse in various ways as the party saw fit and decrease delays, instead of having to continually ask xoserve. Individual findings could be brought to DESC for discussion so that all could benefit from the sharing of experience and knowledge. SG pointed out that the methodology should be consistent. DP suggested sourcing something neutral that could not be to one party's advantage or gain; using a third party solution would be sensible, eg the Met Office.

RP questioned what information should be shared at DESC to give greater visibility and assurance. FC questioned if the group was going to look at specifying what analysis should be carried out and how it is shared, or the process of doing it. SB said that it could be tied down to specific analyses, but this would then need UNC Modification Proposals to make any changes; she suggested perhaps giving DESC the ability to define it, possibly by using defined guidelines. MP then referred to the algorithm performance booklet produced by xoserve. SB responded that although this gave the answers, it needed to provide the 'why', and what is done and how it is done. By the time next year was reached the data may look different, and the answers and the

choices would be different. SG agreed that it was too late to change for 2011 however, and any new process would need a lot of sub meetings to carry this out and deliver improved levels of visibility and meet the required timelines.

SB suggested that it might be possible to run all the sets of analysis, look at the answers, and then decide. FC responded that certain data was available, and there were set times to get that data into the system. A decision would need to be made on what to keep as a starting point and then see how it could be shifted/changed for the better. It could be reviewed each year, to decide what was of no value and could be dropped and to decide if something else may be of more value and worth doing. Current timescales do not always allow for this to be done in a dynamic fashion, and at best data is presented well after the need. FC then touched on issues of resources, capabilities and timings. LW added that sometimes it was hard to balance out how much work should be done before it could be recognised there was going to be negligible value or none at all – time was often against this.

FC then pointed out that it was not known what the priorities are across all DESC members; it was likely that each had different individual needs and would like data presented differently, which would be a major challenge for xoserve. This did not mean to say that we should carry on doing things in the same way just because that was the way they had always been done.

Both SM and DP commented that every bit of data should be freely available to every participant, and it was suggested that the analysis could be shared out across the community. SG pointed out that there might be copyright/intellectual property issues (that National Grid was addressing); such information may not be free, but may be available to purchase. DP thought it could be agreed that nothing was to be used unless it was publicly available, and this may solve some of the identified issues on the list. The more information that was available the more likely it was that Shippers would be able to do analysis for themselves. Both LW and SB agreed that having access to the Met Office data last year would have helped with the SN issues.

SG agreed that improved transparency would be good for Shippers to carry out their own individual analysis, however this may give rise to a governance issue as different ideas and preferences were likely to come forward and there needed to be some way of discussing, evaluating, and potentially agreeing these. SM1 suggested that a nominated group meet up more frequently to debate such things and then bring the conclusions to DESC. SB pointed out that DESC's role remained unclear at present and still needed to be properly defined. BF responded that UNCC had delegated DESC to embrace certain tasks related to UNC. SB pointed out that DESC had no rights or influence, and its status required review and clarity.

The discussion moved back to what information might be required. RP asked if it was clear what is used, who owns the intellectual property rights, and how it can be made available. DP stipulated that Shippers needed to be able to replicate it. SB said that a lot of data was provided in anonymous and aggregated form (which is a problem) for recorders and loggers. FC sat on the Data Recorder Panel, and from her point of view there may be customer

identification problems if there was data related to a very small sample. SB believed that data could be made available after the fact, and wondered if aggregated data could be disaggregated. It was also pointed out that currently parties needed to remember to request data within a certain window, otherwise it would not be made available to them, and this seemed to be a negative and unproductive rule – either data could be released or it could not? Would some of issues of transparency fall away if this rule were removed?

JA pointed out that any contracts with a data supplier would need to be under the same terms for Shippers as that with National Grid, so that Shippers can replicate the data/actions, and there would need to be some formal mechanism whereby any changes to National Grid's contract could be communicated to and replicated by the Shippers. The simplest way would be to arrange for a data pass through, which would avoid the problems of devising individual contracts. RP observed that disinterested Shippers would not like to subsidise this through transportation charges. DP commented that small Shippers were vulnerable to misallocation and should benefit from these discussions. SM1 suggested that perhaps it could be set under User Pays. SG agreed to investigate the possibility of a User Pays solution, and suggested forming a sub committee of analysts. He pointed out that there might be data transparency issues for a more public licence/duplicate licence for purchasing exact copies of datasets. Any solution should be able to work with any party that National Grid was likely to contract with in the future, and perhaps could be contracted on behalf of the industry and devolved outwards, eg to UNC signatories.

Action RG0280/003: Investigate the possibility of a User Pays solution for the provision/pass through of data.

SB pointed out that Meteo used a different gap filling mechanism to that of the Met Office even though both used the same historical data. SG believed there might also be a timing issue. JA felt that there should be an industry standard approach to what is delivered, and also what was backfilled. CWV data ought to be freely available. SG felt raw data is only necessary for reviewing and optimisation on a daily basis and not required for allocation. There was a view that the sample data/volume bit/scaling up to LDZ throughput was also required and as parties scale to Gemini allocations this data would also have to be made available.

Action RG0280/004: Consider providing a list of the data that is currently used for annual NDM Proposals analysis, the CWV process, and the non-annual NDM Proposals analysis (ie listing everything used for each process, when and where it is available, and whether there are any intellectual property issues should the data be made available).

Action RG0280/005: Collate list of concerns into the Review Group Report.

4. High Level Review of UNC TPD Section H

LW believed that the production of a 'straw man' would help the group to better address a more in depth review of UNC TPD Section H and decide what changes may be required.

Definitions may need to be extracted and checked against possible changes and references.

SB justified the amount of highlighted text, explaining that these areas should not be precluded as there may be previously unconsidered impacts and once reviewed, changes may be required.

An in depth review of UNC TPD Section H will be carried out following the production of the 'straw man'.

Action RG0280/006: Produce a 'straw man' for the annual process, to include a timeline and identified opportunities for involvement, and referenced to the Issues List.

5. Demand Estimation Impacts

SB gave a presentation, which she believed would help explain to the Transporters why the Shippers harboured the concerns that they did, and why Shippers were not looking for exactly the same things from these particular processes as the Transporters were.

Most Shippers were fairly risk-averse and the more certainty they can embrace the better for the business. To reduce risk, they look to remove areas of identified risk, or take action to mitigate impacts, as appropriate. It is not prudent to remain in a position where a significant risk is apparent, and find there is no way to remove or mitigate it.

SB described the actions that Shippers take before the Day to minimise the risk and, where appropriate, costs. She pointed out that minimising risk was not necessarily the same as minimising cost, and that in some cases certainty was to be preferred over potential cost savings.

SB then touched on 'On the Day Allocation', whereby allocation uses parameters from the demand estimation process that are optimised over the year (which is good from a capacity perspective). However Shipper risk is not solely concentrated in the winter, and there can be price differential and volume movement at other times throughout the year. Big price movements are hard to predict and can force costs up significantly depending on a party's level of accuracy. Accuracy throughout the year is critical, and monthly variability is an issue – changing CWV parameters that decrease fit in the summer does not help, and summer variability is an issue. SB emphasised that there was a limit to the action a Shipper can take to mitigate risk, and errors are perceived as reconciliation, which cannot be managed or hedged for. She pointed out that summer variability has potentially large impacts, as forecast errors will be larger over this period. CWV behaviour with the cut-off does not match demand behaviour and there will therefore be a mismatch between forecasting for allocation and customer billing. Consumers are changing their behaviour over the year and large amounts are at risk in the shoulder months, which can put

big costs onto a Shipper's business. More effort is needed to make improvements this area. Current Demand Estimation procedures look to optimise over the year and this does not target key problem areas. At the moment the incentive to assess is not present in the current system.

Summer SF impact was demonstrated via graphs, indicating a large variance, and illustrating SF spread across LDZ, SB reiterated that the Transporters' response that it is non profile related is unconvincing. For both NW and WM, in the October sub-period NDM demand was significantly depressed during this sub period. This was the half term weekend as well as being unusually warm – this is the case for other parts of the country too.

SB concluded that a 10% swing was a massive amount of risk for a business to be facing. "Not profile related" was an answer that E.ON found very difficult to believe. From E.ON's perspective, it was seeing very different behaviours across LDZs and this was seen to be consistent in relation to weather changes. This suggested an underlying impact, ie a big temperature swing in certain LDZs but not others. This has a major impact on Shippers in trying to guess what is going to be allocated.

SG asked how these issues could be addressed to the Shippers' satisfaction. He was looking at such anomalies, but when the model is applied across various years it falls over (at a national level). At EUC level more models are required, so how would we reach a process to give most satisfaction without reasonable analysis and answers.

SM referred back to the presentation and believed that it demonstrated why Shippers care about and are unhappy with the current process; there did not seem to be any valid mechanism for their engagement.

SG asked what was required. SB responded that priorities could be applied to the type of analysis. The Demand Estimation process is so defined to hitting timescales that it is to the detriment of accommodating any improvements that could be considered or be made; for the sake of process completion it is data in/data out. A more flexible process and approach was required that enables recognition that there can be more benefit in doing something differently and not just the usual tasks, and can accommodate the opportunity to explore further. It was acknowledged that xoserve do try very hard to fit in extra requests, but SB pointed out that nothing ever gets taken out, and this may need to be done to allow the flexibility of more time to allow access to greater benefits by doing it differently and agreeing to exclude certain things. There needed to be a better assessment of priorities and potential benefits, alongside the recognition that Shippers have different drivers to Transporters. The needs, risks and impacts on both parties required better balancing, and consensus was required on how this should be approached.

JA believed that full visibility of the methods used and the data behind them was required; this would mean that less questions would need to be asked and there would be less requests for data to be rechecked – Shippers can research for themselves and bring elements to discussions - thereby releasing more time for xoserve.

This was an opportunity to go through the process to see what was really wanted, and LW believed that a greater understanding of how the process works would also help the formation of some acceptable conclusions as to at

what point in the process certain analysis should cease/move on.

SM1 suggested the formation of a group to identify material changes to the methodology and processes, reviewing the governance of change, and weighing up the pros and cons of accepting suggestions to improve.

SB said that the methodology was sufficiently vague so that it is unknown what analysis is going on, precluding a party from questioning to any great degree. A lower level of detail would enable decisions to be made by the group as to what was needed/not needed, and thus define the priorities.

DP observed, that the UNC needs to define things differently and permit the ability to specify what is relevant now and how to agree this.

LW added that xoserve often received requests for pieces of work and would need to address the practicality of delivering on time and make this clear (resource issues). It was suggested that one party should not be doing all the work, and perhaps certain work could be shared out. SB said that it was tricky to do the level of analysis she should like because not all the data was available to enable an assessment of the viability of a request.

DP commented that the risks could be £million(s) and that a third party may need to be employed to perform analysis on our behalf, and suggested that DESC may be able to subcontract an expert, similar to what was done under the RbD process. LW thought that the length of time for the tendering process might militate against this. Expert determination might be a resolution.

SB added that no dispute mechanism was of concern, especially as the Shippers had demonstrated unanimous agreement in their views and that was opposite to the views of the Transporters. It may be that expert determination needs to be reached through a dispute process, but SB was also conscious that there was a driver to get the allocation process to work as well as possible, and the two should not be irreconcilable.

GS suggested that agreement be reached on standard criteria/way of comparing a proposal for new/different analysis, and agreed to consider what sort of comparisons/measures might be required to facilitate this and would provide a list of criteria to SB to support Action RG0280/006, above.

Action RG0280/007: Consider what sort of comparisons/measures might be required to facilitate a standard way of comparing a proposal for new/different analysis and provide a list of criteria to SB to support Action RG0280/006, above.

BF added that how obligations are structured was important and may be changed so that Transporters become more neutral players. SM1 commented that if a party had met its obligation why would it continue to do anything over and above that; if a new methodology came along and the obligation was placed on the Transporters there would be extra costs in changing it.

BF asked the meeting if there were any more issues, as most questions seemed to be around the process itself rather than the content.

RP agreed that criteria by which to assess proposed changes was certainly needed, but was not sure that this should be included under UNC. BF suggested that this could perhaps be included in the ToR for DESC.

6. Review Group Process

The Review Group will continue to examine the identified issues and consider potential solutions.

Referring to the Work Programme, it was agreed that the following topics would be covered at the next meeting:

Meeting 3: Discussion and evaluation of the 'straw man'

- a) Annual Work Processes
- b) Non Annual Work Processes

Including roles and responsibilities, associated consultation processes, timescales, mechanisms for change, etc.

BF pointed out that there was very little time between this meeting and the next, bearing in mind that some actions taken today carried a heavy time commitment on the parties responsible.

Acknowledging the amount of work involved in producing the 'straw man' the meeting therefore agreed that it would accept late submitted papers (ie within the 5 day limit set out in Chairman's Guidelines).

7. Diary Planning for Review Group

Monthly meetings have been arranged to facilitate the Work Programme.

The next meeting will take place at 10:00 on Monday 15 March 2010 in Conference Room 6, 31 Homer Road, Solihull B91 3LT.

Meeting		Date	Time	Venue
3	Discussion and evaluation of a) Annual Work Processes b) Non Annual Work Processes Including roles and responsibilities, associated consultation processes, timescales, mechanisms for change, etc.	Monday 15 March 2010	10:00	Conference Room 6, 31 Homer Road, Solihull B91 3LT
4	Governance Processes, including definition of	Monday 19 April	10:00	Conference Room 5, 31 Homer Road,

	consultation and appropriate escalation routes; role of DESC and UNCC	2010		Solihull B91 3LT
5	Review of progress; review/approval of any draft Modification Proposals, provisional recommendations and draft Review Group Report.	Tuesday 18 May 2010	10:00	Conference Room 6, 31 Homer Road, Solihull B91 3LT
6	Finalise Modification Proposals; agree/finalise recommendations and approve Review Group Report.	Monday 14 June 2010	10:00	Room 4, Energy Networks Association, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF

Review Group 0280 Action Log: 26 February 2010

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0280 001	05/02/10	3.0	Amend draft Terms of Reference in light of discussions and publish for comment on the Joint Office website. Comments to the JO by Friday 12 February 2010, prior to submission to the UNC Modification Panel.	JO (BF)	Completed. Closed
RG0280 002	05/02/10	3.0	Review UNC TPD Section H defining and prioritising areas of particular concern, and provide in advance of the next meeting.	Proposer (SB)	Completed. Closed
RG0280 003	26/02/10	3.0	Investigate the possibility of a User Pays solution for the provision/pass through of data.	National Grid NTS (SG)	Pending
RG0280 004	26/02/10	3.0	Consider providing a list of the data that is currently used for annual NDM Proposals analysis, the CWV process, and the non-annual NDM Proposals analysis (ie listing everything used for each process, when and where it is available, and whether there are any intellectual property issues should the data be made available).	xoserve (LW/MP/FC)	Pending
RG0280 005	26/02/10	3.0	Collate list of concerns into the Review Group Report.	Joint Office (BF)	Pending
RG0280 006	26/02/10	3.0	Produce a 'straw man' for the annual process, to include a timeline and identified opportunities for involvement, and referenced	E.ON UK (SB)	Pending

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			to the Issues List.		
RG0280 007	26/02/10	5.0	Consider what sort of comparisons/measures might be required to facilitate a standard way of comparing a proposal for new/different analysis and provide a list of criteria to SB to support Action RG0280/006, above.	Scottish Power (GS)	Pending