

Modification Proposal 0123: Provision of Demand Information to meet 14:00 Total System Demand Forecast

Thank you for providing SGN with the opportunity to comment on the above Modification Proposal. SGN fully supports this proposal.

SGN believes that Modification Proposal 0123 provides a pragmatic and efficient means of addressing the needs of National Grid NTS, identified under Modification Proposal 0100.

Modification Proposal 0100 was raised by National Grid NTS to try and ensure the timely provision of demand information from Users (Shippers and DNs) in order that NTS could prepare the 14:00 D-1 Total System Demand Forecast. Modification Proposal 0100 requires DNs to submit Offtake Profile Notices for each individual NTS/LDZ Offtake by 12:30 D-1. This would be used by NTS to prepare a forecast of Total System Demand by 14:00. As indicated in our response to Modification Proposal 0100 SGN has a number of concerns regarding this proposal.

Firstly SGN can now confirm that it does not believe that it will be possible to secure suitably robust information in order to prepare a reasonable forecast of demand for the following day at offtake level by 12:30 D-1. The demand forecasting process is highly dependant on accurate weather data. Models require temperature forecasts at 2 hourly intervals. Forecasts for the following day are currently provided by the met office at 12:00. Whilst it may be possible to secure earlier information, we can confirm that this will be less accurate. Analysis has also shown that for every degree centigrade error in temperature forecast, there is likely to be a corresponding error in demand. We believe errors of between 3 and 5 would not be uncommon for some forecast blocks if information had to be provided earlier. As an example, this could result in errors in demand of between 15 – 25% for the relevant hourly block. The full extent of the impact would be dependant on the time of day over which the error occurred and where it was on the demand curve e.g. an error in temperature forecast during the day is likely to have a more significant impact than one that occurs overnight. If NTS were to rely on forecasts prepared based on earlier information, we believe it is likely to be extremely misleading and give incorrect signals to the market. SGN is concerned that this could result in inappropriate and inefficient behaviour. This would not be in the interest of any participants and would be detrimental to the relevant objectives. As such SGN believes an appropriate solution should be designed around the 12:00 weather forecast.

Secondly SGN does not believe that information is required from DNs at offtake level in order to allow NTS to prepare a forecast of Total System Demand. Under current arrangements DNs use weather data provided by the met office by 12:00 to prepare a forecast of demand by LDZ by 13:00. This is a long established process designed to maximise efficiency and accuracy. SGN believes, as proposed under Modification Proposal 0123, this should be sufficient to enable NTS to prepare a forecast of Total System Demand by 14:00. We believe the improved accuracy of the data compared to Modification Proposal 0100 would ensure NTS and market participants were able to act

on the best possible information available at the time and ensure the most economic and efficient operation of the market and the system. As specified in Modification Proposal 0123, DNS would continue to submit Offtake Profile Notices to NTS for operational purposes in the form currently described in the UNC OAD from 18:00 D-1. However SGN believes it is important that a clear distinction is made between forecasting requirements and operational requirements. Whilst operational requirements need information to be at offtake level we do not believe this is necessary in order to forecast Total System Demand Forecast. SGN believes Modification Proposal 0123 makes this distinction.

SGN believes that the requirement to provide demand forecasts at offtake level by 12:30 under Modification Proposal 0100 is unnecessarily complex. As stated in our response to Modification Proposal 0100, it would result in significant and unnecessary changes to existing operations and processes. It is now clear that such changes would take between 6 – 9 months to implement and it is estimated that this would result in additional costs of approximately £300 - £400k. An element of this amount would be incurred annually on an ongoing basis. Costs would be incurred in:

- amending existing IT systems to accommodate additional data and carry out additional calculations
- additional staff would be required to perform additional processes, prepare and submit forecasts and
- costs would be incurred in securing additional information from the met office.

SGN believes that if these costs were incurred they would be unnecessary and inefficient since SGN does not believe there would be any significant benefit. In contrast we believe that as Modification Proposal 0123 builds on existing processes and systems there would be no significant costs incurred in implementing arrangements and implementation could take place almost immediately.

We note that Modification Proposal 0123 requires Shippers to provide end of day offtake forecasts for those sites with NExAs or Storage Connection Agreements to DNs by 12:00 D-1. This extends obligations set out in Modification Proposal 0100 for the NTS. SGN believes this could further improve the accuracy of LDZ forecasts to be provided by DNs to NTS to feed in to the 14:00 Total System Demand Forecast. Whilst some changes would be required to internal processes to accommodate this, SGN does not believe the impact would be significant.

In summary SGN believes that Modification Proposal 0123 addresses the issues identified with Modification Proposal 0100 whilst meeting the needs of National Grid NTS. We believe Modification Proposal 0123 would better facilitate the relevant objectives, ensuring NTS has access to timely and accurate information that can be used to prepare a robust forecast of total system demand at the day ahead stage. The forecast would be sufficiently ahead of the relevant Gas Day, to allow market participants sufficient time to take appropriate action. As such we believe the proposal should help facilitate competition and the economic and efficient operation of the system.

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SGN is preparing a detailed response to Ofgem's letter dated 8th November requesting further information on implementation issues associated with Modification Proposal 0100. This will be provided by close of business on 15 November 2006. In the meantime I hope these comments are helpful.

Regards

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