

TRANSCO NETWORK CODE REVIEW PROPOSAL No. 0567
"Review of NDM demand forecasting methodology"
Version 1.0

Date: 15/07/2002

Urgency: Review

Nature of Proposal

With a view to addressing the concerns highlighted in the following section, it is proposed that a Review Group be convened with a remit to review the NDM demand forecasting methodology and the basis and use of NDM demand projections. This would include consideration of the merits or otherwise of Users using their own demand forecasts, provision of information to shippers, implementation of the functionality to support additional risk management tools and introducing a mechanism for Users to inform Transco if they decide to track their own demand forecasts. The review group would also assess the outcome of the changes introduced via Modification Proposal 0496.

Purpose of Review

Network Code Modification Proposal 0511 'Removal of NDM Forecast Deviation from Imbalance Calculations' is due to be implemented with effect from 1 October 2002. As a consequence it is expected that Users would have an incentive to achieve a closer daily supply/demand balance, with the effect of decreasing the role of Transco as residual balancer thereby improving the efficient and economic operation of the system.

This change will only deliver improve operation if Users with NDM portfolios have access to effective tools to enable them to better forecast NDM Demand and manage their imbalance exposures. Recently it has emerged that Users will not have access to the appropriate risk management tools, that there could be deterioration in the provision of information to Transco and therefore the benefits of implementing Modification Proposal 0511 are unlikely to be as great as most Users had expected.

Scottish and Southern Energy has recently raised Modification Proposal 0563 'Delay to removal of NDM Demand Forecast Deviation Tolerance', with a view to delaying implementation of Modification Proposal 0511. It is intended that this delay would permit the industry sufficient time to undertake a fundamental review of the NDM demand forecasting methodology and the basis and use of NDM demand projections. Even if Modification Proposal 0563 were not to be implemented (and Modification Proposal 0511 to take effect from 1 October 2002) it is still appropriate to undertake this review, as it has become apparent that there is a considerable gap in the level of information provision to Users from Transco. This will hinder the development by Users of improved demand forecasts and risk management tools.

The purpose of the proposed Review Group is to investigate:

- whether the Demand Attribution process might be improved;
- what information might be released by Transco to better facilitate individual User NDM demand forecasting;
- what further risk mitigation might be appropriate either within or outside of the Network Code to facilitate efficient risk management for Users whilst facilitating the economic and efficient operation of the system, for example, Modification Proposal 0553 'Amendment of Imbalance Calculations to Enable Elective Aggregation of Demand Across One or More Shipper Ids';
- whether Users should generate and follow their own forecasts, rather than a centralized forecast provided by Transco and the impact that this has on the economic and efficient operation of the system;
- whether it is appropriate for Users with NDM portfolios to be fully exposed to the risk of SMP cashout;
- whether some form of error correction mechanism to address demand attribution processes before, during and after the day might be appropriate;
- the merits of calculating energy imbalance, and hence cashout exposure at initial NDM allocation at D+5 versus the final reconciled position;
- how information from Users might be provided, and then used by Transco; and
- the implications of the above in relation to implementing changes to Transco and Users' systems, in particular, consideration of AT Link modifications and Project Gemini.

Area of Network Code Concerned

[Section C](#); [Section E](#); [Section F](#); [Section H](#)

Proposer's Representative

KATHERINE HELEN BEFROY

Proposer

Katherine Befroy (Scottish And Southern Energy plc)

Signature

.....