

UNC Workgroup 0453 Minutes Project Nexus – Demand Estimation

Tuesday 10 September 2013

at Consort House, 6 Homer Road, Solihull B91 3QQ

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Alex Ross-Shaw	(ARS)	Northern Gas Networks
Andy Miller	(AM)	Xoserve
Chris Hill	(CH)	Cornwall Energy
Chris Warner	(CW)	National Grid Distribution
Christian Ivaha	(CI)	British Gas
Colette Baldwin	(CB)	E.ON UK
Ed Hunter	(EH)	RWE npower
Elaine Carr*	(EC)	ScottishPower
Huw Comerford	(HC)	Utilita
James Hanks	(JH)	EDF Energy
Jon Dixon*	(JD)	Ofgem
Julie Varney	(JV)	National Grid Transmission
Lorna Lewin	(LL)	DONG Energy
Mark Jones	(MJ)	SSE
Michele Downes	(MD)	Xoserve
Mo Rezvani	(MR)	SSE
Robert Cameron-Higgs*	(RCH)	first utility
Sallyann Blackett	(SB)	E.ON UK
Steve Mulinganie	(SM)	Gazprom
Tabish Khan	(TK)	British Gas
Tim Davis*	(TD)	Joint Office

** via teleconference*

1. Introduction

BF welcomed all to the meeting.

1.1 Review of Minutes

The minutes of the previous meeting were accepted.

1.2 Review of Actions

Action 0453 08/01: CB, MJ and NA to invite the DESC membership to the 10 September Project Nexus meeting and to ask them to prepare a presentation outlining the principle differences between the current algorithm and the proposed regression analysis model solutions and provide their views on the appropriate governance route.

Update: BF explained that the action had been completed and welcomed those DESC members present to the meeting. **Closed**

2. Review Legal Text Update

Opening, CW reminded those present that the latest version of the (draft) legal text for this modification would be discussed (alongside the legal text for modifications 0432

and 0434) at the forthcoming dedicated legal text review meeting scheduled to take place on Monday 16 September 2013 at the Ofgem Office's in London.

Xoserve Algorithm – Future Changes presentation

AM provided an overview of the Xoserve 'Algorithm – Future Changes' presentation. During the following discussions, AM advised that he would be updating the BRD(s) to incorporate the proposed flexibility elements for changing the algorithm going forward, whilst seeking to avoid potentially 'hard coding' too many elements within the system and therefore hopefully enabling easier amendments in future (i.e. ease of change). Some concerns were voiced around the switching from one algorithm to another aspects of these proposals, whilst MR provided a brief explanation of the historic issues experienced by DESC in attempting to change the existing and previous algorithm(s) – the inclusion of a more flexible approach within the design of the system was applauded.

However, it was recognised that whilst building in additional system flexibility into the design of Project Nexus was a positive step, the second issue revolves around the governance of future changes to the algorithm and as a consequence, where this should reside (i.e. formally incorporated within the Uniform Network Code) - it was noted at this point, that the current codified algorithm has issues that would need resolving in the (near) future.

Some additional concerns were also voiced around how the system flexibility would/could be demonstrated whilst at the same time, it was acknowledged that the principle should be that any system solution should not constrain future algorithm development(s) – should this prove not to be the case, then very serious questions would be asked by the industry as a whole. AM undertook a new action to consider the points raised and to try to provide a theoretical model to demonstrate how the algorithm may be change managed in future which will hopefully help parties to better understand the proposals.

New Action 0453 09/01: Xoserve (AM) to seek to provide a theoretical model to demonstrate how the algorithm may be change managed in future.

DESC Proposed Algorithm and Associated Issues presentation

SB opened by explaining that the DESC members remain concerned that the modification does not clearly identify that the proposed solution is only a transient one. SB went on to state that the existing arrangements for changing the algorithm would not work in the post Nexus world and that the proposed DESC alternative whilst not perfect would be an improvement on the current arrangements. She suggested that the DESC proposal should be recognised as being the product of the extremely tight timescales imposed upon the group to deliver a workable solution.

A detailed debate then ensued on the potential timescales necessary to support more rigorous analysis of potential solutions, based in part on being able to collate and assess further information such as SMART metering data and thereby further refine the solution using regression analysis. It was noted that the to the algorithm should coincide with the start of the gas year as it would have significant impacts on shippers should it be changed part way through a year, even if it were just a few days.

Focus then moved on to consider what would be the impact of not aligning the delivery date of 0453 with the proposed Project Nexus delivery date, with concerns voiced around the potential undermining of the fundamental industry processes (i.e. AQ values, Allocation and Reconciliation impacts etc.). It was suggested that an earlier than 01 October date would not cause a major issue as the actual implementation date could then be realigned to 01 October, but it is the post 01 October dates that pose the biggest risk – it was acknowledged that a possible 12 month delay to the proposed Q4 2015 Project Nexus delivery date is NOT acceptable and would invoke serious industry ramifications. When asked, MD confirmed that she also doubts that the current

proposed algorithm would not work if it were to be introduced prior to 01 October 2015 as it lacks any scaling factor aspects. A new action was assigned to SB to provide a view on the potential impacts on Shippers should Project Nexus and the new algorithm 'go live' after the start of a gas year.

When it was pointed out that the move towards a rolling AQ regime could/would potentially minimise some of the impacts, MR suggested that DESC would need to consider this, whilst CI suggested that some form of reconciliation process may also be required going forward. It was suggested that there could be value in providing an assessment of the potential impacts of a pre/post 01 October delay.

In recognising that the issue with the current legal text is that some parties believe that it does not clearly identify the transient nature of the (DESC) solution, it was then suggested that consideration of adoption of a 'sunset clause' would/could be of value. CW remained unconvinced, as the lawyers have previously suggested that any potential sunset clause could not have an end date assigned to it.

Views remained polarised on where the algorithm should reside (i.e. within the UNC or outside of it), with CW once again reiterating the lawyer's view that it can only successfully reside within the UNC and thereby be governed appropriately. SM supported this position and indicated that whilst reasonably happy to support a 'end dated' style approach, managed via the UNC modifications process, he would be uncomfortable should the DESC be allowed to undertake changes to the algorithm outside of the formal UNC modification process - it was pointed out that DESC are not a Code party.

It was recognised that some form of avoidance of doubt statement for new market entrants would be beneficial, as it would make them aware of the limitations.

Moving on, CW indicated that he would be willing to consider expanding the current legal text to recognise the (DESC) recommendation and at the same time incorporate a statement that a one-off review to be completed in July 2016, supported by formal UNCC approval. However, some concerns were voiced that this may be too close to the Q4 2015 Project Nexus delivery date. However, SB advised that the analysis would commence in 2016 but would take a period of time to review and deliver a solution, this would create sufficient time between Nexus implementation and any potential amendments to the algorithm. SB then went on to advise that once the review had been completed she would anticipate that the (smaller) elements of the regression analysis would/could be changed on a 12 monthly basis. Furthermore, she recognises that should we get close to the 2016 date and not be in a position to demonstrate that the (new) regression algorithm would work, we may need to raise a new UNC modification to change it.

In attempting to summarise the key points from the discussion, BF identified the next steps as being amending the BRD's to reflect the discussions which would then 'drive' a review of the algorithm which may, or may not, require a new modification. CW advised that he would now discuss the matter in more detail with the lawyers. SB advised that she had an additional list of proposed amendments to the legal text that she would provide to CW later in the day and hopefully in time for consideration at the 16 October dedicated legal text review meeting.

New Action 0453 09/02: SB to provide views on the potential impacts on Shippers should Project Nexus and the new algorithm 'go live' after the start of a gas year.

4. Any Other Business

None.

5. Diary Planning

The following meetings are scheduled to take place during 2013:

Meeting	Date	Location
Dedicated Project Nexus Legal Text (0432, 0434 and 0453) Review meeting	16/09/2013	Ofgem, 9 Millbank, London. SW1P 3GE.
Project Nexus Workgroup (including 0432, 0434 and 0453 Workgroups)	30/09/2013	To be confirmed.
Project Nexus Workgroup (including 0432, 0434 and 0453 Workgroups)	22/10/2013	To be confirmed.

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0453 08/01	13/08/13	2.	To invite the DESC membership to the 10 September Project Nexus meeting and to ask them to prepare a presentation outlining the principle differences between the current algorithm and the proposed regression analysis model solutions and provide their views on the appropriate governance route.	CB/MJ/NA	Completed. Closed
0453 09/01	10/09/13	2.	To seek to provide a theoretical model to demonstrate how the algorithm(s) may be change managed in future.	Xoserve (AM)	Update to be provided.
0453 09/02	10/09/13	2.	To provide views on the potential impacts on Shippers should Project Nexus and the new algorithm 'go live' after the start of a gas year.	E.ON UK (SB)	Update to be provided.