

Representation

Draft Modification Report

0331: Demand Estimation Section H Changes to Processes and Responsibilities

Consultation close out date: 05 September 2011

Respond to: enquiries@gasgovernance.co.uk

Organisation: **E.ON UK**

Representative: Sallyann Blackett

Date of Representation: 26 August 2011

Do you support or oppose implementation?

Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

The current Demand Estimation process as defined in section H has not been reviewed since code inception. Over this time expertise across the industry has grown with greater investment in meteorological experts within shipper organisations. This Modification is intended to allow access to this expertise and to combine it with established practices in order to improve the demand estimation process.

Historically profiles have been derived with a view to improving peak demand – a key Transporter requirement. The actual impact from allocation is felt within Shipper organisations where the driver is to improve within year shapes to minimise risk from changing consumer behaviour.

In essence Mod 331 looks to simplify code removing the restrictions from a very prescriptive definition of the calculations currently constraining analysis while maintaining the safeguards currently available. The aim is to drive development of more accurate profiles by allowing the data collected to define the analysis and outcomes. It also looks to build on experience and knowledge across the industry in a collaborative manner to enable this area of work to more readily reflect changing demand patterns and energy efficiency measures ensuring an allocation that can adapt to the increasing changes we are seeing in consumer behaviour.

Implementing the modification will allow immediate improvements in analysis through the current DESC sub-committee. To enable full use of industry expertise our intention is to request DESC to set up an expert group. This will allow greater industry participation and use of data that would not otherwise necessarily be available to Transporters.

In addition removing current code constraints will allow flexibility to roll in smart information and demand pattern behaviour in a manner that would not otherwise be possible.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

No

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

Allocation is used to share daily energy across Shipper portfolio. From a Transporter perspective the allocation methodology is designed to fully allocate all energy, and therefore Transporters income for each day is mostly complete with risk for incorrect allocation and subsequent movement sitting with Shippers.

It is essential for Shipper organisations to minimise this risk as the differential between purchasing energy for final reconciled position against initial allocation can be significant given price movements. For example, reconciliation for 2009 to date has adjusted over 1TWh of the initial allocation for January 2009 from LSP to SSP markets. Given price changes between purchase could be large this is a high value risk. For example the differential between Sept 2008 purchase prices and Jan 2009 SAP used for reconciliation, only a 4 month difference, was up to 23pence per therm and this amounts to just under £8million on a 0.2% volume change for a single month. It can be seen from this that the risk to Shipper organisations can be significant. The workgroup considered enabling better allocation would therefore facilitate the Transporter obligation to ensure effective competition as any risk in misallocation is also reflected in an increased reconciliation risk.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

There will be a requirement from Users for input into an expert group. As the benefits from improvements to allocation are considerable, it is expected that there will be a net benefit to any immediate costs from resourcing the group.

There will be ongoing operational costs from resourcing the expert group.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

In order to influence October 2012 profiles the Modification would need to be implemented before the end of 2011 to allow sufficient time to set up an expert group and enable input into the 2012 Spring analysis.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

Yes

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.