

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

Review Group (UNC0280) Minutes

Monday 15 March 2010

31 Homer Road, Solihull, B91 3LT

Attendees

Tim Davis (Chair)	TD Joint Office of Gas Transporters
Lorna Dupont (Secretary)	LD Joint Office of Gas Transporters
Alison Chamberlain	AC National Grid Distribution
Chris Warner	CW National Grid Distribution
Colin Thomson*	CT Scotia Gas Networks
Dave Parker	DP EDF Energy
Fiona Cottam	FC xoserve
Jonathan Aitken	JA RWE npower
Mark Perry	MP xoserve
Matthew Jackson	MJ Centrica
Mo Rezvani	MR SSE
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

**via teleconference*

1. Introduction and Review Group Operation

TD welcomed members to the third meeting, which was quorate.

2. Review of Minutes and Actions

2.1 Minutes of previous meeting (26 February 2010)

The minutes were approved.

2.2 Actions

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

Update: SG reported different options had been discussed with Meteo Group, which foresaw no difficulties in any Shipper contracting with it. Shippers could do this now and purchase exact copies of the file (containing the same information and following the same timing); Meteo was not too keen on a contract that would allow open pass through. SG confirmed that actual data

was cheaper than forecast data. DP questioned what quality control was exercised when it was received, and thought there was an argument to be made for one set of data. It was concluded from SG's explorations that a User Pays solution was possible and that data could be made available although this may be at a cost.

Action closed

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).

Update: MP gave a short presentation in response to this action, setting out the key outputs, the data sources for DESC information, the publication times, and details of the associated calculations for both the annual and the non-annual processes.

SB commented the presentation detailed outputs rather than the raw data and its origin, which was what was required for Shippers to replicate the same modelling, eg the Holiday Codes would have been derived from somewhere – what have they been created from? For a Shipper to be able to perform the underpinning analysis further information was required, from a deeper level, ie the underlying or primary data that supported the list in the presentation. What is desirable initially is the opportunity to evaluate and provide reassurance that appropriate decisions/assumptions have been made to assemble the input data. This goes beyond replicating an answer using that input data, and SB concluded that access to, and an understanding of, the raw/original data was required to validate the modelling.

DP recognised that data related decisions often had to be based on judgment. FC pointed out that written rules may offer too great a restriction, whereas an expert group may be better placed to apply appropriate judgment - it would certainly allow more opportunity to ask sensible and accurately focused questions and to query assumptions/decisions if appropriate. Some of these were operational processes that may involve 'a view' to be taken and rules for this were not necessarily written down; perhaps some broad guidelines were required that provided a degree of latitude. FC commented that xoserve was not locked in to what was in the presentation – it was possible to do a 'cold' review but this would be after the event, as tight timings do not allow for a 'hot' review at a prior point given the existing timetable. In a review of the processes, providing opportunities and time for a 'hot' review could be considered, but bearing in mind the balance between using up-to-date/out-of-date data.

Following the presentation and discussion it was concluded that for both the annual and non-annual processes further detail was required at a deeper level, ie what is the data, what are the barriers to releasing it and sharing it. JA added that it would also be helpful to know the granularity of the data, eg whether it is compiled at LDZ level, etc, for each item that is used and what could be provided.

xoserve noted these points and agreed to report back to the next meeting.

Action carried forward

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

Update: Ongoing.

Action carried forward

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.

Update: See 3.1, below.

Action closed

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.

Update: SB reported that an initial view had been received from GS but that further detail was required.

Action carried forward

3. Presentation of 'Straw Man' (Action RG0280/006)

3.1. Discussion and evaluation of the 'straw man'

SB led the meeting through her rationale, and a discussion of the various points raised followed.

3.2. Annual Work Processes

Methodology Development

The straw man envisaged the formation of a group of experts, drawn from across the Shippers and Transporters, which would act on behalf of the industry and be empowered to act independently from their various organisations. This might be DESC or, more likely, another body specifically convened for the purpose.

The Shippers present were supportive of such an approach; the Transporters present were not averse. It was commented that the governance arrangements, process and timescales should be designed to succeed rather than 'fall over', since values must be generated, and that care would be needed in creating an appropriate framework.

It was believed that a subgroup might give greater flexibility than the existing DESC. RP pointed out that DESC covered other functions, and hence he would favour a subgroup. SB responded that DESC had no rights or practical powers to agree anything; it had originally been set up as an expert group to address the intricacies of demand estimation, etc. It had no voting rights; although it could make representations and suggestions, it could not force through a change. Following the previous year's experiences in particular, direct

involvement and day-to-day participation on decisions and planning was to be preferred. MR added that, given that DESC was the expert group, governance was the real issue. Decisions needed to be agreed outside of the small team that carries out the analysis; this would give greater visibility and assurances that any decisions taken are sensible and appropriate. Governance has been an issue and an inability to influence has led to frustration and concerns. Positive opportunities need to be provided for reassurance and participation in evaluation and validation.

RP believed one body, to be determined, should carry out the analysis. SB added that, given the timescales, it could not be left to chance that data was released in the hope that someone would do the analysis. An answer would have to be ensured; to effectively improve and change what is done, there had to be opportunities to ask the right/different questions via the expert group. MR suggested that analysis should be provided to all members of the expert group, with a time bound period for comments/presenting improvements.

SB suggested that perhaps everything should be frozen unless a decision could be reached on how to do it better; a good argument/reasons for change would have to be presented and accepted. RP suggested that tests for deciding the materiality of an issue might require development.

TD summarised the discussion, comments made so far being positive and indicating that there was a real prospect of setting up an expert group. The difficulties may lie in establishing a governance process and whether or not it should operate in an advisory or decision-making capacity.

Analysis

The discussion moved on to consider the points raised regarding the production of the analysis, including the access of various parties to such analysis, and the power to question and influence changes to the course of the analysis. The effects that the operation of an expert group might exert on the process were also considered.

It was acknowledged that a central team on behalf of the whole industry already undertook analysis. The issues lay in having access to the process and underlying information and being able to consider and actively question and improve what was being done, ie giving visibility on the manipulations and exclusions relating to the data.

There were concerns that a 'group effect' might result in a slowing down of the process, through the potential volume of questions/queries, and this may need to be taken account of in any reconfiguration of the process in revised timescales. A group decision on materiality together with built in check points was suggested. MJ pointed out that providing a knowledgeable resource to be available for ad hoc group meetings to agree decisions might be difficult in some circumstances. Some form of updating communications to the industry to give transparency on any decisions made would also be required. RP voiced concerns as to how the effects of an increased participation could be fitted into the timetable; there would be practical implications if frequent decisions were to be considered and made. MJ believed that an indication of the rationale(s) used

when manipulating and deciding data components would be useful. SM asked if there was any leeway in the current process to build in opportunities for review and rechecking.

It was suggested that the analysis should not be driven by way systems and processes are currently set up. SG advised that the systems were configured to meet the objectives set; some review periods may be available, but some things were done as offline analysis to test the methodology. SB believed it would be better to have opportunities as the process proceeded to review and check and make a change if that was deemed more appropriate. It might be helpful to see if some exclusion could be made if this was presenting an inappropriate answer - under the current system the reviewing is not effective because it is always too late to do anything to put it right and this is a very poor position to be in. Reliance on any problem having been a 'data issue' and responding that there would be new data next year, implying that it will be different, does not improve matters.

RP suggested that perhaps a two year timeline was needed for a revised process, and consequently a recognition and acceptance that data was 'out of date' but still workable?

FC suggested reviewing the current timeline to see if different opportunities could be created and the time could be used in a better way. If a different approach was used, would the time set aside, for example, for potential 'disallowal' still be required, or could this be utilised more beneficially. xoserve agreed to provide a timeline of the existing process.

Action RG0280/008: Annual Process - provide a timeline of the existing process.

SG pointed out that the tighter the time schedules the more risk there was to the quality of the output and the more room for error, as the time available for proper testing and checking is often marginalised and sometimes ignored. In his experience, fundamental errors were more likely if last minute changes were introduced. FC added that time to revisit/redo certain things could not be legislated for 100%. DP thought that an expert group would recognise this and that having prior visibility of each stage of the process should help to identify any problems and should help to ameliorate concerns and reduce the risks. JA pointed out that the industry did not want a process so slow that recent data cannot be used, and that was incapable of looking at real, material changes quickly. SM suggested that some items could be agreed and produced in advance, eg Bank Holidays and weekends, etc. FC believed that a stage would be wanted where a level of analysis could be done accompanied by a set of tests to decide if there were statistically significant differences. JA observed that there should be no obligation to change anything unless, everyone having had an opportunity to see/decide, it was obvious that such a change should be made. FC did not think this would work under the current process because of the timing issues and the analysis schedule.

JA suggested that nothing should change unless a trigger was reached to review it or a particular component of it. Appropriate triggers would have to be agreed, or alternatively a party recognising a problem could present a solution

to it. Tests for accuracy could be developed. The expert group would then be able to take decisions. Perhaps this could be addressed within the design of a matrix, so that any improvement would be made for the benefit of all and not just one party. JA added that a modelling process was required that was robust enough so that any low level decisions were unlikely to cause it any great disturbance. FC observed that initially time might need to be invested in order to reach a point that all parties were happy to start from.

It was pointed out that decisions with big cost implications for various parties would also require very careful consideration. TD noted that the Transporters were not keen to set up a process giving carte blanche, and the Shippers were not keen to set up a process that may be low cost but would result in poor accuracy in terms of allocation. The answer would lie somewhere in between, with cost and benefits in proportion. MR observed that improving the whole process should help to improve the efficiency of the allocation.

TD concluded that a timeline for a revised process, indicating how the expert group could participate in and add value to the process, was likely to be helpful.

Data

When challenged on the proposed expert group determining sample sizes, and the potential for the transporters to incur significant costs, SB pointed out that sample sizes are currently determined by DESC.

Review of Output

The previous discussions included consideration of outputs.

Sign Off Process

SB explained that the straw man was trying to ensure transparency and also ensure that no one was disadvantaged or excluded should they have a view on the output, because the allocation would affect all parties.

In response to TD's question all present were in agreement with what was proposed under this section of the straw man.

Demand Estimation Sub-Committee Membership and Voting Rights

There was a short discussion through which it was recognised that getting the balance right between the voting rights of different parties may be problematic. Various existing voting models were mentioned as worthy of consideration, eg the UNC Modification Panel, EBCC, UPUC, SPAA, where an appropriate and acceptable balance (for the specific role) appeared to have been achieved.

In response to SB's challenge, SG did not believe it to be appropriate to exclude National Grid NTS, as its financial support of the process through xoserve was significant. MR observed that perhaps this was an area where more visibility would help other parties to a greater understanding of what exactly was being done and what was being paid for and by whom. If National

Grid NTS was contributing financially then it should be included. FC added that Load Factors significantly impacted the Transporters' charging rates.

TD confirmed that no one present thought that National Grid NTS should be excluded and indicated that the Straw Man should be amended to reflect this view.

It was accepted that a disagreement resolution process may also be necessary, albeit problematic.

It was acknowledged that the outcome of whatever voting process is agreed might at some time result in a 'tie' position, and a short discussion ensued on the best way to deal with an impasse. TD suggested that reversion to the status quo could be appropriate, because such a result would indicate that the argument for any proposed change had not been either explicit or sufficiently attractive to generate the required level of support.

If this was not an option then a dispute process may be required, however this could be time consuming and expensive. Ofgem might be considered a natural choice for arbiter, but may be reluctant to take on this role. RP believed that a distinction should be made between an inability to reach a decision and a dispute.

It was agreed that this would be an important issue for consideration when the governance processes are developed.

3.3. Non Annual Work Processes

CWV Definition and Review

In respect of these processes, SB would expect to see the same expert group in operation, acting under the same rules as for the annual process. She believed that the reviews should be carried out on a regular but flexible basis and that this should be more than 3 years, or where a significant event/change would 'naturally' force a review, potentially at any stage. Ossification of any process and its review programme was to be avoided.

MR pointed out that the Straw Man did not allow for a view that the CWV may not be required at all; methodologically and statistically he did not believe it was the best way for modelling, and different variables could be considered.

It was questioned whether it was necessary that any of the review periods should have to coincide or conversely be avoided, for reasons such as work load balance for example; SB responded that none had to necessarily be tied together.

SB confirmed that she was hoping change would be enacted before any changes required as a result of Project Nexus, which would in any event only be fully effective by 2020 given the present target for rolling out smart meters. A way of allocating energy was still required in the interim period between 2010 and 2020 so factors of some sort will be needed, providing a legacy process with a lifespan of approximately 10 years.

Seasonal Normal CWV

SB commented that, again, the intention was to ensure that this was looked at on a regular basis, 5 years or sooner, with good evidence, and visibility needed to be built in to the process as soon as possible. Any party should be able to present evidence and request a review.

JA suggested that it might be useful to define what Seasonal Normal is, and what it is aiming to do, as it would not be appropriate to constrain the expert group by shackling it with its poor definitions. Definitions should be clear enough to provide a good, sound starting point. MR suggested that it be kept vague enough to use, so that one could move to a forecast average and/or a climate average where most appropriate.

TD referred to the statement whereby “the expert group should undertake analysis or be able to commission analysis ...” and pointed out that the commissioning of work potentially involved adherence to a specific procurement process/rules/legislation and implied a budget with which this group may not be endowed. RP believed that European procurement laws could present difficulties if Transporters were involved. However, xoserve might be able to offer analysis/changes as a non Code User Pays service.

SB believed that using commissioned data/analysis should not be a problem. It was more a principle of using it when it was available and any such data should be able to be shared with UNC signatories. TD commented that this might amount to an expert group guiding a service provider in doing the analysis.

Ad Hoc Analysis

SB commented that this may not fit under the annual or the non-annual processes, but she would expect everything to be consistent with what was agreed for other processes.

Expert Group

This concept was revisited in light of the foregoing discussions. It was envisaged that one expert group would be required, with perhaps a variable membership of competent individuals who would act on behalf of the industry and not in the interests of the company that employs them (similar to EBCC members).

Voting rights would have to be formalised and a process may be required to achieve this. Meetings should be open to all. JA suggested that nominated persons would have voting rights, but this would not preclude other persons with appropriate knowledge from attending or making valid contributions.

TD explained the experience of creating and agreeing formal voting rights for the User Pays User Committee (UPUC) and suggested that different voting models be given consideration.

Further actions were then discussed and agreed as follows:

Action RG0280/009: Produce a timeline, including a disputes process, with Expert Group participation overlaid.

Action RG0280/010: Using the Straw Man and comments from today's discussions, produce Terms of Reference for an Expert Group.

3.4. High Level Review of UNC TPD Section H

SB explained that the paragraphs highlighted in yellow were for review, as these might still be within scope though not covered in her Straw Man. Paragraphs highlighted in blue were covered in the Straw Man. There was a brief discussion on what could be changed, eg CWV, SN, and governance processes may require to be changed.

TD suggested that, given the suggested process, some areas might be usefully extracted from UNC itself and brought together in a UNC Related Document, under the auspices of the expert group.

MR and DP suggested that the expert group might then be well placed to undertake a deeper review of UNC TPD Section H, and raise Modification Proposals as appropriate. Imposing the principles drawn out from the Straw Man onto UNC TPD Section H would be a major task.

Action RG0208/011: All to review UNC TPD Section H with a view to deciding what changes may be required.

The inclusion of the expert group within the UNC was discussed. TD observed that rules for an expert group could sit outside of the main UNC, but it would not be sensible to restrict the group too closely in the activities it could address. SB believed that some areas were too prescriptive in what was required under UNC at present. TD suggested this implied relegating some of the detail to the expert group. MR thought this should be considered only where there was a specific advantage in so doing. CW pointed out that core changes would need a UNC Modification Proposal to effect/remove as appropriate, and that some rules would need to be agreed: it would be a good opportunity to remove unnecessary detail.

It was agreed that careful thought should be given as to what the expert group would have the authority to do, and how this should be reflected within the UNC.

4. Discussion of issues identified

No further issues were identified.

5. 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 4: a) Governance Processes (including definition of consultation and appropriate escalation routes;
b) Role of DESC and UNCC.

In preparation for the next meeting TD suggested that a Straw Man governance process be produced.

Action RG0280/012: Produce a Straw Man governance process.

6. 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 19 April 2010 in Conference Room 5, 31 Homer Road, Solihull B91 3LT.

Meeting		Date	Time	Venue
4	Governance Processes, including definition of consultation and appropriate escalation routes; role of DESC and UNCC.	Monday 19 April 2010	10:00	Conference Room 5, 31 Homer Road, 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: 15 March 2010

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
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)	Closed
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)	Further detail required. Carried forward
RG0280 005	26/02/10	3.0	Collate list of concerns into the Review Group Report.	Joint Office (BF)	Ongoing Carried forward
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 to the Issues List.	E.ON UK (SB)	Closed
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)	Further detail required. Carried forward
RG0280 008	15/03/10	3.0	Annual Process - provide a timeline of the existing process.	xoserve (FC/MP)	Pending

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0280009	15/03/10	3.0	Produce a timeline, including a disputes process, with Expert Group participation overlaid.	E.ON (SB)	Pending
RG0280010	15/03/10	3.0	Using the Straw Man and comments from today's discussions, produce Terms of Reference for an Expert Group.	E.ON (SB)	Pending
RG0280011	15/03/10	3.4	All to review UNC TPD Section H with a view to deciding what changes may be required.	ALL Shippers and Transporters	Pending
RG0280012	15/03/10	5.0	Produce a Straw Man governance process.	Joint Office (TD/BF)	Pending