

## 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:** **EDF Energy**  
**Representative:** Stefan Leedham  
**Date of Representation:** 05 September 2011

#### Do you support or oppose implementation?

Support

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

The processes and arrangements within the UNC for demand estimation have remained virtually unchanged since the network code was originally created. Whilst historically it was appropriate that the responsibility for demand estimation rested with National Grid (Transco as was) with the creation of the UNC in 2005 the responsibility for demand estimation moved to all the Gas Transporters. Although National Grid (NG) has retained expertise on demand estimation we are unaware of what expertise resides within the GDNs who appear to pass responsibility for this to xoserve who rely on the resources of NG. Over the same period the expertise and resources within Shipper organisation have increased exponentially over the period. Demand estimation has a direct impact on the energy allocated to Shippers and to their costs. Shippers have therefore been incentivised to ensure that their demand estimation processes have remained as accurate as possible and take into account the effects of climate change. In comparison the Transporters remain neutral to demand estimation and allocation processes, so the demand estimation methodologies employed within the UNC have lagged behind best practice. Implementation of this proposal will enable the UNC to draw upon the expertise within Shipper organisations and ensure that the most up to date and accurate demand estimation and allocation processes are utilised. This will have a beneficial impact on competition between Shippers and also facilitate the administration of the UNC as the demand estimation process will not be constrained to current UNC requirements.

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

No new issues.

**Relevant Objectives:**

*How would implementation of this modification impact the relevant objectives?*

### **Standard Special Condition A11.1 (a).**

We are surprised to note that there is a view that demand estimation does not impact on the planning or operation of the pipeline system. We would have expected that the day to day operation of the pipeline system was driven strongly by the demand estimation process, especially as in the extreme the Gas Balancing Alerts (GBAs) and Gas Deficit Emergencies (GDEs) are driven by demand estimations. Improving the demand estimation process so that it is more accurate would be expected to result in NG taking more efficient and economic actions as system operator which would facilitate this relevant objective. In the extreme an accurate demand estimation process may avoid a GBA or GDE being declared and the associated impacts that this has on the operation of the system. It would therefore appear that implementation of this proposal would facilitate SSC A11.1 (a) if it resulted in more accurate demand estimations.

### **Standard Special Condition A11.1 (d).**

The shortcomings associated with the demand estimation process currently employed by the Transporters have been recognised both by Shipper experts and independent experts such as the Met Office. Although modification proposal 0330 has been raised and is progressing through the UNC process to address specific issues, implementation of this proposal will allow DESC to develop a more accurate methodology on top of this. This in turn should result in more accurate cost allocation; this reduces all NDM Shippers' exposure through reconciliation risk caused by changes in energy prices.

In particular we note that most, if not all, NDM Shippers have a hedging strategy for their energy purchases to hedge against volatile energy prices that covers several years. Therefore the price that a Shipper pays for its gas could be materially different to the spot price that it uses to balance its portfolio, or the SAP price used for reconciliation. A more accurate demand estimation methodology will result in more accurate energy allocation so reducing Shipper's exposure to any difference in what they paid for the gas compared to what they are reconciled at.

Therefore implementation of this proposal will have a beneficial impact on competition between Shippers by improving energy allocation (and so cost targeting) and by reducing NDM Shippers' exposure to energy price movements.

### **Standard Special Condition A11.1 (f).**

Historically when Shippers have attempted to implement a change to the demand estimation process this has required 3 modifications and the implementation of a sub-optimal solution due to UNC constraints. A more efficient solution would have been for the solution to have been developed with DESC with issues raised and addressed at a very early stage in the process. Implementation of this modification will hopefully avoid the need for these modifications and so ensure the efficient administration of the UNC.

### **Impacts and Costs:**

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

We would expect to be active participants on DESC and any expert sub-group, and so there will be resource costs associated with this. However, we would expect these additional costs to be offset by the expected improvements to the demand estimation process.

On the User pays elements of this modification proposal we note the proposal to fund any incremental costs through a 100% User Pays charge to NDM Shippers. We support the form of this charge, but would question whether it is appropriate for Shippers to fund 100% of this cost. In particular if this proposal were deemed to have a beneficial impact on the operation of the system then we would expect Transporters to fund between 25-50% of the incremental costs, in line with the User Pays Guidelines document.

### **Implementation:**

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

Were Ofgem to reach a decision on this proposal prior to 1 October 2011 then we believe it could be implemented immediately as it is a facilitating proposal. Were Ofgem to reach a decision after this date then it would be appropriate for the transporters to consult with industry to identify whether there was sufficient lead time to implement this new regime in time for the start of the next gas year.

### **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.*

It is interesting to note that all of the Transporters have been allocated one place at both DESC and the proposed expert group, which could be provided to xoserve on their behalf. We note that whilst this may have been appropriate historically, implementation of this proposal will remove the requirement on the Transporters to develop a demand estimation methodology. It would therefore appear that Transporter representation on DESC would only be required if it had an impact on the operation of the system. As this role is fulfilled by NGG NTS we do not believe that it is appropriate for GDNs to be represented on DESC if they have no direct exposure to demand estimation. We note that Shippers are not members of the Offtake Committee as they have no direct impact, and it could be questioned whether Shippers should be represented at this committee if GDNs require representation at DESC.

It is also interesting to note that all of the Transporters have been allocated a place at the DESC expert group. The role of this expert group is to provide detailed, expert views on the methodologies that could be followed and the analysis that could be undertaken. It is our understanding that these experts are there to represent the interests of the industry to develop an accurate methodology and to provide expert advice and opinion. We therefore believe that if the Transporters were to nominate individual representatives then a place should only be allocated if they can demonstrate their expertise and knowledge of demand forecasting methodologies. For clarity we recognise that xoserve will need to input into this process to ensure timelines are met, but unless they can demonstrate expert knowledge in meteorological or climatological issues then they also should not be members. The risk otherwise is that the role of the expert committee is undermined if non-experts are attending and obstructing the process. We believe that the Transporters should provide clarity on how they intend to approach the resourcing of these groups.