

## **CAP 127 – 4<sup>th</sup> Working Group**

**Wednesday 22<sup>nd</sup> November 2006**

**Present:** Hedd Roberts (HR) National Grid Chair  
Beverley Viney (BV) National Grid Technical Secretary

**Members:** Dipen Gadhia (DG) Ofgem  
Paul Murphy (PM) National Grid  
Wayne Mullins (WM) National Grid  
Bec Thornton (BT) National Grid  
Mark De Souza (MD) npower  
Lee Selway (LS) EdF  
Ben Sheehy (BS) E.ON  
Dave Wilkerson (DW) Centrica  
Andrew Colley (AC) Scottish & Southern  
Keith Munday (KM) Bizz Energy

**Apologies:** Jenny Boothe (JB) Ofgem

### **Introduction**

HR outlined the timescales for this Working Group. The CUSC Panel has given the Working Group a 3 month timescale, therefore the Working Group Report needs to be issued to the Working Group members for comment no later than the 28 November in order to be issued with the CUSC Papers on 7 December. HR reiterated that the Working Group should try where possible to reach agreement rather than a number of Working Group Alternative Amendments.

A meeting was held the previous day with KM and AC to bring them upto speed with the group as they had been unable to attend meeting 3. HR recapped briefly to the group the discussion held.

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WM ran through what the group had agreed to date:

- The definition of HH and NHH Base VAR profiles consisting:
  - Demand profiles assuming average weather conditions;
  - Payment profiles assuming two missed payments at the stage at which a supplier stops accruing TNUoS liability (One group member re-opened this issue towards the end of the meeting, raising a concern over whether this would lead to over-securitisation. Taking into account evidence that had been produced by National Grid (suggesting a minimum of two missed payments and a likelihood of three) and experiences of other working group members, the remainder of the group agreed that two missed payments was appropriate);
  - Final Reconciliation amounts of 1% of annual NHH liability and 0% of annual HH liability;
  - An average set of triad dates defined using triad dates since NETA Go-Live. (In response to an action from the previous meeting, WM stated

that National Grid had considered removing unlikely triad dates from the data set used to calculate average set of triad dates. It was decided that doing so would not represent the typical risk profile, and would artificially alter the resulting base level of VAR. The group agreed);

- A quarterly set security periods should be used. (KM questioned when these should commence. This is covered in more detail below).
- Agreement had been reached that a fixed base level of VAR should be secured in each security period, determined as the actual average of the base VAR profile during the period concerned.
- Agreement had been reached that HH and NHH related VAR should be aggregated and as a result netted during summer security periods, when the HH Base VAR is negative.
- Agreement had been reached that a forecasting performance factor should be added to the Base level of VAR in each security period, to account for additional VAR relating to a supplier under forecasting and initial reconciliation. It was agreed that this should be based upon historical forecasting performance.

### Security Periods

KM questioned whether or not an alternative set of quarterly security periods should be used to quarters of a financial year (with the first quarter commencing 1<sup>st</sup> April). WM had presented an analysis and the group agreed the following:

- the NHH base level of VAR was generally acceptable wherever the quarters were defined within the year.
- However, this was not the case for the HH VAR profile. It had previously been agreed that the maximum base level of VAR should be secured during the period in which the Base VAR profile was at its peak. The group agreed that using quarters of the financial year seemed to present an appropriate way of doing this.
- The argument used for moving the security periods was that a customer may be under secured if taking on an unforecasted large proportion of customers and there was an early triad. However, moving the security periods so that one commenced during November, resulted in no or very little base VAR being secured during a period where significant risk was present. The group agreed that this was inappropriate.
- Further to this if a security period commenced during the beginning of December, the amount of security provided during the period in which the base level of VAR was at a maximum was low, as a result, the group agreed that this was inappropriate.
- As a result the majority of the group agreed that the most appropriate set of security periods to be used were quarters of a financial year (with the first quarter commencing 1<sup>st</sup> April).

KM expressed unease with this due to the risk of an early triad and the majority of customer change is October/November. However, such a change in a supplier's customer base must be significant (around ~50%). The remainder group agreed that the likelihood of this occurring in conjunction with an early triad, and any forecasting performance related VAR not being sufficient, was low, and as a result were willing to accept the associated risk of socialisation.

In addition, it was discussed whether 6 monthly was more appropriate, but there was concern that this diluted the resulting level of Base VAR, and as a result this was deemed inappropriate.

### Forecasting Performance

WM explained how the appeals process proposed to be used when taking a five monthly average under forecast was intended work. It was agreed that if such a process was used:

- the period of customer growth associated with an appeal would not exceed a period of 20 business days, as after this period would have expected revised forecast to have been submitted.
- A supplier can submit multiple appeals, consecutive appeals were allowed, overlapping appeals would not be permitted in relation to a particular demand type (HH/NHH).
- Appeals may only be raised and be successful if the relating change in demand equated to at least a 1% increase in TNUoS liability for a particular demand type (HH/NHH).

One group member suggested that although the appeals process was likely to work in most cases, there could be a few exceptions, and suggested the provision of data to National Grid. National Grid were concerned over how auditable this data would be and the difficulty in determining the growth in liability.

It was suggested by another member of the group that a weighted averaged was used to reduce the risk of a supplier being discriminated in the rare instance that the appeals process could not be applied. It was agreed that any weighted average should be defined logically. The suggested method of using a weightings that are reflective of expected liability would be used.

After much debate and the consideration of different methodologies (including using a weighted average over a five month period with no appeals process, and using an average of the last two months of the year), it was agreed by the working group that the following methodology should be adopted:

- A weighted average of performance of forecasts used to produce the last five TNUoS invoices in a previous financial year (the last year for which an initial reconciliation has been calculated) would be used;
- To avoid providing users with an incentive to over forecast, any negative levels forecasting performance related VAR will not be permitted.
- A harsh weather allowance of 6% of HH annual liability and 3% of NHH liability shall be subtracted from any resulting forecasting performance.
- The appeals process would be used as proposed by WM.
- Any appeals would have to be submitted to National Grid within one month of a supplier initially being notified of the intended level of forecasting performance. After an appeal is submitted, National Grid would have a further month to recalculate the forecasting performance and notify the supplier of the revised level.
- To provide a level playing field, the forecasting performance related VAR, shall become effective (replacing any existing level) following the appeals period, regardless of whether or not an appeal has been raised.

A request that WM provides an updated version of the forecasting performance and appeals process examples was made.

Action 1: WM to provide an updated version of the forecasting performance and appeals process examples, taking into account the agreed methodologies.

#### Transitional Arrangements.

It was agreed to recommend the usual 10 working days after decision for implementation, with any additional security being gradually provided over 12 months, as per transitional arrangements for CAP 89/90/91.

Forecasting Performance shall be calculated using the method currently defined in the CUSC until the initial reconciliation for 2006/07 has been undertaken, after which, forecasting performance shall be calculated as agreed above.

#### AOB

HR thanked everyone who contributed to the working group and stated that the agreement of a single proposal with no working group amendments was a considerable achievement.