

Conclusions Report to the Authority

Modification Proposal to the Use of System Charging Methodology

UoSCM-M-12

Proposed change to the TNUoS Demand Monthly Charges Rules

26 March 2004

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1. INTRODUCTION

A consultation document for modification proposal UoSCM-M-12 was issued on 28 November 2003. The document set out for consultation National Grid's proposal to modify the Use of System Charging methodology for the determination of Demand Charges in relation to a User's provision of their forecast of demand.

Comments on the modification proposal were invited by 4 January 2004.

2. TERMS OF THE ORIGINAL PROPOSED MODIFICATION

Description of proposed modification to the Use of System Charging Methodology

This modification proposes to change the Use of System Charging Methodology to allow National Grid to use an alternate demand forecast in the event that a User submits demand forecast(s) which are deemed unreasonable in accordance with the Connection and Use of System Code (CUSC). The methodology for determination of a revised demand forecast by National Grid for both half hourly metered demand and non half hourly metered energy consumption is detailed within the proposal and would be contained within The Statement of the Use of System Charging Methodology.

Explanation of the issues

Background to the Issue

National Grid has concerns that a minority of Users do not comply with the spirit of the Connection and Use of System Code (CUSC) in respect of their provision of accurate demand forecasts for use by National Grid in calculating TNUoS demand charges for each User. This issue was raised with the industry at the September CUSC Panel meeting and resulted in the establishment of the CAP055 Working Group to consider National Grid's Amendment Proposal under "CAP055: Users' Demand Forecasts for TNUoS Charging¹". The Working Group presented its Final Report to the November CUSC panel, which agreed that the issue should proceed to industry consultation. This modification to National Grid's Use of System Charging Methodology is raised as a consequence of the proposal developed by the CUSC Working Group.

National Grid determines the TNUoS Demand Charges for each User by applying the relevant zonal tariff to each User's forecast of their demand for the demand zones identified within The Statement of the Use of System Charges. Users are required to submit a forecast of their demand within the timescales stipulated in Section 3 of the CUSC and as requested by National Grid. Current CUSC rules are ambiguous in respect of the determination of a User forecast where a User fails to comply with its obligations as set out within the CUSC. Furthermore, the CUSC does not place any obligation on Users to ensure the forecast reasonably reflects their anticipated demand within the Financial Year.

Users are required to forecast demand for each BM Unit within a demand zone, with half-hourly and non-half hourly values submitted independently. Annual charges calculated from such forecast values will be invoiced over the Financial Year and divided evenly by month, with charges being adjusted where required by User submission of further quarterly forecast updates. Reconciliation of annual charges will be undertaken, in accordance with the CUSC, after the year end using available settlement data. This reconciliation will be undertaken initially by 30th June following the Financial Year end and as triggered by initial settlement data. Final reconciliation will be undertaken as soon as reasonably practicable following receipt of final settlement data and typically by July in the second year after the Financial Year end.

¹ CAP055 Amendment Proposal and Consultation Document available on the CUSC website at www.nationalgridinfo.co.uk/cusc/

National Grid considers that the current arrangement described above does not adequately provide CUSC parties with sufficient incentive to provide accurate demand forecasts. A minority of Users choose to supply demand forecasts that are demonstrably inaccurate. The absence of sufficiently robust rules to ensure the accuracy of Users' demand forecasts may result in reconciliation becoming the primary means for levying demand charges to some Users rather than by commonly applying the principle of monthly invoicing at a reflective level of actual System use. This presents potential issues of:

- i) Inequality between Suppliers where TNUoS demand charges result from User forecasts that are of varying degrees of accuracy
- ii) Competition between Suppliers
- iii) Increased National Grid exposure to Supplier failure

This consultation is consequential to CUSC Amendment Proposal CAP055 and it is therefore important that the consultation periods for this modification to the Use of System charging methodology and CAP055 coincide. National Grid has therefore run the two consultations in parallel, with the same consultation timescales, to allow Users to consider the issues raised by these consultations and formulate their responses accordingly.

User provision of a Reasonable Demand Forecast

The CUSC requires a User to submit a demand forecast for each of their BM Units within a demand zone. Demand forecasts for the BM Unit may reflect both half-hourly (HH) metered and non-half hourly (NHH) metered demand, with HH demand forecasts reflecting Triad demand and NHH demand forecasts reflecting demand over the period 16:00 hrs to 19:00 hrs for every day within the Financial Year.

As previously described, for monthly demand charging purposes a User may currently submit, in accordance with the CUSC, demand forecasts that are not reflective of their intended usage pattern, or by default, have a zero forecast where the User fails to submit a forecast. Consequently a User may avoid, or limit, their TNUoS demand charges levied monthly within year and thereby receive potential cashflow advantage over competitors where such demand charges are not realised until forecast flows are reconciled with actual demand data after the Financial Year end.

National Grid considers that Users should provide demand forecasts for half-hourly and non-half hourly demand that reasonably reflect their expected system usage for the Financial Year, such that demand charges are levied as near to a User's actual demand level and period of occurrence as possible. This is consistent with National Grid's Transmission Licence obligation of levying charges that reflect costs incurred in its transmission business (C7A 5(b)).

National Grid's ability to levy demand charges near to the time of usage and reflective of a true level of usage is key to mitigating its exposure to Supplier failure in terms of incurred but unpaid use of system charges. National Grid's potential exposure to bad debt has consequences for the entire industry given its status as a regulated monopoly.

It should be noted that reconciliation of demand charges is intended to produce residual reconciliation charge values that reflect any difference between a

reasonable forecast and actual demand.

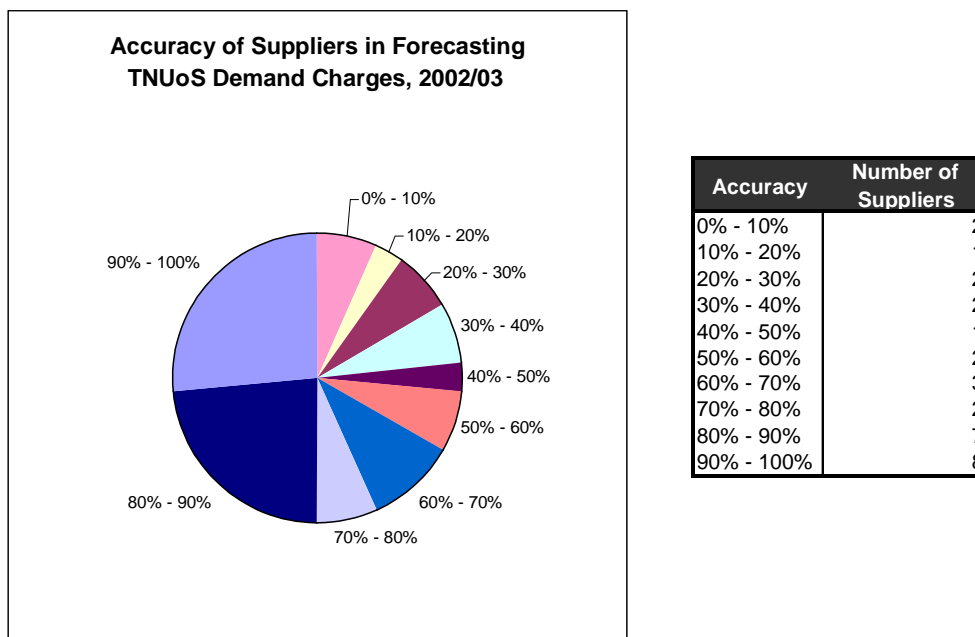
CUSC Amendment Proposal CAP055 seeks to define a reasonable forecast within the CUSC and therefore provide a trigger whereby a User's forecast may be replaced in line with the methodology set out within The Statement of the Use of System Charging Methodology. The proposed methodology, to be published in section 4 of the Statement, is described in this document.

Forecast Accuracy of TNUoS Demand Charges

The information presented in Figure 1 below illustrates the accuracy of forecasts submitted by Users for the period 2002/03. This information reflects the accuracy of both over and under forecasting, meaning that the 90 to 100% segment reflects a divergence from 100% accuracy, whether positive or negative, of up to 10%.

Approximately 50% of suppliers have an over or under forecast accuracy within 20% of their actual TNUoS demand charges. However, this information demonstrates that a significant number of suppliers submit demand forecasts that upon reconciliation are shown to be considerably adrift from their actual use of National Grid's transmission system. Consequently, TNUoS monthly demand charges for some Users will be low/high relative to their TNUoS reconciliation demand charges as a result of an inaccurate demand forecast by the User.

Figure 1: Accuracy of Suppliers in Forecasting TNUoS Demand Charges 2003/03



TNUoS Demand charges for those Users exhibiting a demand under forecast error of greater than 20% account for approximately £15m of National Grid transmission revenue, of which currently £10m is recovered at reconciliation rather than through monthly charging.

National Grid believes that the Use of System Charging Methodology modification proposal described in the following section and associated CUSC Amendment

Proposal, if implemented, would encourage Users to provide forecasts that reasonably reflect their expected demand in preference to a National Grid imposed forecast where a User is deemed to have submitted an unreasonable forecast of their demand.

Justification for proposed modification

The proposed modification would better meet the Relevant Objectives in Licence Condition C7A 5(a), (b), and (c) of:

- facilitating effective competition in the generation and supply of electricity and (so far as is consistent therewith) in the sale, distribution and purchase of electricity;
- levying charges which reflect, as far as reasonably practicable, the costs incurred by National Grid in its Transmission Business; and
- taking account of the developments in National Grid's Transmission Business.

The modification will achieve these objectives in the following manner:

- by ensuring consistent treatment between Users incurring TNUoS demand charges;
- by ensuring TNUoS charges are reflective of system usage and levied near to the time of occurrence;
- by providing a transparent charging methodology that incentivises Users to submit accurate demand forecasts for the purposes of calculating TNUoS demand charges;
- by ensuring charging methodologies reflect developments within National Grid's Transmission Business.

The modification would also ensure that National Grid's charges do not discriminate between any Users or classes of User, as required under Licence Condition C7C of the Transmission Licence, by ensuring the consistent treatment of Users incurring charges where such charges are based upon the Users' own forecast of demand.

Suggested alternatives

None.

Implementation date

1st May 2004

An implementation date of 16th February 2004 was proposed within the initial consultation, this date could not practically be achieved given Ofgem's subsequent decision to consult on all current and future CUSC amendment proposals on a GB wide context.

Proposed changes to the Statement of the Use of System Charging Methodology

It is proposed that the Statement of the Use of System Charging Methodology should be modified in line with the text contained within Appendix 2 of this report. This contains the proposed methodology for the determination of a National Grid forecast within the body of the Statement of the Use of System Charging Methodology under Chapter 4: Demand Charges, and places a number of worked examples within appendix TN-7.

Proposed changes to the Statement of Use of System Charges

None.

Impacts on existing Use of System charges

Demand charges will continue to be calculated from a User's forecast of their demand where this forecast is deemed reasonable in accordance with the CUSC. A User forecast deemed unreasonable will result in a National Grid demand forecast being used for charge purposes for the User unless the User provides acceptable evidence to National Grid of the validity of their original forecast.

Impacts on other Industry Documents

An amendment proposal to the CUSC, numbered CAP055, has been proposed which is aligned to this charging methodology proposal. The CUSC proposal, if implemented, would define a forecast variance trigger that if breached would initiate the use, for User Demand charging purposes, of a National Grid determined forecast of demand. The CUSC would also contain the requirement for National Grid to confer with the User, along with any associated timescale, upon any breach of the 20% demand forecast variance trigger.

3. RESPONSES TO THE MODIFICATION PROPOSAL

Comments and views were invited on all the issues raised in the Modification Proposal. National Grid received four responses to this consultation paper, of which one was received on 5th January 2004 and one day later than the consultation close. None of the responses were marked as confidential, and copies of the responses are contained within appendix 1 of this report.

Support for the proposal was received from 3 respondents. One respondent provided comment but no statement of support or opposition to the proposal.

3.1 Support for the proposal

Two of the three respondents in support of the proposal qualified their support. One stated that the CUSC should contain the methodology rather than the Statement of the Use of System Charging Methodology. One stated that the proposed wording did not fully reflect CAP055 workgroup discussion in terms of monitoring a User's total demand forecast variance. Both issues are addressed within section 3 of this report.

One respondent commented that the proposal provides the necessary transparency for the National Grid demand forecasting methodology.

Two respondents commented that the proposal would improve cost reflectivity, with one of these respondent's also commenting that the proposal facilitated effective competition between suppliers. Both considered the proposal to further National Grid's relevant Licence objectives in respect of its charging methodologies.

One respondent agreed with the proposal statement that demand charge reconciliation should act as a residual mechanism to address a reasonable forecast variance to actual demand. The respondent considered this to reflect the original ethos behind the mechanism and that the current mechanism potentially allowed some suppliers to gain cash-flow advantage.

One respondent stated that the 20% variance trigger appeared to fairly reflect the level of uncertainty that can exist within a User's supply portfolio. Adding that a variance outside of this level should be dealt with fairly and with common sense providing that the specified level of justification for forecast variance exists.

3.2 Issues Raised

The forecast methodology should be contained within the CUSC

One respondent, whilst supporting the proposal, suggested that the CUSC would be a better location for the proposal rather than The Statement of the Use of System Charging Methodology. The User considered that locating the proposal in CUSC would increase the confidence of all Users that National Grid could not override User demand forecasts without engaging in appropriate dialogue.

National Grid Response:

National Grid notes the concern but considers that charging methodologies should be contained within The Statement of the Use of System Charging Methodology, this being the original purpose for this document. We believe that the methodology has

been clearly defined within the Statement such that transparency of application should be evident to all Users. The inclusion of worked examples within the Statement is intended to provide further clarity. The CUSC clearly sets out the trigger level at which point a National Grid demand forecast could be used, along with a requirement that National Grid advise the User of such a trigger breach and outlines the period in which dialogue should conclude. Consequently, National Grid considers the combined CUSC and charging methodology proposals provide robust and transparent rules that promote accurate User forecasting of their demand. It should be noted that National Grid must consult on any proposed change to its charge methodology, Ofgem approval would be required to implement any change.

The Charging Methodology wording should refer to a User's forecast of total demand

A User suggested the methodology wording did not fully reflect workgroup discussion that National Grid's assessment of a reasonable forecast should be at a User level rather than for each individual BM Unit.

National Grid Response:

National Grid agrees with the User that the proposal intent is to improve the accuracy of a User's total charges arising from its submission of demand forecasts, and that monitoring at a lower level within a User portfolio would serve no practical benefit to either User or National Grid. Monitoring of demand forecast variance at an aggregate User level would therefore be appropriate.

An inclusion of the word "total" within the section 4.12 "... and this will be used as a replacement forecast if the User's total forecast is deemed unreasonable." removes any ambiguity and protects the intent of the proposal. Consequently, the text for inclusion within The Statement of the Use of System Charging Methodology has been amended to reflect this change and can be found within appendix 2 of this report.

Information provided in support of the Charging Methodology proposal

A User suggested that National Grid should have provided additional information as part of the consultation to demonstrate that the vast majority of Users complied with the proposed forecast accuracy measure of +/- 20%, and that forecast accuracy by supplier size should have been made available. The same User considered that over-forecast error data should also have been provided by National Grid in order that Users could assess to what degree over-forecast error could offset the impact of under-forecast error.

National Grid Response:

National Grid agrees with the User that the majority of Users do currently submit demand forecasts that are within a 20% forecast accuracy range, as stated within the consultation paper. We do not agree that a further breakdown of forecast accuracy by supplier would have added further clarity. In our view, it is clear from the data presented that the financial size of the problem, whilst significant in its own right, does not represent a sizeable proportion of the total volume being invoiced through demand charging. National Grid is also mindful that the granularity of information

provided should not undermine commercial confidentiality between National Grid and CUSC Users.

National Grid determines its credit exposure for each User individually. It is not clear what benefits the respondent envisaged from the netting-off of over and under-forecast positions where practically National Grid holds commercial contracts with individual User's. Our credit risk exposure, and the purpose of this proposal, relates to the use of National Grid's transmission system that has not been covered by charges levied i.e. those User's that have significantly under-forecast their level of demand.

Charging Disputes

A User commented that the use of a demand forecast determined by National Grid should not prevent an appeal by the User to the Authority where the User objected to the use of National Grid's demand forecast.

National Grid Response:

National Grid considers that section 7 of the CUSC in respect of Dispute Resolution remains unchanged as a result of both this charge methodology proposal and the CUSC amendment proposal. Any demand charges arising from the use of a National Grid determined demand forecast are fully subject to the CUSC rules governing charging disputes, and as such may be referred by either CUSC party to the Authority for a determination.

Provision of information relating to the extent of National Grid's use of its own demand forecast in place of a User's forecast

A User suggested that National Grid should report on an annual basis i) the number of times that it has determined a User demand forecast to be unreasonable, and (ii) how many of these determinations were successfully appealed by a User.

National Grid Response:

National Grid does not consider that provision of this information would enable Users to draw any meaningful conclusion. The methodology is designed to be fully transparent and consequently utilises a formulaic approach based on User settlement data. By its nature this process will occasionally result in a forecast by National Grid that may not reflect a User's changing portfolio, and hence the need for dialogue as stipulated within the CUSC. The fact that National Grid has proposed a replacement forecast, or that this may have been subsequently successfully appealed by the User, does not necessarily reflect forecasting performance of either a User or National Grid.

As previously noted, appropriate controls are in place in the form of the CUSC dispute resolution rules to ensure the forecast methodology is appropriately applied. National Grid considers that the proposed methodology is transparent. We do not believe individual cases arising from application of the process should be the subject of wider industry reporting since this is a confidential matter between the parties concerned.

Implementation Date

A User proposed an implementation date of 1st April 2004 rather than the 16th February 2004 as proposed by National Grid within the consultation. It was argued that a shadow forecast, in the interim period, could be produced to enable all parties to learn from this experience in order that demand forecasts for the charge year April 04 / March 05 were more accurate.

National Grid Response:

It was not National Grid's intent to apply the proposed methodology to TNUoS demand charges that would fall due from 16th February 2004. Rather to ensure that implementation enabled the methodology to be in place prior to the requirement within CUSC (as proposed within CAP055) that User's submit their forecast(s) of demand prior to 10th March for purposes of calculating the demand charges due from the start of the financial year. Given that Ofgem subsequently required CAP055 to undergo a consultation on a GB wide basis, implementation in time for a full charge year is no longer practically possible. In light of this, and being mindful that Users are required to submit variations of their demand forecast(s) during the financial year, National Grid has now proposed implementation for 1st May 2004.

Cost benefit analysis

A respondent questioned what the output of a cost benefit analysis of this charge methodology proposal would be, and suggested any benefit should be passed on to the wider community.

National Grid Response:

National Grid is required to bring forward transmission charge methodology proposals that are consistent with its relevant Licence objectives and not on the basis of any result from a cost benefit analysis.

This charge proposal and the associated CUSC amendment proposal were primarily raised by National Grid to mitigate its potential exposure to significant unpaid liabilities arising from the use of its system. We also recognised that potential competition issues exist between Users where current rules allow a User to submit demand forecasts of varying degrees of accuracy with resultant cash-flow implications. Consequently, the highlighted cost of implementation, and maintenance thereafter, deliver benefits justified within the proposal at minimal cost to the industry. The benefit is one of mitigating the risk associated with unpaid transmission invoices and therefore avoiding cost that could be considered additional to the costs of normal business activities. The avoidance of unnecessary cost cannot be described in terms of a tangible benefit that is available for apportionment across Users.

Closure date for consultation responses

One respondent questioned why both the charge methodology proposal and CUSC amendment proposal closed for consultation on a non-business day (4th January 2004).

National Grid Response:

Both UoSCM-M-12 and CAP055 were issued for consultation on 28th November. National Grid is required under its Licence to consult CUSC users on any charge methodology and allow a minimum of 28 days for submission of written representations. Given that a 28 day period would have coincided with the Christmas holiday period and Users views expressed previously that a Friday close is not ideal, National Grid extended the consultation by a further 9 days. A number of Users have previously requested that National Grid use a Sunday closure for proposed CUSC amendments, and in preference to a Friday close, to reflect an opportunity for Users to submit representations over the weekend period and before National Grid would naturally begin work on submissions made i.e. Monday.

4. CHANGES TO THE PROPOSAL IN LIGHT OF REPRESENTATIONS MADE

One change has been made to the final proposal as a result of representations received.

The Charge Methodology wording should refer to a User's forecast of total demand

As noted previously, National Grid agrees with the respondent's comment that the proposal intent was to improve the accuracy of a User's total demand charge through monitoring of User submitted demand forecasts and, for variance comparison purposes, aggregated to a User level. Consequently the wording of the methodology within this final proposal has been modified to clarify the proposal intent.

Original proposal Statement text:

"4.12 Users should submit reasonable demand forecasts in accordance with the CUSC. National Grid shall use the following methodology to derive a forecast to be used in determining whether a User's forecast is reasonable, in accordance with the CUSC, and this will be used as a replacement forecast if the User's forecast is deemed unreasonable. National Grid will"

Revised Statement text in this final proposal:

"4.12 Users should submit reasonable demand forecasts in accordance with the CUSC. National Grid shall use the following methodology to derive a forecast to be used in determining whether a User's forecast is reasonable, in accordance with the CUSC, and this will be used as a replacement forecast if the User's total forecast is deemed unreasonable. National Grid will"

5. HOW THE PROPOSED MODIFICATIONS BETTER MEET THE RELEVANT OBJECTIVES

The proposed modification would better meet the Relevant Objectives in Licence Condition C7A 5(a), (b), and (c) of:

- facilitating effective competition in the generation and supply of electricity and (so far as is consistent therewith) in the sale, distribution and purchase of electricity;
- levying charges which reflect, as far as reasonably practicable, the costs incurred by National Grid in its Transmission Business; and
- taking account of the developments in National Grid's Transmission Business.

The modification will achieve these objectives in the following manner:

- by ensuring consistent treatment between Users incurring TNUoS demand charges;
- by ensuring TNUoS charges are reflective of system usage and levied near to the time of occurrence;
- by providing a transparent charging methodology that incentivises Users to submit accurate demand forecasts for the purposes of calculating TNUoS demand charges;
- by ensuring charging methodologies reflect developments within National Grid's Transmission Business.

The modification would also ensure that National Grid's charges do not discriminate between any Users or classes of User, as required under Licence Condition C7C of the Transmission Licence, by ensuring the consistent treatment of Users incurring charges where such charges are based upon the Users' own forecast of demand.

6. TIMETABLE FOR IMPLEMENTATION

On 5th December 2003, Ofgem stated its intention to consult on a GB wide context for all future CUSC amendment proposals. Ofgem has advised National Grid that the GB consultation in respect of CAP055 has now concluded, consequently this charging methodology conclusion report has now been issued for review, and a decision, by the Authority within the statutory 28 day period.

National Grid considers that the proposal objectives would best be served by implementation as soon as practicably possible after the original date proposed (16th February 2004) and such that the Statement of the Use of System Charging Methodology should be modified with effect from 1st May 2004.

APPENDIX 1 – RESPONSES TO MODIFICATION PROPOSAL

British Gas Trading

Charging Methodology Modification UoSCM-M-12 Proposed change to the TNUoS Demand Monthly Charges Rules

British Gas Trading (BGT) welcomes the opportunity to provide comments to NGT on the above proposal.

Although we agree in principle to the implementation of the above change, we suggest that this proposal contains an inconsistency to the original CUSC amendment (CAP055) that resulted in it being raised, and as such we suggest that the proposed modification is updated in the following area:

CAP055 was raised to prevent NGC being exposed to increased credit risks as a result of a Supplier submitting either a very low or zero demand forecast. It was agreed in the working group, and stated in the published consultation, that only the total TNUoS charge liability calculated from a User's demand forecasts would be assessed against NGC's total calculated charges for that User. In this proposal, it states that the reasonable criteria would apply on a BM Unit basis.

We suggest that the suggested revised wording for Chapter 4 should contain the word total in section 4.12: "...and this will be used as a replacement forecast if the User's **total** forecast is deemed unreasonable."

I hope these comments have been of use and please contact me if you require any further clarification.

Yours sincerely,

Sarah Owen
Commercial Manager
British Gas Trading

EDF Energy plc

UoSCM-M-12: Proposed change to the TNUoS Demand Monthly Charges Rules

EDF Energy is pleased to provide its views on this proposed change to the Charging Methodology Statement.

We support the proposed modification to the Charging Methodology Statement which we believe provides the necessary transparency of the NGC demand forecasting methodology to ensure that the process for validation of users' demand forecasts is fair and that the resultant monthly charging invoices are cost reflective.

We hope that you will find these comments helpful. If you have any queries please do not hesitate to contact me.

Yours sincerely

Rupert Judson
Transmission Infrastructure
& Development Manager

Powergen UK plc

RE: UoSCM-M-12 Consultation Document

Thank you for providing the opportunity to comment upon the proposed changes to the Statement of the Use of Charging Methodology. Powergen believe that the proposed changes will better meet the relevant licence objectives. However, we believe that the CUSC may offer the most suitable location for this methodology.

Currently, Users are required to submit a demand forecast for each of their BM Units. However, there is no adequate mechanism to ensure that a Users demand forecast is reflective of their actual usage of the network. Although there is an annual reconciliation, we believe that there is the potential for this mechanism to be 'misused' (a suggestion supported by 'Accuracy of Suppliers Forecasts' diagram in the consultation, Fig 1, Pg4).

We agree with the NGC assertion that demand charge reconciliation should be a residual mechanism used to address reasonable forecast variance to actual demand. This must have represented the original ethos behind the mechanism. The current utilisation of the mechanism potentially creates cash-flow advantages for some Users and is also likely to increase the exposure of NGC (and ultimately other Users) to Supplier failure. Ensuring that Users incurring TNUoS demand charges are treated consistently should facilitate effective competition.

Allocating charges with an increasing degree of accuracy and in an expeditious manner will ensure a greater level of cost reflectivity, consistent with the aim and scope of licence condition C7A 5(b).

However, despite our support for the proposed changes, we must stress an important caveat. The amendments will only constitute an improvement to the existing mechanism, if participants can see that the process is equitable and transparent. If NGC were to use their ability to adjust Users forecasts without the appropriate level of dialogue between NGC and User, this could worsen the level of variance between actual demand and forecast demand and therefore result in less charging reflectivity. Placing the methodology in the CUSC may increase Users confidence in the governance of the proposed solution.

There are many reasons why forecast demand can vary significantly. Furthermore, some factors (such as customers demand level during the year)

can be volatile and unpredictable. The proposed alterations must satisfy Users that variance will be permitted, provided that a specified level of justification exists. The suggested level of 20% accuracy seems appropriate, provided that variations outside of this limit are dealt with fairly and with common sense. The changes should reflect an efficient and suitably flexible mechanism in order to combine the incentives necessary for cost reflective charging with the reality of providing accurate demand forecasts.

Yours sincerely

Neil Smith
Regulatory Analyst
Trading Arrangements
Powergen UK plc

Scottish & Southern Energy plc

This response is sent on behalf of Scottish and Southern Energy, Keadby Generation Ltd., Medway Power Ltd. and SSE Energy Supply Ltd.

Further to your notes of 28th November 2003 concerning "Modification Proposal to the Use of System Charging Methodology - UoSCM-M-12 Proposed change to the TNUoS Demand Monthly Charges Rules" and the Consultation Document "CUSC Amendment Proposal CAP055 - Users' Demand Forecasts for TNUoS Charging", and our email of 4th January 2004, regarding the illogical request from yourself for us to submit a response on a non business day, we have the following comments to make:-

1) In respect of the information presented in section 4.2 of the UoSCM-M-12 consultation document, it would have been very helpful if National Grid could have provided further information showing the significance of the issue; i.e. showing the accuracy of Suppliers 'forecasts' by volume. It is our belief that the major Suppliers form the bulk of those parties that provide 100% - 80% accurate demand forecasts and that consequently the vast majority of the volume of TNUoS is appropriately applied.

If this is the case then perhaps a better approach for National Grid to have consider would have been to organise an industry workshop for all Suppliers (and in particular those that fall below, say, a 90% accuracy threshold) so that good practice could be passed-on from the good to the not so good.

2) In addition, in the interest of operating a fully open and transparent consultation process, it would also have been helpful for National Grid to have shown how many suppliers had exceeded the 100% accuracy level; i.e. over forecast and thus incurred costs, pending reconciliation. This would allow the consultees to consider how much of the approximately £15M attributed to demand under forecast error of greater than 20% may be offset by demand over forecast error of greater than 20%.

3) In respect of the proposal in section 5.1 of the UoSCM-M-12 consultation document that National Grid may (a) determine a Users' demand forecast to be unreasonable, and (b) - in effect - replace that User forecast with a demand forecast

determined by National Grid then, we believe, it is imperative that such determinations (by National Grid) should be appealable by the User to the Authority.

4) Furthermore, in the interest of operating a fully open and transparent process we believe that National Grid should report annually to the CUSC Panel on (i) the number of times in the course of the last year it has determined a User demand forecast to be unreasonable, and (ii) how many of these determinations (by National Grid) have been successfully appealed by the User to the Authority.

5) In respect of the proposal in section 5.3 of the UoSCM-M-12 consultation document that the implementation date should be 16th February 2004, we believe that this proposed change should take place from 1st April 2004 and that in the intervening period (from 16th February to 31st March) National Grid should use this period to 'shadow' introduce the proposed change; i.e. 'implement' the change in such a way as to advise Users of what their demand forecast would have been (if this change had occurred between February and April) and how this was derived so that the Users and National Grid can learn from the experience and submit more accurate demand forecasts from the beginning of the new TNUoS charging period from 1st April 2004.

6) In respect of the comment in section 5.6 of the UoSCM-M-12 consultation document that "it is reasonably expected that the overall level of TNUoS Demand Charges will be unchanged", we wonder where the cost / benefit analysis is for this proposed change? It would seem that the cost of this consultation exercise, together with the need for National Grid to review and calculate demand forecasts for all Users (at a cost of £2,000 per annum), will outweigh what, on the evidence provided by National Grid, is £0 benefit. If there is a benefit, as alluded to in section 4.5 of the CAP055 consultation document then this should be fully passed onto the industry (rather than National Grid), as its indicated in section 4.10 of the CAP055 consultation document that the cost are currently borne by the industry.

7) In respect of the comment in paragraphs 3.12.1 and 9.10.4.1 of Annex 1 of the CAP055 consultation document that "the Demand Forecast shall represent a User s best estimate of its Demand", we believe this should be amended to read "the Demand Forecast shall represent a User s reasonable estimate of its Demand", as this reflects the wording and sentiment used throughout the CAP055 and the UoSCM-M-12 consultation documents (which refers repeatedly to the demand estimate being "reasonable").

8) In respect of the paragraph numbers (of the clean version) on page 17 of Annex 1 of the CAP055 consultation document, should "3.11.5" be "3.10.1"; "3.11.6" be "3.10.2"; "3.12 Variation...." be "3.11 Variation....", "3.12.1" be "3.11.1"; "3.12.2" be "3.11.2" and "3.12.3" be "3.11.3"?

Regards
Garth Graham
Scottish and Southern Energy plc

APPENDIX 2 – REVISED WORDING OF CHAPTERS 4 AND 6 OF THE USE OF SYSTEM CHARGING METHODOLOGY

The following text is proposed for insertion into The Statement of the Use of System Charging Methodology. At the time of issuing this conclusion report, the Statement text to be effective from 1st April 2004 has not been formally agreed. Consequently, the following text proposed for UoSCM-M-12 has been baselined to the industry draft of the Statement dated 12th March 2004; this may be modified dependent upon the final text agreed for the Statement effective from 1st April 2004.

Chapter 4 - Demand Charges

Insert the following new Paragraph 4.12 and new Paragraph 4.13 within the Monthly Charges section:

- 4.12 Users should submit reasonable demand forecasts in accordance with the CUSC. National Grid shall use the following methodology to derive a forecast to be used in determining whether a User's forecast is reasonable, in accordance with the CUSC, and this will be used as a replacement forecast if the User's total forecast is deemed unreasonable. National Grid will, at all times, use the latest available Settlement data.

For existing Users:

- i) The User's Triad demand for the preceding Financial Year will be used where User settlement data is available and where National Grid calculates its forecast before the Financial Year. Otherwise, the User's average weekday settlement period 35 half-hourly metered (HH) demand in the Financial Year to date is compared to the equivalent average demand for the corresponding days in the preceding year. The percentage difference is then applied to the User's HH demand at Triad in the preceding Financial Year to derive a forecast of the User's HH demand at Triad for this Financial Year.
- ii) The User's non-half-hourly metered (NHH) energy consumption over the period 16:00 hrs to 19:00 hrs every day in the Financial Year to date is compared to the equivalent energy consumption over the corresponding days in the preceding year. The percentage difference is then applied to the User's total NHH energy consumption in the preceding Financial Year to derive a forecast of the User's NHH energy consumption for this Financial Year.

For new Users who have completed a Use of System Supply Confirmation Notice in the current Financial Year:

- iii) The User's average weekday settlement period 35 half-hourly metered (HH) demand over the last complete month for which National Grid has settlement data is calculated. Total system average HH demand for weekday settlement period 35 for the corresponding month in the previous year is compared to total system HH demand at Triad in that year and a percentage difference is calculated. This percentage is then applied to the User's average HH demand for weekday settlement

period 35 over the last month to derive a forecast of the User's HH demand at Triad for this Financial Year.

- iv) The User's non-half-hourly metered (NHH) energy consumption over the period 16:00 hrs to 19:00 hrs every day over the last complete month for which National Grid has settlement data is noted. Total system NHH energy consumption over the corresponding month in the previous year is compared to total system NHH energy consumption over the remaining months of that Financial Year and a percentage difference is calculated. This percentage is then applied to the User's NHH energy consumption over the month described above, and all NHH energy consumption in previous months is added, in order to derive a forecast of the User's NHH metered energy consumption for this Financial Year.

4.13 Appendix TN-7: Example: Determination of National Grid's Forecast for Demand Charge Purposes illustrates how the demand forecast will be calculated by National Grid.

The existing paragraphs 4.12 to 4.21 should be renumbered by an increment of 2, such that they become paragraphs 4.14 to 4.23.

Chapter 6: Data Requirements

Data Required for Calculating Users' Charges

Amend paragraph 6.5 to read:

- 6.5 In order for National Grid to calculate Users' TNUoS charges, Users who are Suppliers shall provide to National Grid forecasts of half-hourly and non-half-hourly demand in accordance with paragraphs 4.11 and 4.12 and in accordance with the CUSC.

Insert a new appendix numbered TN-7

Appendix TN-7: Example: Determination of National Grid's Forecast for Demand Charge Purposes

National Grid will use the latest available settlement data for calculation of HH demand and NHH energy consumption forecasts for the Financial Year.

The Financial Year runs from 1st April to 31st March inclusive and for the purpose of these examples the year April 2004 to March 2005 is used.

Where the preceding year's settlement data is not available at the time that National Grid needs to calculate its forecast, National Grid will use settlement data from the corresponding period in Financial Year minus two unless indicated otherwise.

All values used with the examples are purely for illustrative purposes only.

i) Half Hourly (HH) Metered Demand Forecast – Existing User

At the time of calculation of a HH demand forecast before the relevant Financial Year (approximately 10th March), National Grid will be aware at a system level which dates will be used for the determination of Triad, however, National Grid may not have settlement data at a User level if the Triad dates were to span a period that includes the latter half of February.

When undertaking forecasting before the relevant Financial Year, National Grid will use the User's Triad demand for the previous year for its forecast providing it holds User settlement data for this period, thus:

$$F = T$$

where:

F = Forecast of User's HH demand at Triad for the Financial Year

T = User's HH demand at Triad in Financial Year minus one

Where National Grid determines its forecast within a Financial Year:

$$F = T * D/P$$

where:

F = Forecast of User's HH demand at Triad for the Financial Year

T = User's HH demand at Triad in the preceding Financial Year

D = User's average half hourly metered demand in settlement period 35 in the Financial Year to date

P = User's average half hourly metered demand in settlement period 35 for the period corresponding to D in the preceding Financial Year

Where National Grid determines its forecast before the relevant Financial Year and User settlement data for the Triad period is not available, National Grid shall apply the formula immediately above (within year forecast) but substitute the following definitions for the values T, D, and P:

T = User's HH demand at Triad in the Financial Year minus two

D = User's average half hourly metered demand in settlement period 35 in the Financial Year minus one, to date

P = User's average half hourly metered demand in settlement period 35 for the period corresponding to D in the Financial Year minus two

Example (where User settlement data is not yet available for the Triad period):

National Grid calculates a HH demand forecast on the above methodology at 10th March 04 for the period 1st April 2004 to 31st March 2005.

$$F = 10,000 * 13,200 / 12,000$$

$$F = 11,000 \text{ kWh}$$

where:

T = 10,000 kWh (period November 2002 to February 2003)

D = 13,200 kWh (period 1st April 2003 to 15th February 2004[#])

P = 12,000 kWh (period 1st April 2002 to 15th February 2003)

[#] Latest date for which settlement data is available.

ii) **Non Half Hourly (NHH) Metered Energy Consumption Forecast – Existing User**

$$F = E * D/P$$

where:

F = Forecast of User's NHH metered energy consumption for the Financial Year

E = User's summed NHH energy consumption over the hours 16:00 to 19:00 for each day in the preceding Financial Year

D = User's summed NHH energy consumption for the hours 16:00 to 19:00 for each day for the Financial Year to date

P = User's summed NHH energy consumption for the hours 16:00 to 19:00 for each day for the period corresponding to D in the preceding Financial Year

Example:

National Grid calculates a NHH energy consumption forecast on the above methodology at 10th June 2004 for the period 1st April 2004 to 31st March 2005.

$$F = 50,000,000 * 4,400,000 / 4,000,000$$

$$F = 55,000,000 \text{ kWh}$$

where:

$$E = 50,000,000 \text{ kWh (period 1st April 2003 to 31st March 2004)}$$

$$D = 4,400,000 \text{ kWh (period 1st April 2004 to 15th May 2004^{\#})}$$

$$P = 4,000,000 \text{ kWh (period 1st April 2003 to 15th May 2003)}$$

^{\#}Latest date for which settlement data is available

Where forecasting before the relevant Financial Year concerned, National Grid would in the above example use values for E and P from Financial Year 2002/03 and D from Financial Year 2003/04.

iii) **Half Hourly (HH) Metered Demand Forecast – New User**

$$F = M * T/W$$

where:

F = Forecast of User's HH metered demand at Triad for the Financial Year

M = User's HH average weekday period 35 demand for the last complete month for which settlement data is available

T = Total system HH demand at Triad in the preceding Financial Year

W = Total system HH average weekday settlement period 35 metered demand for the corresponding period to M for the preceding year

Example:

National Grid calculates a HH demand forecast on the above methodology at 10th September 2004 for a new User registered from 10th June 2004 for the period 10th June 2004 to 31st March 2005.

$$F = 1,000 * 17,000,000 / 18,888,888$$

$$F = 900 \text{ kWh}$$

where:

- M = 1,000 kWh (period 1st July 2004 to 31st July 2004)
- T = 17,000,000 kWh (period November 2003 to February 2004)
- W = 18,888,888 kWh (period 1st July 2003 to 31st July 2003)

iv) **Non Half Hourly (NHH) Metered Energy Consumption Forecast – New User**

$$F = J + (M * R/W)$$

where:

F = Forecast of User's NHH metered energy consumption for the Financial Year

J = Residual part month summed NHH metered energy consumption for the hours 16:00 to 19:00 for each day where new User registration takes place other than on the 1st of a month

M = User's summed NHH metered energy consumption for the hours 16:00 to 19:00 for each day for the last complete month for which settlement data is available

R = Total system summed NHH metered energy consumption for the hours 16:00 to 19:00 for each day for the period from the start of that defined under M but for the preceding year and until the end of that preceding Financial Year

W = Total system summed NHH metered energy consumption for the hours 16:00 to 19:00 for each day for the period identified in M but for the preceding Financial Year

Example:

National Grid calculates a NHH energy consumption forecast on the above methodology at 10th September 2004 for a new User registered from 10th June 2004 for the period 10th June 2004 to 31st March 2005.

$$F = 500 + (1,000 * 20,000,000,000 / 2,000,000,000)$$

$$F = 10,500 \text{ kWh}$$

where:

J = 500 kWh (period 10th June 2004 to 30th June 2004)

M = 1,000 kWh (period 1st July 2004 to 31st July 2004)

R = 20,000,000,000 kWh (period 1st July 2003 to 31st March 2004)

W = 2,000,000,000 kWh (period 1st July 2003 to 31st July 2003)