



National Grid

WORKING GROUP REPORT

CUSC Amendment Proposal CAP055

Users' Demand Forecasts for TNUoS Charging

**Prepared by the CAP055 Working Group
for submission to the Amendments Panel**

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Prepared by	Rupert Judson

I DOCUMENT CONTROL

a National Grid Document Control

Version	Date	Author	Change Reference
1.1	3/11/03	R Judson	First draft
1.2	6/11/03	R Judson	Draft for working group comment
1.3	14/11/03	R Judson	Final version for CUSC Panel

b Distribution

Name	Organisation
The Gas and Electricity Markets Authority	Ofgem
CUSC Parties	Various
Panel Members	Various
National Grid Industry Information Website	

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1.0 SUMMARY AND RECOMMENDATIONS

Executive Summary

- 1.1 Amendment Proposals CAP055, Users' Demand Forecasts for TNUoS Charging, was proposed by National Grid on 18 September 2003. The CUSC Amendments Panel determined that a Working Group should be established to consider and assess the proposal prior to industry consultation and to report back to the November Panel Meeting.
- 1.2 The Proposed Amendment seeks to clarify the requirements of the CUSC in respect of Users' Demand Forecasts for TNUoS Charging and to define the process by which National Grid may assess the quality of submitted demand forecasts and, if necessary, replace the Users' demand forecast with its own.
- 1.3 The Working Group has assessed the Amendment Proposal against the Applicable CUSC Objectives in accordance with its terms of reference. The Working Group accepted the case for improved clarity in the requirements for Users' Demand Forecasts and developed the Proposed Amendment into a form suitable for implementation.

Working Group Recommendation

- 1.4 The Working Group were agreed that the Proposed Amendment does address the identified defect and does better achieve the Applicable CUSC Objectives.
- 1.5 The CAP055 Working Group believes that it has met its Terms of Reference and recommends that the Panel determine that CAP055 should proceed to wider industry consultation by National Grid and that the consultation invites views on the proposed process for validation of Users' Demand Forecasts.
- 1.6 The Working Group also recommend that National Grid raise a modification to the Charging Statement in parallel with the CUSC consultation on this Amendment to introduce the suggested National Grid Demand Forecasting Methodology.

2.0 INTRODUCTION

- 2.1 The CUSC currently requires suppliers to provide NGC with demand forecasts to enable NGC to calculate monthly Transmission Network Use of System (TNUoS) charges, but contains no requirements relating to the quality of these forecasts.
- 2.2 Inaccurate demand forecasts can lead to an underrecovery of TNUoS revenues during the year which in turn can lead to cashflow problems and an increased risk of exposure to supplier failure for National Grid and the industry.
- 2.3 In response to poor quality demand forecasting by a number of suppliers recently, National Grid has raised Amendment Proposal CAP055 to clarify the process for submission of demand forecasts by Users and to establish a basis by which the quality of submitted data can be assessed.
- 2.4 The proposed amendment seeks to allow National Grid to reject any forecasts that it considers to be unreasonable, and instead to use its own fair

and reasonable estimates. The detailed process for doing so will be set out either in the CUSC or in the Charging Statements. The proposed Amendment would therefore protect NGC (and ultimately the industry) from the effects of failing suppliers who have under-paid TNUoS charges as a result of poor quality demand forecasting.

- 2.5 The proposed Amendment should also clarify the data required from Users, the timescales for its submission, the process for revising forecasts, and the requirements for new Users.

3.0 PURPOSE AND SCOPE OF WORKING GROUP

- 3.1 The proposed amendment was drafted in such a way that the detailed elements of the proposal would need to be developed by the working group and assessed against the applicable CUSC objectives and in accordance with the Terms of Reference. The Terms of Reference for the working group are included in Annex 1.

- 3.2 This report summarises the findings and recommendations of the CAP055 Working Group in respect of their consideration of CAP055. This report has been prepared in accordance with the terms of the CUSC and an electronic copy of this document can be found on the National Grid website, at: <http://www.nationalgrid.com/uk/indinfo/cusc/index.html>.

4.0 DESCRIPTION OF THE AMENDMENT PROPOSAL

- 4.1 Through consideration and development by the Working Group the Amendment Proposal has been clarified and given further definition. The main issues considered by the group were as follows:
- i. The extent and implications of the defect.
 - ii. Possible alternative solutions.
 - iii. The process for submission and validation of demand forecasts.
 - iv. The methodology and accuracy of National Grid's demand forecasting.
 - v. Whether the process should be set out in the CUSC or in the Charging Statements.
 - vi. Treatment of new Users.

Extent and Implications of the defect

- 4.2 The Working Group considered an analysis provided by National Grid of the accuracy of Users' forecasts in 2002/03 based on reconciliation amounts. This analysis is included in Annex 5 of this report. For the purposes of this analysis, accuracy is measured as an absolute value and includes both over and under-forecasts.
- 4.3 This analysis showed that approximately half of suppliers were better than 80% accurate in their demand forecasts but a quarter of suppliers were less than 40% accurate in their demand forecasts. National Grid also provided an indication of the total TNUoS values associated with underforecasting of demand. The total TNUoS value underforecast was £21m of which £10m was attributable to Suppliers underforecasting by more than 20%.

- 4.4 The group discussed the issue of the exposure of National Grid and the industry to supplier failure in the event that inaccurate demand forecasts have been submitted. The Transmission Price Control allows for some under or over recovery of TNUoS revenue to be corrected by an adjustment to the allowable TNUoS recovery the in following year. However, there are no specific provisions that relate to an under-recovery arising from a supplier failure. National Grid informed the Working Group that the treatment of any under-recovery of charging revenue resulting from a Supplier failure is being considered as part of the ongoing Ofgem review of credit policy in the gas and electricity industries.
- 4.5 For the purposes of consideration of this Amendment proposal, the Working Group made the assumption that such credit exposure would be ultimately borne by the industry.
- 4.6 On the basis of the above analysis the Working Group agreed that there was a need for a more robust process to ensure accurate recovery of TNUoS liabilities throughout the charging year.

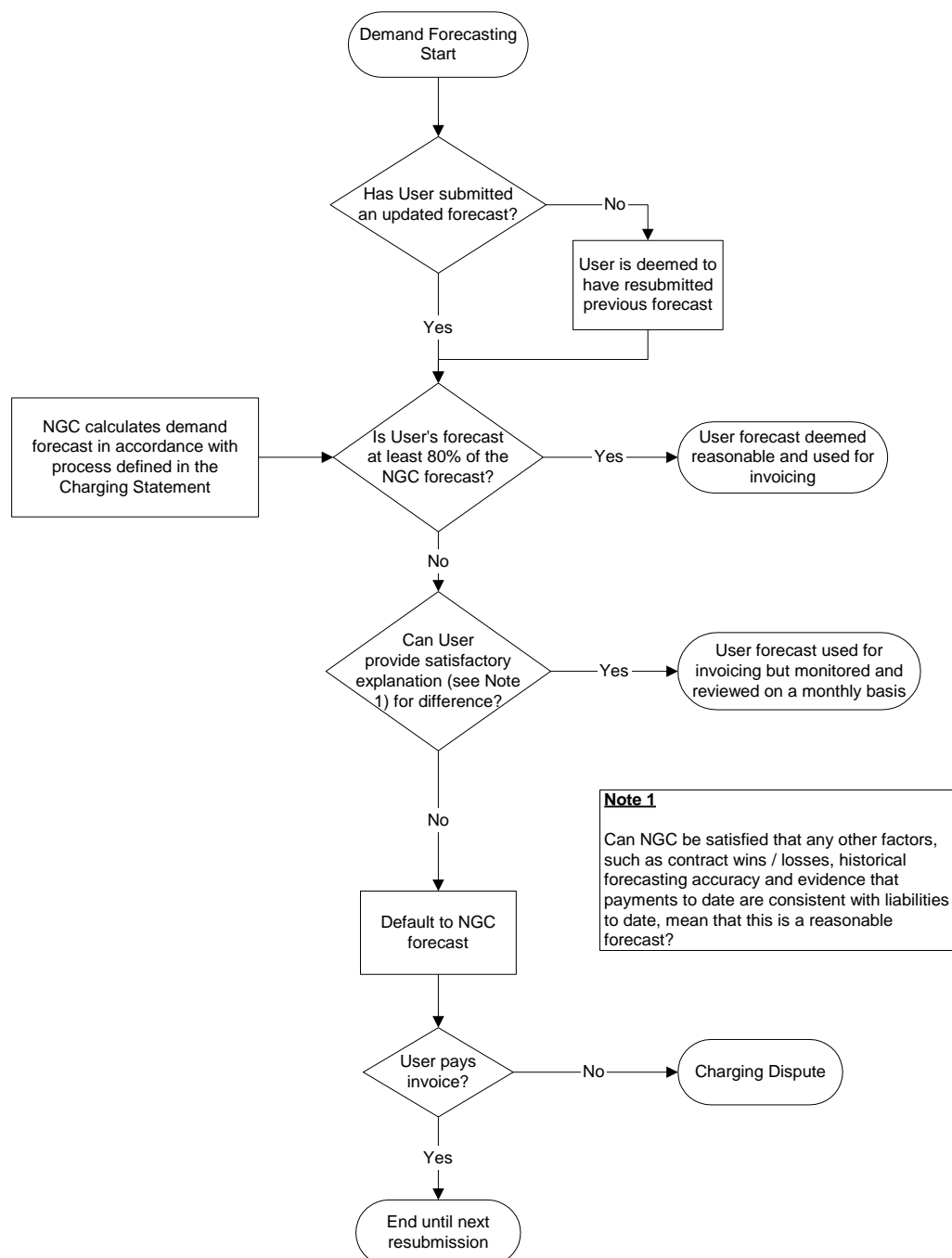
Possible Solutions

- 4.7 In addition to the proposed amendment the Working Group considered a number of alternative solutions to the identified defect as detailed below:
- 4.8 **Incentivised Reconciliation:** Differences between forecast and actual demand at the reconciliation stage would be charged at a higher rate of interest to incentivise accuracy. The Working Group noted that this option could lead to an additional revenue stream from interest payments which would have implications for National Grid's allowed revenue recovery under the Price Control. It would also not solve the problem of credit risk associated with supplier failure as a supplier could still submit inaccurate forecasts.
- 4.9 **Periodic NHH Reconciliation:** The reconciliation of TNUoS bills could be undertaken more frequently than once a year. The working group considered that this option would lead to greater administration costs and would not adequately address the accuracy of Half Hourly demand forecasts.
- 4.10 **Within Year Security Cover:** Users could be required to provide credit cover for their TNUoS liabilities. The Working Group considered that such an arrangement would be likely to be a greater burden on smaller suppliers than larger ones and therefore could be detrimental to competition in electricity supply.
- 4.11 The Working Group did not believe that any of these options would completely resolve the identified defect and better meet the applicable CUSC objectives.

Process for submission and validation of demand forecasts

- 4.12 The working group considered the process for validation of Users' demand forecasts. A flow chart was developed by the Working Group detailing the proposed process. This is shown in Fig. 1 below.

Fig. 1 Proposed Demand Forecast Submission and Validation Process



4.13 The Working Group believed that the CUSC process needed to be transparent and that a formulaic approach to the validation of demand forecast would best achieve this. It was considered that Users' demand forecasts should be assessed against a National Grid demand forecast and deemed to be acceptable if the difference between the forecasts was within a defined percentage. On the basis of the forecast accuracy analysis the Working Group believed that a level of 20% would be appropriate. This would allow for a level of inaccuracy that might normally be expected with demand forecasts and for unexpected changes in a suppliers' demand.

4.14 Users are required to submit NHH and HH demand forecasts for each of their BMUs. For the purposes of the validation of Users' forecasts National Grid would determine the total TNUoS charge liability using the Users' demand

forecast and using National Grid's demand forecast and the apply the accuracy criteria to the total calculated charges for the User.

- 4.15 The Working Group discussed the concern that the introduction of a defined criteria for demand forecasts would create an opportunity for suppliers to consistently under-forecast by 20%. It was acknowledged that this was a possibility, however, the group did not believe that the accuracy of suppliers overall forecasts was such that this strategy could be employed to any significant extent. Additionally, if it becomes evident that companies are consistently underforecasting to take advantage of the 20% criteria then this could be remedied by a CUSC Amendment being raised to propose a tighter criteria.
- 4.16 In the event that a difference of more than 20% between a Supplier's demand forecast and National Grid's demand forecast is identified, National Grid would inform the Supplier that it does not agree with the submitted demand forecast giving details of the difference between the forecasts. It is the intention of the process that the difference would be reconciled at this stage either by the provision of an acceptable revised demand forecast by the Supplier, by the Supplier providing a satisfactory explanation of the reasons for the difference or by the Supplier accepting National Grid's forecast.
- 4.17 Any ongoing dispute relating to the demand forecasts used by National Grid to calculate TNUoS charges would be referred to Ofgem using the Charging Dispute process as set out in the CUSC. The Working Group considered the Charging Dispute process to be adequate for the purposes of this process. A higher rate of interest is applied to disputed payments in favour of the successful party in a Charging Dispute. This should constitute a good incentive to both Suppliers and National Grid to take a reasonable approach to the accurate calculation of demand forecasts.
- 4.18 The Working Group discussed the timescales for submission and validation of demand forecasts. Demand forecasts are currently requested by 15th March (and quarterly thereafter) in order that TNUoS invoices can be calculated and issued in time for 1 April (and quarterly thereafter). The Working Group agreed that in order to allow time for demand forecast submissions to be validated and, if necessary, queried by National Grid, they would need to be received by the 10th of the month. In the event of a query by National Grid on the submitted demand forecast, the User would be required to respond within 5 working days.
- 4.19 The Working Group also considered the issue of suppliers over-forecasting demand. It was agreed that any differences of more than 20% between National Grid's forecast and the Users' forecast should be queried as this should lead to an improvement in the accuracy of demand forecasts and therefore the cost reflectivity of TNUoS charges overall.

Methodology and Accuracy of National Grid Demand Forecasting

- 4.20 The methodology used by National Grid to calculate its demand forecasts would be a key part of the process and Users' would need to have confidence in the accuracy of this forecast if it were to be used as a basis for validation of Users demand forecasts. It was therefore agreed that the National Grid demand forecasting methodology should be defined as part of the Charging Methodology Statement.

- 4.21 The Working Group agreed that the National Grid demand forecasting methodology should be based on historical demand outturn data for previous years and ongoing outturn demand data. A suggested description of the National Grid Demand Forecasting Methodology is included in Annex 6.
- 4.22 The Working Group considered the accuracy of National Grid's demand forecasting. The use of recent historical outturn data should ensure that National Grid's forecasts were not subjective and would be reasonably accurate except where significant gains or losses of demand are expected for a particular supplier or area. Such changes in expected demand would need to be greater than 20% before being flagged up by the proposed process.

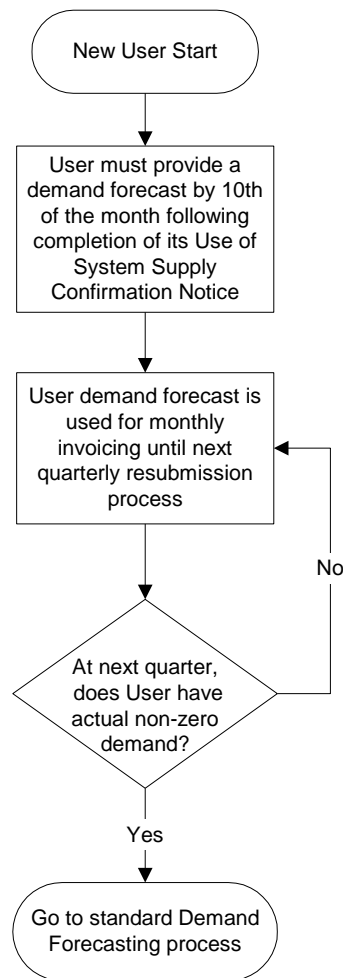
Location of solution in CUSC or Charging Statements

- 4.23 The Working Group believed that the requirements for suppliers to provide demand forecasts to National Grid and the process for submission and validation of these demand forecasts should be set out in the CUSC as it is an important part of the contractual framework for the use of the transmission system.
- 4.24 The Working Group believed that the National Grid demand forecasting methodology would be best located within the Charging Statements as it would be a description of a methodology rather than a defined CUSC requirement. The National Grid demand forecasting methodology would be referred to in the CUSC.

Treatment of New Users

- 4.25 In respect of new Users the Working Group believed that a similar process should be used but with some minor differences.
- 4.26 A new User would be required to submit a demand forecast by the 10th of the month following completion of its Use of System Supply Confirmation Notice. National Grid would use the new Users' demand forecasts for the purposes of setting TNUoS charges until the first quarterly resubmission date that actual non-zero demand data is available. From then onwards National Grid will apply the standard process making use of the historical outturn data to develop its own view of likely demand for the supplier. The Working Group believed that this process would ensure that TNUoS charges for new users were cost reflective. A flow chart of the proposed process for new Users is shown in Fig. 2 below.

Fig. 2 Proposed Demand Forecast Submission and Validation Process for New Users



5.0 ASSESSMENT AGAINST APPLICABLE CUSC OBJECTIVES

5.1 CUSC Amendments are required to be assessed in terms of their ability to better facilitate achievement of the Applicable CUSC Objectives. These are set out in Paragraph 1 of Condition C7F of National Grid's Transmission Licence and can be summarised as follows:

- the efficient discharge by National Grid of the obligations imposed on it by the Act and the Transmission Licence; and
- facilitating effective competition in the generation and supply of electricity and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.

5.2 The Working Group assessed the proposed Amendment against the applicable CUSC Objectives and was agreed that the Amendment Proposal would better facilitate the applicable CUSC Objectives as described below.

5.3 The proposed Amendment would lead to improved monitoring of User's TNUoS payments against actual TNUoS liabilities. This in turn would lead to more cost reflective charges and a reduced risk of bad debt and would therefore promote competition in the electricity supply.

- 5.4 The proposed process for validation of User's demand forecasts would result in a slight increase in National Grid's administration costs of the order of £2000 per year. This cost is fairly low because much of the work involved is already undertaken by National Grid as part of their current administration of TNUoS charging. The Working Group believed that the benefits of reduced credit risk for National Grid and the Industry would far outweigh the additional administration costs and therefore that the proposed Amendment would better achieve the CUSC Objective to promote competition in the supply of electricity and for the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence.
- 5.5 The Amendment Proposal would also clarify the process and timescales by which users submit demand forecasts to National Grid and this would also be beneficial to competition in electricity supply.

6.0 VIEWS OF WORKING GROUP MEMBERS

- 6.1 One Working Group member suggested that a supplier could submit varying demand forecasts at each of the quarterly re-submissions such that their TNUoS charges would have a degree of profiling to match the variation of Non Half-Hourly consumption across the year. Half Hourly demand could not be profiled as this is charged on the basis of a measure of Peak Demand. The Working Group member pointed out that this approach may fall foul of the proposed validation criteria even though ongoing TNUoS payments would be consistent with actual TNUoS liabilities. The Working Group member suggested that the CUSC legal text should include wording to the effect that provided that invoice amounts and payments were meeting liabilities to date then the suppliers' demand forecasts would be acceptable, even if they fell short of the 80% criteria.
- 6.2 The majority of the Working Group considered that the CUSC legal text should not describe circumstances that might constitute acceptable reasons for a difference between National Grid's and a Users' demand forecasts as this might undermine the overarching requirement on Users to submit their best estimate forecast of demand and the proposed criteria for validation of demand forecast submissions.
- 6.3 The same majority of the Working Group also believed that the proposed approach did allow for the consistency of ongoing payments against actual liabilities to be taken into consideration whilst not explicitly defining such circumstances. They considered that changes to the CUSC to allow TNUoS charges to be profiled across the year were outside the scope of this Amendment Proposal and had wider implications for the Charging Statements and possibly the Transmission Price Controls.

7.0 ALTERNATIVE AMENDMENT

- 7.1 The Working Group considered a number of alternative approaches to the identified defect as described in Section 4 of this report but did not believe that any of these options would better achieve the CUSC Objectives than the Proposed Amendment. Therefore no Alternative Amendment is proposed.

8.0 PROPOSED IMPLEMENTATION AND TIMESCALES

- 8.1 The Working Group considered that the proposed amendment should ideally be implemented by 1 February 2004, consistent with the timescales for request of Users' demand forecasts in March 2004 for the calculation of TNUoS charges for 2004-05. As the proposed Amendment does not require any changes to systems the group did not believe that there would be any reason why this date could not be met provided that the Authority decision was reached in time.
- 8.2 The Working Group recommend that the consultation period for this proposed Amendment reflect the relatively short time available to implement this Amendment in time for the calculation of TNUoS Charges for 2004-05. However, it also notes that whilst it may be desirable, it is not critical that this Amendment be implemented in time for the beginning of the charging year.

9.0 IMPACT ON CUSC

- 9.1 The Proposed Amendment would require amendment of Section 3 of the CUSC (Use of System) and also Section 9 (Interconnectors).
- 9.2 The legal text required to give effect to the Proposed Amendment is included as Annex 3 of this document.

10.0 IMPACT ON INDUSTRY DOCUMENTS

- 10.1 A change to the Charging Statements would also be required to define the National Grid Demand Forecasting Methodology to be used to calculate demand forecasts for the purposes of validation of Users' demand forecast submissions. The Working Group identified a suggested methodology for this process and this is set out in Section 4 of this report.
- 10.2 The Working Group did not identify an impact on any other Industry Documents.

Annex 1 – Working Group Terms of Reference and Membership

TERMS OF REFERENCE FOR CAP055 WORKING GROUP

RESPONSIBILITIES

1. The Working Group is responsible for assisting the CUSC Amendments Panel in the evaluation of CUSC Amendment Proposal CAP055 tabled by National Grid at the Amendments Panel meeting on 26th September 2003.
2. The proposal must be evaluated to consider whether it better facilitates achievement of the applicable CUSC objectives. These can be summarised as follows:
 - (a) the efficient discharge by the Licensee of the obligations imposed on it by the Act and the Transmission Licence; and
 - (b) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the sale, distribution and purchase of electricity.
3. It should be noted that additional provisions apply where it is proposed to modify the CUSC amendment provisions, and generally reference should be made to the Transmission Licence for the full definition of the term.

SCOPE OF WORK

4. The Working Group must consider the issues raised by the Amendment Proposal and consider if the proposal identified better facilitates achievement of the Applicable CUSC Objectives.
5. In addition to the overriding requirement of paragraph 4, the Working Group shall consider and report on the following specific issues:
 - the basis for establishing reasonable estimates which would make it possible to distinguish between reasonable forecasts and unreasonable forecasts provided by Suppliers;
 - possible incentives that could be placed on Suppliers to provide accurate forecasts;
 - an assessment of the extent to which the Working Group's proposals will encourage Suppliers' charges to be more cost-reflective;
 - the scope for the involvement of the Authority in any dispute process relating to forecasts provided by Suppliers to National Grid.
6. The Working Group is responsible for the formulation and evaluation of any Alternative Amendments arising from Group discussions which would, as compared with the Amendment Proposal, better facilitate achieving the applicable CUSC objectives in relation to the issue or defect identified. The Working Group shall have due regard to Core Industry Documents and other industry documents in the evaluation of the Amendment Proposal and any Alternative Amendment.
7. The Working Group is to submit their final report to the CUSC Panel Secretary on 13th November 2003 for circulation to Panel Members. The conclusions will be presented to the CUSC Panel meeting on 21st November 2003.

MEMBERSHIP

8. It is recommended that the Working Group has the following members:

Chair	Rupert Judson
National Grid	Andrew Truswell
Industry Representatives	Russell Reading
	Sarah Owen
	Bob Brown

Authority Representative	Paul Mitchell
Technical Secretary	Lindsey Paradine

9. The membership can be amended from time to time by the CUSC Amendments Panel.

RELATIONSHIP WITH AMENDMENTS PANEL

10. The Working Group shall seek the views of the Amendments Panel before taking on any significant amount of work. In this event the Working Group Chairman should contact the CUSC Panel Secretary.
11. Where the Working Group requires instruction, clarification or guidance from the Amendments Panel, particularly in relation to their Scope of Work, the Working Group Chairman should contact the CUSC Panel Secretary.

MEETINGS

12. The Working Group shall, unless determined otherwise by the Amendments Panel, develop and adopt its own internal working procedures and provide a copy to the Panel Secretary for each of its Amendment Proposals.

REPORTING

13. The Working Group Chairman shall prepare a final report to the November 2003 Amendments Panel responding to the matter set out in the Terms of Reference.
14. A draft Working Group Report must be circulated to Working Group members with not less than five business days given for comments.
15. Any unresolved comments within the Working Group must be reflected in the final Working Group Report.
16. The Chairman (or another member nominated by him) will present the Working Group report to the Amendments Panel as required.

Annex 2 – Proposed Text to modify CUSC

Part A - Text to give effect to the Proposed Amendment

Conformed Version

Section 3

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Conformed Version
Section 9

[\\COHQFS01\GROUP\CSS\Commercial Development\CUSCWorking Groups\CAP055WG\CAP055 - Section 9 Legal Text \(marked\).doc](#)

**Clean Version
Section 3**

3.10 DATA REQUIREMENTS

- 3.10.1 On or before the end of the second week of December in each **Financial Year**, each **User** shall supply **NGC** with such data as **NGC** may from time to time reasonably request pursuant to the **Charging Statements** to enable **NGC** to calculate the tariffs for the **Transmission Network Use of System Charges** for the **Financial Year** to which the data relates.
- 3.10.2 On or before the 10th day of March in each **Financial Year**, each **User** shall supply **NGC** on **NGC's** reasonable request with its **Demand Forecast** for the following **Financial Year** pursuant to the **Charging Statements** to enable **NGC** to use such **Demand Forecast** as the basis for calculation of the **Transmission Network Use of System Charges** for the **Financial Year** to which the **Demand Forecast** relates.
- 3.10.3 In the event that a **User** fails to provide a **Demand Forecast** in accordance with Paragraph 3.10.2 above the **User** shall be deemed to have submitted as its **Demand Forecast** the last **Demand Forecast** supplied under Paragraph 3.11.1.
- 3.10.4 Where a **Use of System Supply Confirmation Notice** is completed during a **Financial Year**, the **User** shall supply **NGC** with its **Demand Forecast** for that **Financial Year** on or before the 10th day of the month following completion of the **Use of System Supply Confirmation Notice**.

3.11 VARIATION OF FORECASTS DURING THE FINANCIAL YEAR

- 3.11.1 Each **User** shall notify **NGC** of any revision to its **Demand Forecast** at least quarterly or at such intervals as may be agreed between **NGC** and the **User** from time to time.
- 3.11.2 In the event that a **User** fails to provide a revised **Demand Forecast** in accordance with Paragraph 3.11.1 above the **User** shall be deemed to have submitted as its revised **Demand Forecast** that submitted at the previous quarter.
- 3.11.3 Subject to Paragraph 3.12, **NGC** shall revise the **Transmission Network Use of System Charges** payable by a **User** to take account of any revised **Demand Forecast** and shall commence charging the revised **Transmission Network Use of System Charges** from the first day of the month following the month in which such revised **Demand Forecast** was received provided always that such **Demand Forecast** is provided before the 10th day of such month.

3.12 VALIDATION OF DEMAND FORECASTS

- 3.12.1 The **Demand Forecast** shall represent a **User's** best estimate of its **Demand**.

- 3.12.2 **NGC** shall notify the **User** in the event that the **Transmission Network Use of System Charges** due from the **User** to **NGC** or from **NGC** to the **User** (as the case may be) calculated by **NGC** using the **Demand Forecast** differ by more than 20% from that calculated by **NGC** using the **NGC's** forecast **Demand** as provided for in the **Charging Statements**.
- 3.12.3 In the event that **NGC** does not receive a satisfactory explanation for the difference between the **Demand Forecast** and **NGC's** forecast **Demand** or a satisfactory revised **Demand Forecast** from the **User** within 5 **Business Days** of such notice then **NGC** shall be entitled to invoice a **User** for **Transmission Network Use of System Charges** calculated on the basis of the **NGC** forecast **Demand**.
- 3.12.4 Any dispute regarding a **Demand Forecast** or the resulting **Transmission Network Use of System Charges** shall be a **Charging Dispute**.

Definition

Demand Forecast a **Users** forecast of its **Demand** submitted to **NGC** in accordance with Paragraphs 3.10 , 3.11 and 3.12
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Annex 3 – Amendment Proposal Form

CUSC Amendment Proposal Form	CAP:055
Title of Amendment Proposal:	
Users' Demand Forecasts for TNUoS Charging	
Description of the Proposed Amendment (mandatory by proposer):	
<p>The CUSC currently requires Suppliers to provide NGC with demand forecasts to enable NGC to calculate monthly Transmission Network Use of System (TNUoS) charges, but contains no requirements relating to the quality of these forecasts. The proposed amendment will make it clear that these forecasts should be reasonable, and, if they are deemed unreasonable by NGC, NGC will instead be entitled to use its own fair and reasonable estimates.</p>	
Description of Issue or Defect that Proposed Amendment seeks to Address (mandatory by proposer):	
<p>Paragraph 3.10 of the CUSC requires Users to provide forecasts to NGC on or before the end of the second week in December for the purposes of calculating both the TNUoS tariffs and that User's specific demand charges. It makes no reference to the quality of these forecasts, and a number of Suppliers have recently been abusing this process by submitting poor quality forecasts.</p> <p>The Proposed Amendment therefore seeks to allow NGC to reject any forecasts that it considers to be unreasonable, and instead to use its own fair and reasonable estimates. The detailed process for doing so could be set out either in the CUSC or in the Charging Statements. The Proposed Amendment would therefore protect NGC (and ultimately the industry) from the effects of failing Suppliers who have under-paid TNUoS charges as a result of poor quality forecasting.</p> <p>The Proposed Amendment should also clarify the data required from Users, the timescales for its submission, the process for revising forecasts, and the requirements for new Users. These points of clarification, together with the need to ensure that Suppliers could not over-ride a NGC forecast with an unreasonable demand resubmission, mean that amendments to paragraph 3.11 of the CUSC would also be necessary.</p>	
Impact on the CUSC (this should be given where possible):	
<p>Paragraphs 3.10 and 3.11 of the CUSC would require significant amendment in order to give effect to the changes proposed above. Alternatively, more minor revisions could be made to these paragraphs, with the detailed process instead set out in the Charging Statements.</p>	
Impact on Core Industry Documentation (this should be given where possible):	
None.	
Impact on Computer Systems and Processes used by CUSC Parties (this should be given where possible):	
None.	
Details of any Related Modifications to Other Industry Codes (where known):	
<p>The Statement of the Use of System Charging Methodology may also require modification, as described above.</p>	

Justification for Proposed Amendment with Reference to Applicable CUSC Objectives**
(mandatory by proposer):

The absence of any requirement for Suppliers to provide reasonable forecasts may result in effective discrimination in favour of those that under-forecast, by reducing their monthly TNUoS charges. Implementation of this Proposal would eliminate any discrimination and therefore better facilitate effective competition in the supply of electricity, as all Suppliers' charges would then be cost-reflective.

Details of Proposer: Organisation's Name:	National Grid Company plc
Capacity in which the Amendment is being proposed: (i.e. CUSC Party, BSC Party or "energywatch")	CUSC Party
Details of Proposer's Representative: Name: Organisation: Telephone Number: Email Address:	Andrew Truswell National Grid Company plc 01926 656388 andrew.truswell@ngtuk.com
Details of Representative's Alternate: Name: Organisation: Telephone Number: Email Address:	Andy Balkwill National Grid Company plc 01926 655988 andy.balkwill@ngtuk.com
Attachments (Yes/No): No If Yes, Title and No. of pages of each Attachment:	

Annex 4 – Internal Working Group Procedure

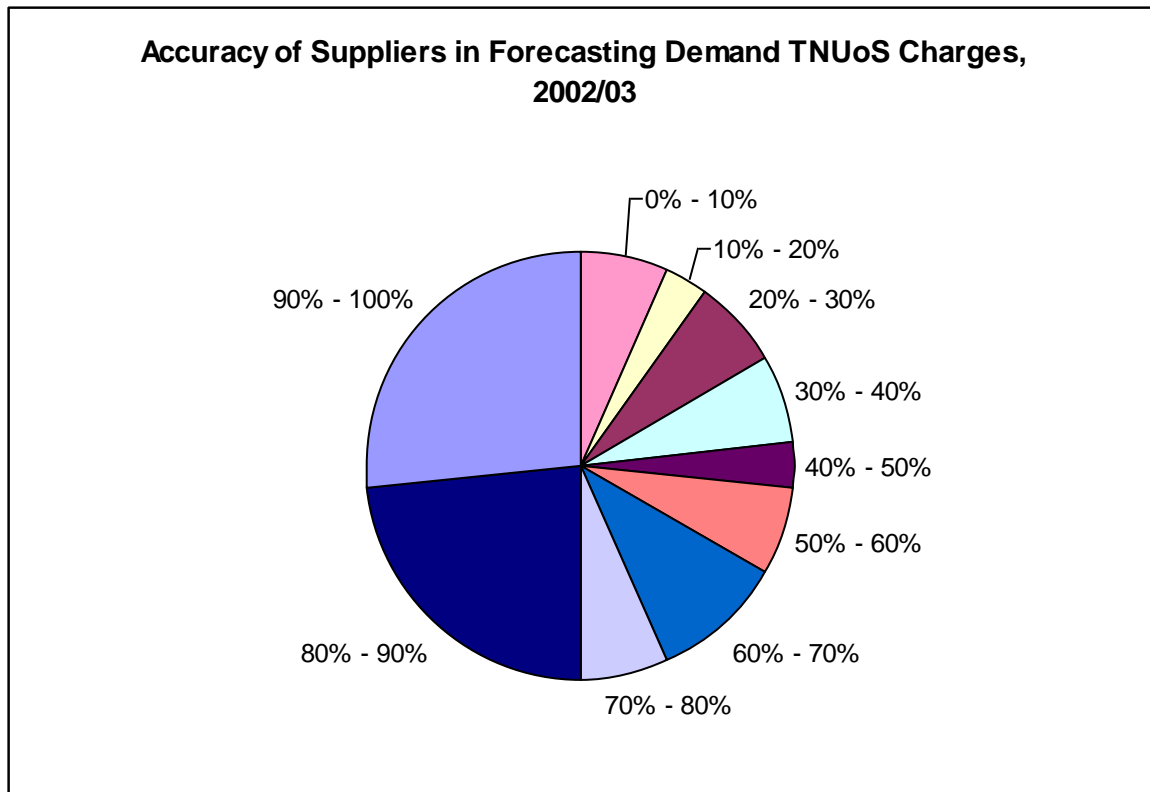
CAP055 Working Group User's Demand Forecasts

INTERNAL WORKING PROCEDURES

1. Notes and actions from each meeting will be produced by the Technical Secretary (provided by National Grid) and circulated to the Chairman and Working Group members for review.
2. The Meeting notes and actions will be published on the National Grid CUSC Website after they have been agreed at the next meeting or sooner on agreement by Working Group members.
2. The Chairman of the Working Group will provide an update of progress and issues to the Amendments Panel each month as appropriate.
4. Working Group meetings will be arranged for a date acceptable to the majority of members and will be held as often as required as agreed by the Working Group in order to respond to the requirements of the Terms of Reference set by the Amendments Panel.
5. If within half an hour after the time for which the Working Group meeting has been convened the Chairman of the group is not in attendance, the meeting will take place with those present.
6. A meeting of the Working Group shall not be invalidated by any member(s) of the group not being present at the meeting.

Annex 5 – Analysis of Users' demand forecasting accuracy

The following pie chart shows the accuracy of Users' demand forecasts as measured against outturn demand used for reconciliation purposes at the end of the charging year 2002-03. Accuracy is measured as an absolute value so includes both under and over forecasting of demand. An accuracy of 90-100% indicates that there was a difference of up to 10% between forecast and outturn demand.



Annex 6 – Suggested National Grid Demand Forecasting Methodology

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 if a User's forecast is reasonable, and this will be used as a replacement forecast if the User's forecast is deemed unreasonable.

For existing Users:

- The User's average weekday 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.
- 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:

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