

A blue-tinted background image showing a hand plugging a power cord into a wall outlet. The image is slightly blurred and has a soft glow effect.

Improving NG's website performance and demand forecasting accuracy

DSWG – 20 April 2006

- Overview
- Performance of NG's website
 - Current performance
 - Rationale for change
 - Policy options
- Demand forecasting accuracy
 - Current performance
 - Rationale for change
 - Policy options
- Way forward

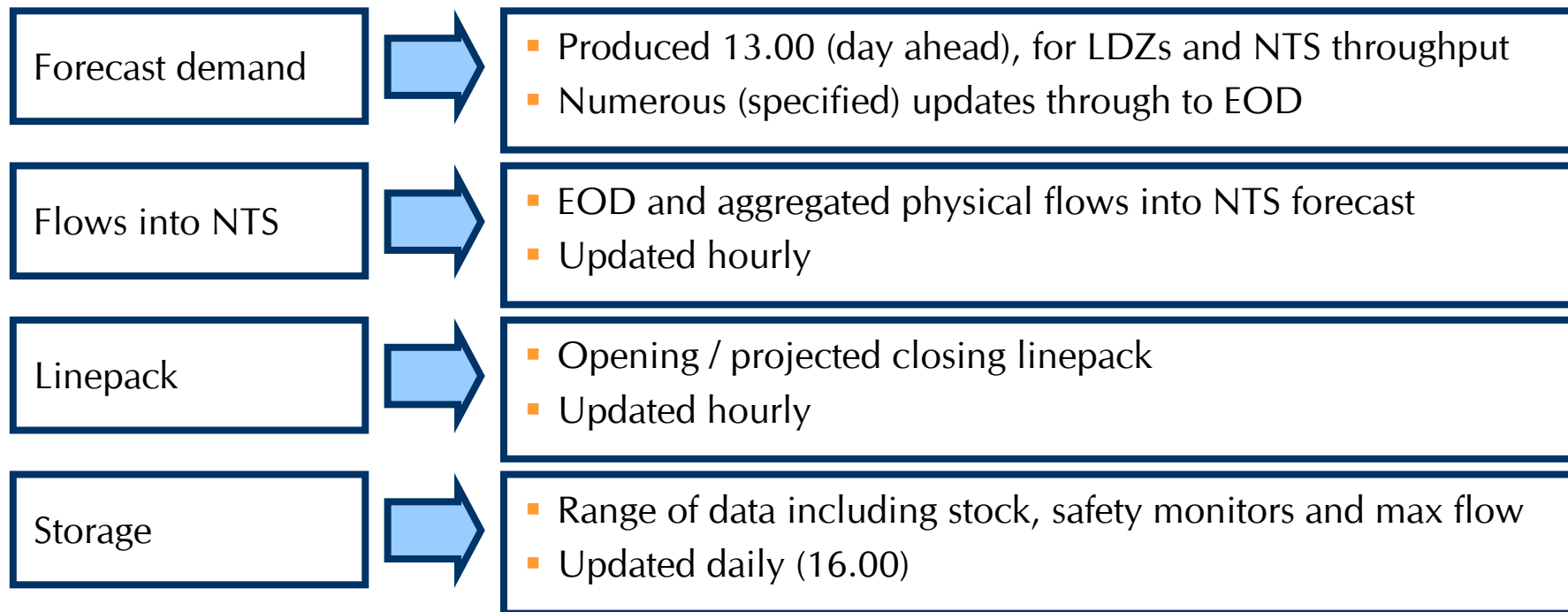
Overview

- Experience of Winter 05/06 has highlighted two areas where significant scope for improvement exists in NG's performance
- These are:
 - performance of NG's website; and
 - accuracy of short term (day ahead) demand forecasting
- Improvements in these areas may lead to significant benefits for customers

Purpose of this presentation is to present Ofgem's thoughts on ways this could be achieved – and ask for feedback on proposed alternatives

NG's website: current performance

- NG's website provides a wide range of critical operational gas market data to customers / market participants, including:



NG's website: current performance

- Experience during Winter 05/06 suggests a range of problems with the performance of the website, including:
 - delays in updating data
 - discrepancies between published data, and comparable data on Gemini system
 - unavailability of key pages (e.g. Daily Summary Report)
- Usage of NG website increases significantly at time of gas system stress; feedback from customers suggests poor website performance on these days

NG's website: costs to customers

- Unavailability of accurate key operational data leads to significant costs to market participants and customers:

Increased price volatility



- Unavailability of key data and / or inaccuracy of published data increases uncertainty of participants
- Uncertainty leads to unpredictable behaviour by market participants and increased price volatility

Inefficient decision making



- Unavailable/inaccurate market data may lead to incorrect or mistimed decisions - and potentially inefficient outcomes

Responses to Ofgem's case studies on publication of near real time data at UK sub terminals indicated market participants rely heavily on information provided via website links

NG's website: promoting change

- Change may be promoted through two approaches:

**Licence amendment
/ enforcement**

**Focused incentive
scheme**

- more consistent with previous Ofgem policy
- consistent with principles of "better regulation" (e.g. proportionality)

- Range of policy issues to be resolved, in event an incentives based approach is favoured, regarding:
 - scope
 - form
 - duration

NG's website incentive: scope

Policy issues:
scope



Data to be covered by incentive

- Focus on those data most critical to users and which require most improvement. This could be:
 - selection of data on Daily Summary Report?
 - any other critical data?

Choice of performance measure(s)

- Suggested measures (for selected critical data) could include:
 - number of instances of delays in data updates
 - duration of delays in data updates
 - number of instances of unavailability of key data

Seasonality

- Website performance on “peak” periods could be weighted more highly than off-peak:
 - e.g. winter only? or a selection of critical days across year?

NG's website incentive: form

Policy issues:
form



Choice of target level

- Level of performance beyond which positive incentive payments are triggered could be:
 - current level of performance?
 - improved level?

Setting cap/ collar

- Cap reached at “100%” performance level
- Collar of zero, set at current performance level (i.e. only upside incentive?)
- Level of £ cap likely to refer to cost of delivering significant improvement?

NG's website incentive: duration

Policy issues:
duration



Two broad alternatives for duration:

- "Time limited"; or
- "Enduring".

Time limited incentive

- Apply incentive for specified period of time (e.g. one or two years)
- Most appropriate for "step change" in performance, with low likelihood of subsequent deterioration when incentive removed

Enduring incentive

- Incentive implemented with no specified end-date
- Most appropriate where ongoing / permanent increased in resources required to improve performance

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Demand forecasting: current performance

- NG provides day-ahead demand forecasts through both the Gemini system and the NG website.
- Demand forecasts are:
 - provided for each LDZ, and total NTS throughput
 - initial forecast produced at 13.00 (day ahead), updated at 16.00, 00.00 and through the day
- In Winter 05/06, customers have raised concerns with Ofgem regarding the level of error in NG's day ahead demand forecasts, focusing on:
 - the size of "large" errors;
 - frequency of "large" errors during winter 05/06; and
 - consistent over-forecasting on key days.

Demand forecasting: costs to customers

- Inaccurate demand forecasting may potentially lead to significant costs to market participants and customers:

Volume and price distortions



- May lead to incorrect buy/sell decisions by participants, e.g.
 - overestimates may lead to unnecessary over-contracting by suppliers for NDM load, and potentially higher prices
 - underestimates may potentially lead to insufficient DSR prepared to make itself available

Inefficient system balancing



- Forecasting errors may result in inefficient system buys/sells
- Incorrectly forecast “tight” days may lead to unnecessary draw-down on gas from storage in anticipation of high demand – resulting in a potentially inefficient use of scarce stored gas

Demand forecasting: promoting change

- As with website performance, improvements to demand forecasting can be driven by through licence obligation and enforcement, or application of incentives
- Following an incentive-based approach leads to a similar range of policy issues to be resolved covering:
 - Scope;
 - Form; and
 - Duration.

Demand forecasting incentive: scope

Policy issues:
scope



Data to be covered by incentive

- Focus on those data most critical to users and which require most improvement. This could be:
 - current data produced at 13.00 at day ahead
 - disaggregated by NDM / DM load?
 - further ahead than day ahead?

Choice of performance measure(s)

- Suggested measures could be difference between forecast and actual EOD volume

Seasonality

- Demand forecasting on “peak” periods could be weighted more highly than off-peak:
 - applies to winter only?
 - a selection of critical days across year?

Demand forecasting incentive: form

Policy issues:
form



Choice of target level

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Demand forecasting incentive: duration

Policy issues:
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Way forward

- Views of attendees requested on all issues raised in this presentation
- In particular:
 - Is an SO incentive the most appropriate way of delivering improvements to website performance and (day ahead) demand forecasting performance?
 - On which data should the incentive(s) focus (ranked in order of importance)?
 - What are the appropriate measure(s) of website performance (ranked in order of importance)?
 - Should peak periods have a higher weighting than off-peak periods?
 - Is it appropriate for the trigger for positive payments to be current performance?
 - Should the incentive collar be set at zero (i.e. upside only)?
 - How should the caps for the incentive(s) be determined?
 - Should these incentives be enduring, or time-limited?
- Please send your views (using circulated pro forma) to tim.dewhurst@ofgem.gov.uk by Friday 28 April 2006.

A large, central version of the ofgem logo is positioned in the middle of the slide. It features the word "ofgem" in white lowercase letters on a rounded orange background. The background of the slide is a faded, blue-tinted image of electrical components, including a three-pin plug and a fuse box, which are partially visible on the left side.

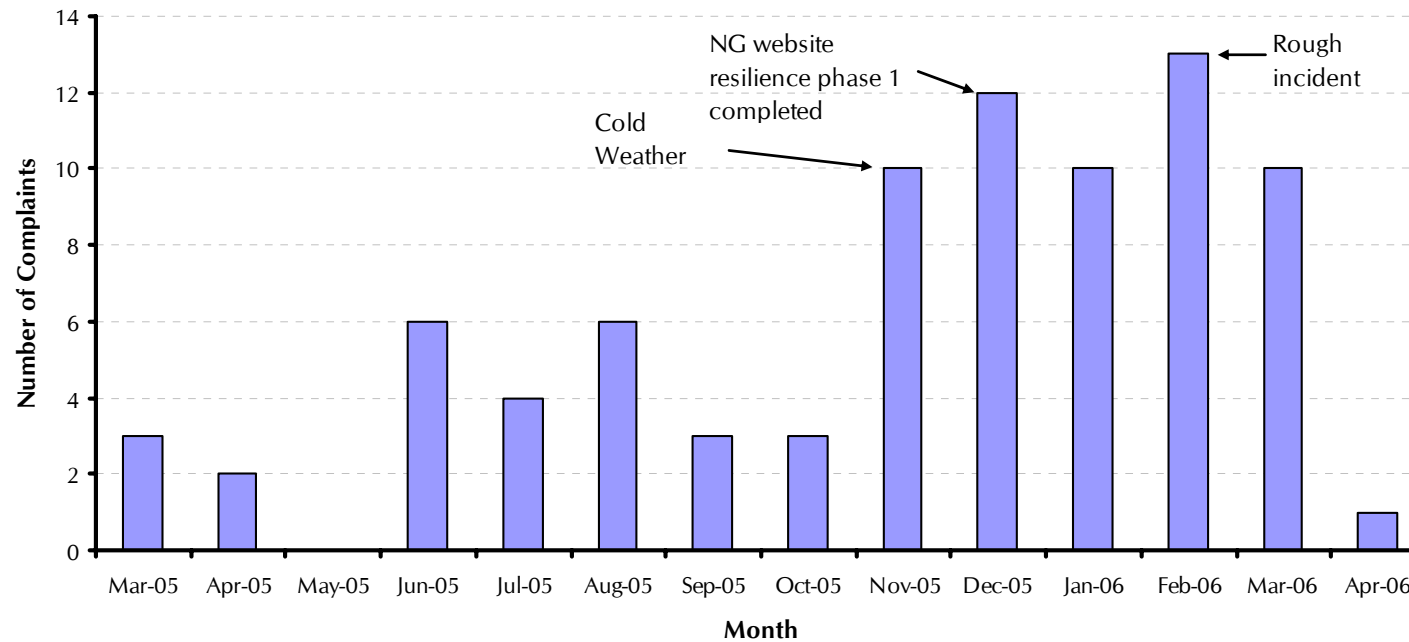
ofgem

Promoting choice and value for all
gas and electricity customers

- Additional slide

NG's website: current performance

NG website complaints (Mar 05 to Apr 06)*



*Note: this graph only contains those complaints to NG of which Ofgem has been notified