Modification Report
Demand Estimation Section H Changes to Processes and Responsibilities
Modification Reference Number 0331
Version 4.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Demand Estimation processes as outlined in section H of UNC have been essentially unchanged since code inception. The profiling and capacity estimation parameters and seasonal normal CWV derivations and use were set out at a time when all expertise for gas allocation resided within National Grid (Transco as was).

Over the past decade there have been a number of changes within the industry. Shipper organisations bear the impacts from the allocation mechanism and so have an interest in ensuring the process and parameters operate smoothly and are as accurate as possible.

Climate change has meant that Shippers are spending increased time and resources assessing impacts. Many organisations now have meteorologists and expert forecasters embedded within their organisation.

Over the past few years there have been comments in the annual Shipper representations on how ineffective the current consultation process is, many of which centre around identified faults in the profiles that are not corrected due to timing. In addition there appears to be a mismatch between code obligations – which rest with Transporters – and the fact that impacts are on Shipper organisations.

Review Group 280 has discussed changes to the current process to allow cross industry involvement in defining and undertaking the analysis of both general profiles and more involved climate work. This modification builds on the output from review group 280 to provide a basis for moving forwards.

The Proposal:

To allow development of profiles and analysis supporting attribution on a cross industry basis. Removing responsibility from Transporters only to a more equitable basis would allow Users to contribute the expertise embedded within their organisations towards improving the entire process.

Currently analysis is constrained by the details within code. Removing these from being explicitly stated within code and restricting code to the output required would allow more flexibility to ensure analysis is appropriate. For the avoidance of doubt we are not looking to change the format of the attribution equation or the use of EUC bands to differentiate between groups of consumers but are intending the analysis to look at all LDZ and supply points equitably. This may include EUC boundaries being amended as is currently allowed for within UNC. We believe this will impact UNC H1.1.4, H 1.6.8, H1.7.5 and H4.3.2

Under current governance arrangements we will be requesting UNCC amend the

DESC terms of reference to support the extended activities. We will also be requesting UNCC create a new sub-committee or allow DESC to create a group of specialists to look at specific areas. The text of this modification assumes that an expert group will be created however under UNCC governance this will not be reflected within legal text. An expert group would be formed, reporting to UNCC through DESC that would provide a cross industry group responsible for the technical analysis and support for the work areas covered within section H. In doing this many of the technical details currently specified in explicit detail within UNC could be removed allowing the detailed analysis to be flexed as appropriate to ensure the profiles could represent the changing patterns of demand and provide more accurate allocation, while maintaining formal governance and escalation routes.

During the development group work terms of reference for the Expert Group and DESC have been developed that support the cross industry format of the work and these are detailed below. Elements of section H that E.ON believes would need amending are highlighted in the attached document and mentioned in the detail below.

The Transportation Principal Document Section H provides for the "Uniform Network Code Committee or any relevant Sub-committee" to consider a number of matters relating to demand estimation. The Uniform Network Code Committee has established the Demand Estimation Sub-Committee (DESC) meet as necessary to fulfil the functions set-out in Section H. On implementation of this Modification E.ON would request UNCC amend DESC terms of reference and create the expert group in line with requirements outlined here.

General Terms Section B 4.3.4 sets out the matters to be determined by a panel majority of the Uniform Network Code Committee:

a) Membership and manner of appointment of members

b) Basis of reporting to Uniform Network Code Committee, Users and Transporters

c) Procedures for the conduct of business

Terms of Reference for DESC:

These three matters are implemented for DESC as follows.

1. DESC Members and Appointment

a) DESC members are those nominated by shippers and one representative from each transporter listed below:

   a) National Grid Gas NTS

   b) National Grid Distribution

   c) Northern Gas Networks

   d) Wales & West Utilities

   e) Southern Gas Networks or Scotland Gas Networks

b) Each year, shippers nominate up to nine members. The Joint Office manages the process for nomination on shippers' behalf. Changes within

year may be agreed by shipper members of the Uniform Network Code Committee.

c) Whilst each Transporter has the right to nominate members, xoserve has currently been appointed as an alternate to represent National Grid NTS and all DNs. xoserve is required to state, where appropriate, when it is speaking or acting on behalf of the Transporters in this capacity.

d) Attendance is open and xoserve, as the service provider, is invited to send one or more representatives for information purposes.

e) All meetings are chaired by the Joint Office, which also provides a secretary.

2. Basis for Reporting

The Joint Office, on behalf of DESC, reports each month to the Uniform Network Code Committee, following the standard format used by the Uniform Network Code Work streams except that:

a) The Topic Status format is used to record progress on any specific issues that do not form part of the typical annual work plan (see Appendix).

b) The Modification Status format is not used other than to highlight UNC Modification Proposals that might impact the work of DESC.

c) DESC minutes shall include a summary of the decisions reached by DESC. In particular, using current code references:

i. Composite Weather Variable determination taking account of new weather experience (H1.4.2).

ii. Demand model smoothing to derive the seasonal normal values of the Composite Weather Variable (H1.5.2).

iii. Report and review of NDM Sampling (H1.6).

iv. Annual and any interim evaluation of End User Category definitions and Demand Model performance. (H1.8.1)

v. Proposed revision of End User Category definitions and Demand Models and discussion of User representations (H1.8.1 and H1.8.4).

vi. Matters arising from the source of weather data such as changes in weather stations.

vii. Any other particular issue that may arise in the development or revision of End User Categories and Demand Models (H1.8.6).

viii. Operation and delivery of output from the expert group including definition of the Terms Of Reference for the Expert Group.

Minutes of each meeting are made available to DESC Members, all shippers, members of the Uniform Network Code Committee and all other

persons requesting copies.

3. Procedures for the Conduct of Business by DESC

The Chairman's Guidelines apply to the conduct of the meeting.

In principle, meetings shall be open to all but the Chairman may exercise discretion to the extent permitted under the Chairman's Guidelines.

As allowed for under General Terms B1.4.7.3 which allows for voting where specified within Code we would envisage the legal text specifying voting arrangements for the UNCC relevant sub-committee (in this case DESC)

The quorum is at least four voting members or their alternates, of which at least two shall be shippers and two transporter.

Members are permitted to appoint alternates to attend on their behalf and a single alternate may represent more than one member.

Recommendations from the DESC will be reached by a simple majority of voting members present, or their alternate, ensuring equitable Transporter and Shipper votes. Maximum of 5 Shipper votes where 5 Transporters are present. Where a recommendation can not be reached as a result of a tied vote DESC will pass the matter to the UNCC to be resolved. For the avoidance of doubt a tied vote at the UNCC would represent a recommendation to not implement any proposed change.

4. Role of DESC

The main role for DESC will be to review the outcomes and recommendations of the work conducted by the Expert Group, and to act as an escalation route for any disputes arising from the Expert Group. In particular DESC will:

a) Review the Terms of Reference for the Expert Group and determine on any recommendations to change these Terms of Reference, subject to consultation with the Expert Group.
b) Review the work and analysis being undertaken by the Expert Group with a view to ensuring that timetables are adhered to and a holistic approach is taken to the work being undertaken by the Expert Group.
c) Raise any particular issues that they believe the Expert group should address and resolve.
d) Recommend to Users and Transporters whether analysis should be commissioned from industry experts to assess climate change
e) Determine whether the recommendations from the Expert Group are appropriate and ensure that the approach proposed by the Expert Group represents an economic and efficient solution to the issues being addressed. In instances when the DESC does not determine that the proposed approach is suitable to refer the proposal back to the Expert Group along with an explanation for the DESC's decisions and the areas that they need to be addressed.

f) In instances when the Expert Group is unable to reach a recommendation DESC will seek to reach a recommendation based on the information that has been provided to it by the Expert Group. In instances when DESC are also unable to reach a recommendation as a result of a tied vote, they will either:

i. Refer the issue back to the Expert Group along with an explanation of the information and analysis that the Expert group needs to provide in order for the DESC to reach a recommendation; or

ii. Refer the issue to the UNCC along with a summary of the issue, the views expressed and the reason why they were unable to make a recommendation.

Terms of Reference for the Expert group:

5. Expert Group Members and Appointment

a) Expert Group members are those nominated by shippers and one representative from each transporter listed below:

- National Grid Gas NTS
- National Grid Distribution
- Northern Gas Networks
- Wales & West Utilities
- Southern Gas Networks or Scotland Gas Networks

b) These experts will remain in place until they resign from the expert group, or their employing organisation informs the Joint Office that they are no longer their designated representative.

c) Nominations to join the expert group will be issued by the Joint Office on an annual basis, with sufficient lead time to ensure that additional members are in place to start at the beginning of the Gas Year.

d) Whilst each Transporter has the right nominate a member, xoserve has currently been appointed as an alternate to represent National Grid NTS and all DNs. xoserve is required to state, where appropriate, when it is speaking or acting on behalf of the Transporters in this capacity.

e) Attendance is open and xoserve, as the service provider, is invited to send one or more representatives for information purposes.

f) All meetings are chaired by the Joint Office, which also provides a secretary.

6. Basis for Reporting

The Joint Office, on behalf of the Expert Group, reports to the DESC as appropriate, following the standard format used by the Uniform Network Code Work streams except that:

The Topic Status format is used to record progress on any specific issues

that do not form part of the typical annual work plan (see Appendix).

The Modification Status format is not used other than to highlight UNC Modification Proposals that might impact the work of the Expert group .

Expert Group minutes shall include a summary of the decisions reached by the Expert Group. In particular:

Minutes of each meeting are made available to Expert Group Members, all shippers, members of the Uniform Network Code Committee and all other persons requesting copies.

7. Procedures for the Conduct of Business by the Expert Group

For formally scheduled meetings then the Chairman's Guidelines apply to the conduct of the meeting.

In principle, meetings shall be open to all but the Chairman may exercise discretion to the extent permitted under the Chairman's Guidelines.

The quorum is at least 3 members or their alternates, of which at least two shall be shippers and one transporter.

Members are permitted to appoint alternates to attend on their behalf and a single alternate may represent more than one member.

Recommendations from the Expert Group will be reached by a simple majority of members present, or their alternate. Where a recommendation can not be reached the Expert Group will pass the matter to DESC to be resolved, along with an explanation of the issue, the matters raised and any explanation as to why the Expert group have been unable to make a recommendation.

The expert group will be expected to convene at short notice to assess analysis and make recommendations on progress or alternative investigations. These meetings will by necessity be informal and may be conducted over email or teleconference. In these cases all representatives should be invited with a minimum of 2 being included in the discussions. A summary will be expected to be presented at the next formally scheduled meeting for the record.

8. Role of Expert Group

The Expert group will be a sub-committee of the DESC. Its role will be to conduct, oversee and direct the detailed analysis and methodologies required for Demand Estimation purposes under the UNC and as such replaces Transporter responsibility within UNC H with responsibility resting with the appropriate UNCC designated sub-committee, in line with the guidance issued by DESC, and make recommendations on these methodologies which will be passed to the DESC for approval. In particular the Expert Group will be responsible for developing an underlying methodology for:

a) undertaking any profile analysis
b) determining the frequency with which profiles are updated
c) agreeing sample sizes (Impacts code H1.6.1, H1.6.5, H1.6.6)
d) agreeing sample composition (Impacts code H1.6.1, H1.6.5, H1.6.6, H1.6.7, H1.6.8, H1.7.1)
e) defining the statistical techniques to be used(Impacts code H1.7.1, H1.7.3)
f) defining any criteria for decision making through the analysis process (Impacts code H1.6.7)
g) determining what position would be taken if change is not materially or statistically significant
h) CWV reviews including determination of frequency (Impacts code UNC H1.4.1a,b, H1.4.2, H1.4.3)
i) seasonal normal reviews including determination of frequency (Impacts code H1.5.2, H1.5.3, H1.5.4)
j) ad-hoc analysis
k) The expert group will oversee any decisions that arise during the analysis.
l) The expert group will review any methodology and make any necessary changes on a regular basis, in particular emphasising the fact that demand models will not include any defined variables as a pre-requisite but will determine appropriate model composition during analysis. (Impacts code H1.3.1, H1.3.3,H1.4.1,H1.7.2, H1.7.3, H4.3.1)
m) The expert group will be notified who is undertaking the analysis, on what frequency and agree access to data if necessary.
n) The Expert Group should ensure that it is transparent who is undertaking the analysis and all data used in the process is available for Network Code signatories to replicate the analysis if required. (Impacts code H1.8.2)
o) The expert group will ensure that members are available to consult on any data manipulation or exclusions that are required during analysis and decisions are made on the basis of agreed criteria
p) The expert group will ensure analysis is published for consultation across the industry and questions responded to in sufficient time to meet system requirements (Impacts code H1.8.1, H 1.9.1, H1.9.2)
q) In undertaking analysis using expertise across the industry it is not envisaged that the current representation and Ofgem appeal will be required. Any issues would be referred to DESC who could vote on outcomes. This removes some of the time constraints over the summer period allowing time to publish views to those not involved in the process while still meeting constraints of Transporter systems. (Impacts code H1.8.3, H1.8.4, H1.8.5, H1.8.6)

It is intended that Section H will be revised to remove specific details of analysis or any minimum requirements for the Demand Models. Current analytical details will be fixed at those specified in the 2010/11 NDM Profile and Capacity Estimation Parameters supporting document and will determine the status quo that could be revised under recommendation of the expert group with evidence supporting any changes.

This list is not exhaustive but covers areas we believe should be amended. Our suggestions for removal/amendment are attached.

Proposer's Suggested Text

Published as a separate document.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

Discussion in the review group suggested that any analysis over and above the standard levels of Transporter resource covered under current UNC provision would be raised as User Pays on an adhoc basis. The general provisions of UNC section H would not be User Pays.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

All costs over and above standard levels of costs recovered 100% from NDM Shippers.

Although supporting the form of this charge, EDF questioned whether it is appropriate for Shippers to fund 100% of this cost. In particular if this proposal were deemed to have a beneficial impact on the operation of the system then EDF would expect Transporters to fund between 25-50% of the incremental costs, in line with the User Pays Guidelines document.

Whilst expecting to be active participants on DESC and any expert sub-group, and recognising there will be resource costs associated with this, EDF would, however, expect these additional costs to be offset by the expected improvements to the demand estimation process.

c) Proposed charge(s) for application of Users Pays charges to Shippers

p/peakdaykWh/day – i.e. the same method as recovering Distribution charges from Shippers.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

No charges applicable for inclusion in ACS.

3 Extent to which implementation of the proposed modification would better facilitate the relevant objectives

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would not be expected to better facilitate this relevant objective.

EDF, however, did not agree with this view, commenting that they would have expected that the day-to-day operation of the pipeline system was driven strongly by the demand estimation process, especially as in the extreme the Gas Balancing Alerts (GBAs) and Gas Deficit Emergencies (GDEs) are driven by demand estimations. Improving the demand estimation process so that it is more accurate would be expected to result in National Grid taking more efficient and economic actions as system operator, which would facilitate this relevant objective. In the extreme an accurate demand estimation process may avoid a GBA or GDE being declared and the associated impacts that this has on the operation of the system. In EDF's view it would therefore appear that implementation of this proposal would facilitate SSC A11.1 (a) if it resulted in more accurate demand estimations.

Standard Special Condition A11.1 (b): so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of

(i) the combined pipe-line system, and/ or

(ii) the pipe-line system of one or more other relevant gas transporters;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

Allocation is used to share daily energy across Shipper portfolios. From a Transporter perspective the allocation methodology is designed to fully allocate all energy, and therefore Transporters income for each day is mostly complete with risk for incorrect allocation and subsequent movement sitting with Shippers. It is essential for Shipper organisations to minimise this risk as the differential between purchasing energy for final reconciled position against initial allocation can be significant given price movements. For example, reconciliation for 2009 to date has adjusted over 1TWh of the initial allocation for January 2009 from LSP to SSP markets. Given price changes between purchase could be large this is a high value risk. For example the differential between Sept 2008 purchase prices and Jan 2009 SAP used for reconciliation, only a 4 month difference, was up to 23pence per therm and this amounts to just under £8million on a 0.2% volume change for a single month. It can be seen from this that the risk to Shipper organisations can be significant.

The workgroup considered enabling better allocation would therefore facilitate the Transporter obligation to ensure effective competition as any risk in misallocation is also reflected in an increased reconciliation risk.

British Gas, Corona Energy, RWE, SSE and EDF consider that the increased involvement of Shippers through the expert group will lead to more accurate demand estimation routines and derivation of profiles and thus an improvement in the accuracy of cost allocation in the market with consequential benefits to competition between Shippers and the facilitation of relevant objective (d).

Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

This proposal seeks to improve the processes outlined in section H and to streamline Network Code to enable more appropriate analysis. It was believed that this proposal achieves this objective by improving operation of this part of Code, by improving the verification of profiles, which may result in improvements to allocation between market sectors through a fair, transparent and non-discriminatory set of profiles, while removing the elements that have caused contention for the past few years and resulting in a number of modifications.

EDF considers implementation of this modification will avoid the need for additional modifications to amend the demand estimation process as the expert group and DESC will be able to resolve issues and so ensure the efficient administration of the UNC.

National Grid Distribution agrees that if the projected benefits of implementation of this Modification Proposal are realised, then it is likely that there would be improved cost allocation within the Non-Daily Metered market.

4 The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No implications on security of supply, operation of the Total System or industry fragmentation have been identified. The workgroup did not identify any implications with demand estimation and Network 1-20 demand profiles differing given they are to be calculated separately.

5 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) Implications for operation of the System:

No implications for operation of the system have been identified.

b) Development and capital cost and operating cost implications:

Moves to operating an expert group with cross industry input into the analysis should be manageable within current budgets. Where analysis shows there would need to be system changes it is anticipated these being raised as a User Pays modification related to the specific changes being suggested.

c) Extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Additional operational costs recovered in line with the arrangements in Section 2.

There are no development or capital costs associated with the implementation of this proposal.

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No such consequence is anticipated.

6 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

This modification should reduce the contractual risk for each Transporter by improving industry participation in the analysis of profiles and therefore removing the likelihood of requests for disapproval by shippers for the NDM capacity profiling and capacity estimation parameters proposals.

7 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No changes to systems would be required as a result of implementation of this Proposal.

8 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

There will be a requirement from Users for input into an expert group. As the benefits from improvements to allocation are considerable, it is expected that there will be a net benefit to any immediate costs from resourcing the group.

Development and capital cost and operating cost implications

There will be ongoing operational costs from resourcing the expert group.

Consequence for the level of contractual risk of Users

The level of contractual risk for Users is expected to reduce under this modification. Improved allocation should provide more certainty for Shippers in levels of commodity charges and reconciliation. Less misallocation between temperature sensitive and less temperature sensitive EUC bands should also provide greater assurance of appropriate charging.

9 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

No implications identified.

10 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

This reduces the contractual risk of the Transporters as the obligation to develop Demand Estimation processes as covered in TPD Section H will move from Transporters to a cross industry group including Shippers.

11 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Addresses issues identified with the demand estimation process in the past, by increasing transparency and improving focus on areas of concern.
- Improves Shipper engagement and involvement in the analysis of profiles etc, therefore reducing the likelihood of methodologies being disallowed.
- Provides for improved use of climate experts from within Shipper organisations to aid the development of analysis.
- Enables the flexibility to provide a better default position should the proposals be rejected by UNCC.
- Improves the confidence the market has in the eventual output. (British Gas)
- Improves the way in which Small Supply Point (SSP) sector demand is estimated and how costs are allocated in the SSP market. (British Gas)
- Allows use of data that would not otherwise be available to Transporters, through the setting up of an expert group. (E.ON UK)
- Removing current constraints will allow flexibility to roll in smart information and demand pattern behaviour. (E.ON UK)

Disadvantages

- The Expert Group, DESC and UNCC may not be able to reach an agreement on the change in the proposals, therefore the default position is there is no change to the current industry profiles which may lead to a less favourable position for all.
- Individual commercial incentives may affect industry decisions, therefore making it more difficult to reach an agreement by majority vote.

12 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Representations were received from the following parties:

Organisation	Position
British Gas	Support
Corona Energy	Support
EDF Energy	Support
E.ON UK	Support
National Grid Distribution	Support
RWE npower	Support
SSE	Support

Of the 7 representations received implementation was unanimously supported.

Additional General Comments

RWE observed that the Proposal (on page 2 of this Report) states " ……we will also be requesting UNCC create a new sub- committee or allow DESC to create a group of specialists to look at specific areas" and raised a general concern that there was no specific definition for a sub-committee, pointing out that the modification report refers to it as an "Expert Group" which has not yet been created. RWE have a concern that if governance arrangements are not in place yet and the sub-committee has not been created this may result in an anomaly or an inconsistency with the drafting of the legal text for the purpose of Modification 0331.

RWE suggested this could be avoided by the creation of the sub-committee by the UNCC and by establishing terms of reference and governance arrangements at the outset followed by drafting and agreement of the legal text once these other matters are in place.

SSE suggested that under "DESC Members and Appointment" (Page 3 of this

Report) another requirement should be added as follows:

f) Xoserve is required to state, when they have subcontracted the analysis out to a third party and allow the third party to be available to answer queries and give any clarification as appropriate to the DESC/Expert Group.

EDF commented on the composition of both DESC and the Expert Group, observing with interest that all of the Transporters have been allocated one place at both DESC and the proposed expert group, which could be provided to Xoserve on their behalf. EDF noted that whilst this may have been appropriate historically, implementation of this proposal will remove the requirement on the Transporters to develop a demand estimation methodology. It would therefore appear that Transporter representation on DESC would only be required if it had an impact on the operation of the system. As this role is fulfilled by National Grid NTS, EDF did not consider that it is appropriate for GDNs to be represented on DESC if they have no direct exposure to demand estimation. EDF also noted that Shippers are not members of the Offtake Committee as they have no direct impact, and it could be questioned whether Shippers should be represented at this committee if GDNs require representation at DESC.

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

Corona Energy noted that some Shipper organisations are better placed than others to provide expertise to the Demand Estimation process and in light of this we would expect the regulator to scrutinise the outputs from this revised process to ensure that no individual or group of Shippers are unfairly disadvantaged by changes to Demand Estimation processes.

13 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

14 The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

15 Programme for works required as a consequence of implementing the Modification Proposal

No programme of works would be required as a consequence of implementing the Modification Proposal.

16 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective impacts)

Implementation should be prior to analysis supporting a new gas year profiles. This would indicate implementation by 01 October 2011 to allow time for the expert group members to be identified prior to spring analysis.

In their representations both Corona Energy and E.ON pointed out that in order to influence October 2012 profiles, the Modification would need to be implemented before the end of 2011 to allow sufficient time to set up an expert group and enable input into the 2012 Spring analysis.

In the event that Ofgem reached a decision after 01 October 2011, EDF believed it would be appropriate for the Transporters to consult with industry to identify whether there was sufficient lead time to implement this new regime in time for the start of the next gas year.

17 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

18 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

The Chair summarised that this modification seeks to change responsibilities for developing the demand estimation process. User involvement would be increased through changes to DESC (Demand Estimation Sub-Committee) and the approach to decision taking, together with creation of an Expert Group, which would facilitate those with specific expertise and knowledge having more direct influence over the demand estimation methodology.

Members recognised that clearly defined involvement by appropriate experts could be expected to lead to more robust approaches being implemented such that estimated demand is closer to actual demand. This would be expected to reduce the risk faced by Shippers through reconciliations when actual demand is known, and to support more accurate cost allocations. By reducing risk and improving cost allocations, implementation would be consistent with facilitating the securing of effective competition between Shippers.

Some Members felt that the existing process does not support effective User involvement in the demand estimation process, with the consultation process occurring too late for any significant changes to be made to the proposals put forward by the Transporters. As such, these Members believed that the revised process would promote efficiency in the administration and implementation of the Code.

With 8 votes cast in favour, Panel Members determined to recommend that Modification 0331 should be implemented.

Implementation could better facilitate the achievement of **Relevant Objectives d and f.**

The benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Yes
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code	Yes

19 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

20 Text

Legal text for this modification has been published in a separate document alongside this Final Modification Report.

RWE considered that some minor amendments were required to the legal text, as

follows:

1.3.1 4th line - typo space between "committee" and "for"
1.5.4 2nd line typo 1.8.1(c) 3rd line change "considered" to "considers" 1.8.4(b) insert word "such" so reads "in respect of such representations made by them"

1.8.5 third line - cross reference 1.8.4(b)

1.9.2 11th line following words "End User categories" insert the words "For the next Gas Year"

1.11.1 - amend cross references 1.7.2 to 1.7.1 and amend to 1.8.1, query 4.3.1 (does this pertain to another section, if so we should refer).

1.11.4(a) 3rd line insert words "in order" immediately following word "additional information"

1.11.4(b) 2nd line delete "who" and replace with "which"

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters