

Review Group Report
Review Proposal 0280
Review of Demand Estimation UNC H Processes and
Responsibilities

Version 1.0

1. Review Proposal

E.ON UK raised Review Proposal 0280, for which the Terms of Reference are on the Joint Office web site at www.gasgovernance.co.uk/0280.

2. Review Process

In accordance with the Modification Rules, at its meeting on 21 January 2010, the Modification Panel determined that this Review Proposal should be referred to a Review Group for progression. This Review Group Report was subsequently compiled by and approved by Review Group attendees.

3. Areas Reviewed

The following items are included within scope of the group and should be considered within the review process:

1. Consider Demand Estimation roles, responsibilities and timescales.
2. Consider Demand Estimation governance and in particular the consultation process (excludes the review of Supply Meter Point Demand Formula and associated algorithms)
3. Consider how best to implement the outcome of this review and whether a modification proposal should/could be raised prior to the review group concluding [to consider - a draft proposal attached to the report could be issued to consultation if recommended by group and Panel]

4. Limits

The Review Group focused on developing recommendations and draft UNC Proposals that efficiently address the issues identified in a proportionate and cost effective manner. The Review Group considered the changes required to procedures and processes within UNC and its associated documents.

5. Review Group Process

The Review Group agreed a workplan based on the topics listed in 3 above (see appendix 1) and assigned actions to owners.

6. Conclusions

The Review Group considered the items detailed in 3 above and in particular TPD Section H. A number of issues were identified and examined:

6.1 Responsibilities and Obligations

It was recognised by Review Group members that Transporters have obligations to produce recommendations for annual work processes and consult with Users either at UNCC or a sub-committee. However, there was no clear definition of consultation and how consultation responses should be used to amend or influence the analysis. The Review Group considered it would be beneficial to include rules in the UNC to clarify consultation, its purpose and how Users can influence the process.

6.2 The Governance Process

The Review Group considered the relevant sections of TPD Section H and concluded the process was in need of review. As with responsibilities and obligations, members felt the process was unclear on the management of issues and there was no clear method to dispute the recommendations of the underlying analysis made by Transporters other than an appeal to the Authority.

The Review Group was concerned the governance process currently adopted was not responsive enough to queries or issues raised during the annual work process as the timeline was insufficient to allow additional analysis to be undertaken by the Transporters Agent in time to meet the obligations in section H. Therefore, issues raised during the current year were either delayed or not relevant to the following years workplan/analysis.

The Review Group considered the roles of UNCC and DESC and whether the roles of these committees was in keeping with a desire to improve the governance and analysis processes undertaken during the year. Members were concerned with the accountability and role of these committees, including their responsiveness to manage/resolve issues raised during the annual work process or as a result of consultation. Users members were concerned the committees failed to provide sufficient time to investigate issues in time to influence the analysis for the annual work process recommendations.

The Review Group considered a number of changes to the Governance process and the User members were in favour of creating an additional committee/workgroup to support the development of analysis undertaken by the Transporters agent - this group would be known as the Expert Group and include representatives from Transporters and Users (see appendix 2 for draft terms of reference).

The role of the Expert Group is to direct and oversee the analysis undertaken by the Transporters agent on a more frequent basis to DESC, to raise queries and issues at an earlier stage in the process. The Expert Group will then make recommendations on annual work plan to DESC and explain how it reached its conclusions. The objective being to provide a route for Users to be more closely involved in the annual work process recommendations and more likely to accept them. The process will allow Users to replicate the analysis undertaken by Transporters and in some situations undertake analysis on behalf of all parties. The Expert Group objectives and membership is to be approved by DESC on an annual basis. The role of DESC was examined and the Review Group concluded that with the support of the Expert Group, DESC would provide the industry expertise to recommend changes identified in annual work process and oversee the Expert Group. These recommendations

could then be approved by UNCC or where agreement is not reached, allow a route for escalation of issues before there is a requirement to seek a view from the Authority.

The Review Group considered whether the DESC or Expert Group should have a budget to manage analysis. Members concluded that the current annual workplan has sufficient funding to manage the majority of analysis requests. However, the Transporters Agent would be in a position to identify where such analysis requests would be a strain on resources or require system changes, which would take the analysis out of scope for the current year and be subject to UNC modification rules prior to being undertaken.

6.3 The use of Historical Data

Users were concerned that the historical weather data used in the analysis for the annual work process was not made available to them, particularly where weather stations had missing data and this was backfilled from alternative sources. Transporters were concerned their commercial arrangements for the provision of this data would prevent them sharing it with Users, though they agreed to consult with their weather data providers to identify the contractual changes required to allow the data to be passed to Users.

7. Recommendations

The Review Group considered the conclusions and recommend a Modification Proposal is raised to address some of the concerns in the following areas:

- Openness and transparency of the analysis;
- Creation of an Expert group to influence/undertake analysis and use of industry wide expertise;
- Review DESC terms of reference and creation of Expert Group terms of reference (examples of which can be found in appendix 2);
- Replacement of current governance arrangements for a more inclusive approach;
- Adopt a more flexible approach to analysis.

A draft Modification Proposal addressing a number of these recommendations is attached to this report (appendix 3).

APPENDIX 1 – Review Group Workplan

05 February 2010

Agree terms of reference

26 February 2010

High Level Review of UNC TPD Section H

15 March 2010

Discussion and evaluation of

- a) Annual Work Processes
- b) Non Annual Work Processes

Including roles and responsibilities, associated consultation processes, timescales, mechanisms for change, etc.

19 April 2010

Governance Processes, including definition of consultation and appropriate escalation routes; role of DESC and UNCC

18 May 2010

Governance Processes:

Expert Group ToR

Role of UNCC and DESC

DESC and Expert Group Governance

Consultation process

14 June 2010

Review of:

Expert Group ToR

Timelines

Governance Strawman.

23 July 2010

Review of progress:

Review of any draft Modification Proposals

provisional recommendations

draft Review Group Report.

14 September 2010

Finalise Modification Proposals and Review Group report

Appendix 2 – Draft Terms of Reference for DESC and Expert Group

Version 2.0

1 Uniform Network Code Basis

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.

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

These three matters are implemented for DESC as follows.

2 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 and West Utilities
 - e) Southern Gas Networks or Scotland Gas Networks
- b) Each year, shippers on the Uniform Network Code Committee 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 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.

3 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 Workstreams 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:
 - 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).

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.

4 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.

The quorum is at least 3 voting 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.

The Appendix sets out the typical work plan for each year and the standard agenda for committee meetings.

Recommendations from the DESC will be reached by a simple majority of voting members present, or their alternate. Where a recommendation can not be reached as a result of a hung vote DESC will pass the matter to the UNCC to be resolved. For the avoidance of doubt a hung vote at the UNCC would represent a recommendation to not implement any proposed change.

5 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 for the implementation of any proposed change 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 as a result of a hung vote 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 hung 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.

6 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 and 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.

7 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 Workstreams 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:

a) [*Insert from Expert Group Terms of Reference Strawman*]

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.

8 Procedures for the Conduct of Business by the Expert Group

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 voting 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.

Recommendations from the Expert Group will be reached by a simple majority of voting members present, or their alternate. Where a recommendation can not be reached as a result of a hung vote 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..

9 Role of Expert Group

The Expert group will be a sub-committee of the DESC. Its role will be to conduct the detailed analysis and methodologies required for Demand Estimation purposes under the UNC, 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) Determining the criteria for assessing the output of any methodology and analysis
- b) undertaking any profile analysis
- c) determining the frequency with which profiles are updated

- d) agreeing recommendations on sample sizes
- e) agreeing recommendations on sample composition
- f) defining the statistical techniques to be used
- g) defining any criteria for decision making through the analysis process
- h) determining what position would be taken if analysis provided insignificant
- i) CWV reviews including determination of frequency
- j) seasonal normal reviews including determination of frequency
- k) ad-hoc analysis
- l) The expert group will oversee any decisions that arise during the analysis.
- m) The expert group will review any methodology and make any necessary changes on a regular basis.
- n) The expert group will be notified who is undertaking the analysis, on what frequency and agree access to data if necessary.
- o) 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.
- p) 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
- q) The expert group will ensure analysis is published for consultation across the industry and questions responded to in sufficient time to meet system requirements

Appendix
Demand Estimation Sub-Committee
Typical Work Plan for a year

- a) Evaluation of expert group analysis and output including:
 - model smoothing applicability
 - NDM Sampling
 - End User Category definitions
 - Demand Model performance
 - Methodology recommendations
 - Analysis output and recommendations for consultation
- b) Consultation on proposed revision of End User Category definitions and Demand Models.
- c) Response to representations on End User Category definitions and Demand Models and finalisation of proposed revisions.
- d) Changes to weather data and inputs including but not limited to:
 - CWV definitions
 - Weather station changes
 - Weather provider changes
 - Seasonal normal basis
- e) Matters arising from adhoc analysis

Standard Agenda

- 1.0 Introduction**
- 2.0 Confirmation of Membership and Apologies for Absence**
- 3.0 Review of Minutes and Actions from Previous Meeting**
- 4.0 Progress of Work Plan**
- 5.0 Revision of Work Plan**
- 6.0 AOB**

Appendix 3 – Draft Proposal

CODE MODIFICATION PROPOSAL No xxxx

Demand Estimation Section H Changes to Processes and Responsibilities

Version 0.1 DRAFT

Date: 14/09/2010

Proposed Implementation Date: 1/1/2011

Urgency: Non Urgent

1 The Modification Proposal

a) Nature and Purpose of this 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.

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.

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.

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

- d) Membership and manner of appointment of members
- e) Basis of reporting to Uniform Network Code Committee, Users and Transporters
- f) Procedures for the conduct of business

These three matters are implemented for DESC as follows.

- DESC Members and Appointment
 - f) 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
 - g) 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.
 - h) 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.

- i) Attendance is open and xoserve, as the service provider, is invited to send one or more representatives for information purposes.
- j) All meetings are chaired by the Joint Office, which also provides a secretary.

- **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:

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

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.

- **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.

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.

- **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:

- g) 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.
- h) 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.
- i) Raise any particular issues that they believe the Expert group should address and resolve.
- j) Recommend to Users and Transporters whether analysis should be commissioned from industry experts to assess climate change
- k) 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.
- l) 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:
 - iii. 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
 - iv. 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.

And for the Expert group as:

- **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.

- **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.

- **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.

- **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, 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:

- r) undertaking any profile analysis
- s) determining the frequency with which profiles are updated
- t) agreeing sample sizes
- u) agreeing sample composition
- v) defining the statistical techniques to be used
- w) defining any criteria for decision making through the analysis process
- x) determining what position would be taken if change is not materially or statistically significant
- y) CWV reviews including determination of frequency
- z) seasonal normal reviews including determination of frequency
- aa) ad-hoc analysis
- bb) The expert group will oversee any decisions that arise during the analysis.
- cc) The expert group will review any methodology and make any necessary changes on a regular basis.
- dd) The expert group will be notified who is undertaking the analysis, on what frequency and agree access to data if necessary.
- ee) 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.
- ff) 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
- gg) The expert group will ensure analysis is published for

consultation across the industry and questions responded to in sufficient time to meet system requirements

It is intended that Section H will be revised to remove specific details of analysis, and current analytical details be provided in a supporting document that could be revised under recommendation of the expert group.

- b) **Justification for Urgency and recommendation on the procedure and timetable to be followed (if applicable)**

It is not envisaged that this Mod is urgent

- c) **Recommendation on whether this Proposal should proceed to the review procedures, the Development Phase, the Consultation Phase or be referred to a Workstream for discussion.**

As this follows a review group it is proposed that the Mod goes to a distribution workstream meeting for consideration before proceeding to consultation.

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 standard levels of Transporter resource covered under current UNC provision would be raised as User Pays on an adhoc basis. Generally provision of section H UNC 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.

- 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**

3 Extent to which implementation of this Modification Proposal would better facilitate the achievement (for the purposes of each Transporter's Licence) of the Relevant Objectives

- (a) the efficient and economic operation of the pipe-line system to which this licence relates;**

Not expected to further this objective

- (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;

Not expected to further this objective

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

Not expected to further this objective

(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 portfolio. 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.

Enabling better allocation will therefore facilitate the Transporter obligation to ensure effective competition as any risk in misallocation is also reflected in an increased reconciliation risk.

(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; and

Not expected to further this objective

(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. We believe this proposal achieves this

objective by improving operation of this part of Code, improving 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 resulting in a number of modifications.

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

It is not envisaged that there would be any impact

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

a) The implications for operation of the System:

There are no implications for operating the System

b) The development and capital cost and operating cost implications:

Moves to operating an expert group and cross industry input to the analysis should be manageable within current budget. Where analysis shows there would need to be system changes we would anticipate these being raised as a User Pays modification related to the specific changes being suggested.

c) Whether it is appropriate to recover all or any of the costs and, if so, a proposal for the most appropriate way for these costs to be recovered:

Additional operational costs recovered in line with the arrangements in Section 3.

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

d) The consequence (if any) on the level of contractual risk of each Transporter under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

This modification should reduce contractual risk for each Transporter by improving industry participation removing the likelihood of requests for disapproval for the proposals.

6 The extent to which the implementation is required to enable each Transporter to facilitate compliance with a safety notice from the Health and Safety Executive pursuant to Standard Condition A11 (14) (Transporters Only)

No impact identified.

7 The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users

None without further modifications if specific needs are identified.

8 The implications for Users of implementing the Modification Proposal, including:

a) The 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.

b) The development and capital cost and operating cost implications

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

c) The consequence (if any) on the level of contractual risk of Users under the Uniform Network Code of the Individual Network Codes proposed to be modified by this Modification Proposal

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 will also provide greater assurance of appropriate charging.

9 The implications of the implementation for other relevant persons (including, but without limitation, Users, Connected System Operators, Consumers, Terminal Operators, Storage Operators, Suppliers and producers and, to the extent not so otherwise addressed, any Non-Code Party)

Non identified

10 Consequences on the legislative and regulatory obligations and contractual relationships of the Transporters

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 not otherwise identified in paragraphs 2 to 10 above

Advantages

- Addresses issues identified with the demand estimation process in the past.
- Enables Shipper engagement and so buy in, reducing the likelihood of methodologies being disallowed.
- Provides for improved use of climate experts within Shipper organisations

Disadvantages

- None identified

12 Summary of representations received as a result of consultation by the Proposer (to the extent that the import of those representations are not reflected elsewhere in this Proposal)

13 Detail of all other representations received and considered by the Proposer

14 Any other matter the Proposer considers needs to be addressed

15 Recommendations on the time scale for the implementation of the whole or any part of this Modification Proposal

Implementation should be prior to analysis supporting a new gas year profiles. This would indicate implementation by 31/1/2011 to allow time for the expert group members to be identified prior to spring analysis.

16 Comments on Suggested Text

Attached document highlights areas of Code expected to change within section H.

17 Suggested Text

Code Concerned, sections and paragraphs

Uniform Network Code

Transportation Principal Document

Section(s) UNCTPD H sections 1.1 through 1.9, 4.3 as per attached document

Proposer's Representative

Name (Organisation)

Proposer

Name (Organisation)