

Stage 01: Proposal

0378:

Greater Transparency over AQ Appeal Performance

What stage is this document in the process?

01

Proposal

02

Workgroup Report

03

Draft Modification Report

04

Final Modification Report

This Proposal will give more transparency over the way in which Shippers use the AQ Review process.



The Proposer recommends that this self-governance modification should sent for assessment for two months



Medium Impact:
Shippers



Low Impact:
Network Owners

0378

Modification

08 April 2011

Version 1.0

Page 1 of 16

© 2011 all rights reserved

Contents

- 1 Summary
- 2 Why Change?
- 3 Solution
- 4 Relevant Objectives
- 5 Impacts and Costs
- 6 Implementation
- 7 The Case for Change
- 8 Legal Text
- 9 Recommendation

About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 21 April 2011. The Panel will consider the Proposer's recommendation, and agree whether this self-governance modification should proceed to consultation or be referred to a Workgroup for assessment.



3 **Any questions?**

5 Contact:

7 **Joint Office**



8 enquiries@gasgovernance.co.uk



10 **0121 623 2115**

14 Proposer:

David Watson



15 dave.a.watson@centrica.com



07789 570501

Transporter:

Insert name



...@...



0000 000 000

xoserve:

Insert name



commercial.enquiries@xoserve.com



0000 000 000

0378

Modification

08 April 2011

Version 1.0

Page 2 of 16

© 2011 all rights reserved

1 Summary

Is this a Self-Governance Modification

We believe this proposal is self-governance because it only seeks to provide transparency over Shippers actions in the AQ Review process and not to change the process itself, thus meaning it has no material impact in itself. To that end we consider it fulfils the UNC Self-Governance criteria.

Why Change?

The AQ appeal process, which includes the AQ Review, helps assign £billions of cost in the gas market and any issues or misuse of it can therefore have a material impact on the accuracy of cost allocation and therefore consumer's bills. We believe that the current transparency and controls on Shipper's use of the AQ appeal process are not sufficiently robust to provide the market with confidence that the process is working effectively and not being misused. The impact is that even if a Shipper were to misuse the AQ appeal process for financial gain, the controls on the process are not be sufficient to establish this in anything other than extreme circumstances. We also consider that the current anonymity provisions around industry reporting in this area are no effective and apply unequally to different Shippers.

Solution

This proposal will increase the amount of data provided on the industry MOD81 reports so that there is more transparency about the way in which Shippers have used the AQ Review Process.

This Proposal will also create a new report which provides the same data as in the proposed MOD81 report, but specifically covering AQ appeals made outside of the AQ Review process. This report will not be anonymous.

Finally, this proposal will also remove the anonymity which currently exists in the MOD81 reports.

Impacts & Costs

This Proposal will not change the rules around how the AQ appeal process works and therefore will have no impact on Network Owners other than a requirement to collate and publish more data.

The impact on Shippers will be limited to the fact that more information will be publicly available about the way in which they have used to AQ appeal process. As a User Pays change, they will also be required to fund the cost of any extra work required to support this Proposal.

Implementation

This Proposal should be implemented before 1st November 2011, that being the date that the new reports can be provided for the 2010/11 Gas Year.

The Case for Change



Where can I find more information about how the AQ appeals process works?

The rules which govern the AQ appeals processes can be found in UNC section G, from paragraph 1.6 onwards. [Link here.](#)

We believe that by improving the control and assurance framework around the AQ appeal process the industry will have more confidence that the process is working effectively, Shippers will be dissuaded from any potential misuse of the process and the industry will be better able to identify and resolve any misuse.

We consider that this in turn will ensure that cost allocation in the gas market will be as accurate as possible thus facilitating effective competition between Shippers. In addition, we consider this Proposal will provide greater transparency over the degree to which Shippers are compliant with the existing Code obligations not to misuse the AQ appeal process, thus facilitating efficiency in the implementation and administration of the Code. This Proposal will therefore facilitate Relevant Objectives (d) and (f).

Recommendations

We recommend that this Proposal be sent for assesment for two months.

2 Why Change?

Context

In the Non-Daily Metered (NDM) market the allocation of gas costs are allocated based on an estimate of how much gas a site has used. These estimated costs are then aggregated up for all the sites on a Shipper's portfolio to calculate the charges that Shipper is liable for.

The estimate referred to above is known as the Annual Quantity (AQ) value, and it is derived from historic consumption at a site. As with any other estimate, the AQ is not absolutely accurate and therefore the AQ Review process exists to allow Shippers to correct any material variations between the AQ and the consumption they see at the site with the aim of improving the accuracy of cost allocation.

The rules around the AQ Review process provide for the Network Owners to advise the Shipper, for each of the NDM sites in their portfolio, a provisional AQ value by 31st May in each year. Shippers then have until 13th August in each year to appeal any AQ value which they consider to be inaccurate by submitting meter readings which substantiate the revised AQ being sought. Importantly, Shippers have an obligation to ensure that in the AQ Review they have applied a methodology which is consistent across their Supply Points, they have been even handed in their submission of AQ amendments – whether they be increases or decreases – and that it has not been selective over the AQs which it has finally appealed.

The risk arising from misuse of this process is material: £billions of cost is allocated through the AQ process each year and we calculate that were a Shipper with a 10% NDM market share to avoid just 1% of their costs through misuse of the AQ Review process, the misallocation of costs would be worth ~£6.5m¹.

The Issue

The "MOD81 report" is actually a collection of reports, or datasets, used to provide transparency over Shipper activity following the AQ Review. It contains no information about any AQ appeal which was submitted outside of the AQ Review process.

From our experience of raising concerns about the way in which Shippers may have used previous AQ Reviews we believe that, aside from extreme cases, it is not possible to establish from the data in the MOD81 report whether any particular Shipper's actions have or have not been compliant with the provisions under Code. The report also does not provide any data on AQ appeals made by Shippers outside the AQ Review Process. The effect is that Shippers are unlikely to be able to use the MOD81 report to demonstrate non-compliance with Code provisions, and those facing allegations are unable to

¹ Assuming approximate SSP aggregate AQ of 328 TWh at an average cost of approximately £20m p/TWh, or £6.5bn total value. 10% share of this cost is therefore approximately £650m, with 1% of that cost valued at approximately £6.5m.

demonstrate their compliance. We believe that more data is required in this report to give the necessary transparency to establish whether the process has been properly used or not.

We also believe the current report only offers partial anonymity, with some Shippers being easily identifiable in the report and others afforded full anonymity by virtue of the fact that portfolio size is given as a data item. British Gas for example can be easily identified by the number of Supply Points shown against them in the report whereas it is not always clear who the other Shippers are. Other Shippers are also affected. This discrimination is unwarranted and affords different levels of protection to different Shippers. We believe that the information contained within the reports is not commercially confidential and that furthermore no Shipper should have anything to hide in these reports. Consequentially, we propose that anonymity should be removed for all.

3 Solution

This Proposal will add the following three reports or datasets to the MOD81 report document.

1. Aggregate effect of AQ movement during the AQ Review window expressed in kWh, by Shipper.
2. The number of increases and decreases in AQ made during the AQ Review, by Shipper, split by kWh movement bands.
3. A separate report providing the same data as the MOD81 report shows, but specifically covering AQ appeals submitted outside of the AQ Review process, split by Shipper and un-anonymised. This should be delivered once a year along with the final issue of the current MOD081 and detail all appeal activity for the previous gas year. Its headings will be based on the MOD81 report, showing, by Shipper, EUC and LDZ, a count of AQ Appeal, associated aggregate AQ movement, count of upward and downward appeals and associated aggregate AQ movement..

This Proposal will also change all reports in the MOD81 report document, including those proposed above, so that none are anonymous.

4 Relevant Objectives

The Proposer believes that implementation will better facilitate the achievement of **Relevant Objectives d and f.**

Proposer's view of 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, see below.
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, see below.

We consider this Proposal facilitates UNC Relevant Objectives (d) and (f). Our reasoning is given below.

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.

We believe that by improving the control and assurance framework around the AQ appeal process the industry will have more confidence that the process is working effectively, Shippers will be dissuaded from any potential misuse of the process and the industry will be better able to identify and resolve any misuse.

We consider that this in turn will ensure that cost allocation in the gas market will be as accurate as possible thus facilitating effective competition between Shippers.

f) Promotion of efficiency in the implementation and administration of the Code

0378

Modification

08 April 2011

Version 1.0

Page 8 of 16

© 2011 all rights reserved

In addition, we consider this Proposal will provide greater transparency over the degree to which Shippers are compliant with the existing Code obligations not to misuse the AQ appeal process, thus facilitating efficiency in the implementation and administration of the Code.

0378

Modification

08 April 2011

Version 1.0

Page 9 of 16

© 2011 all rights reserved

5 Impacts and Costs

Impacts

This Proposal will impact both Shippers and Network Owners. Network Owners, who administer the AQ appeal process, will need to collect and report the additional data required under this Proposal. To the extent that there is cost associated with the implementation of this Proposal, Shippers will have to bear the cost of that implementation, in addition to losing their anonymity in the MOD81 report.

Costs

Indicative industry costs – User Pays	
Classification of the proposal as User Pays or not and justification for classification	
User Pays	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
Shippers will pay 100% of the costs associated with this. We believe that this is justified as the anticipated benefit will be entirely in the Shipper market.	
Proposed charge(s) for application of Users Pays charges to Shippers	
TBC	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none">TBC
Operational Processes	<ul style="list-style-type: none">TBC
User Pays implications	<ul style="list-style-type: none">TBC

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none">None.
Development, capital and operating costs	<ul style="list-style-type: none">TBC.

0378

Modification

08 April 2011

Version 1.0

Page 10 of 16

© 2011 all rights reserved

Impact on Users	
Contractual risks	<ul style="list-style-type: none"> None.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> TBC
Development, capital and operating costs	<ul style="list-style-type: none"> TBC
Recovery of costs	<ul style="list-style-type: none"> TBC
Price regulation	<ul style="list-style-type: none"> TBC
Contractual risks	<ul style="list-style-type: none"> TBC
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> TBC
Standards of service	<ul style="list-style-type: none"> TBC

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> None.
UNC Committees	<ul style="list-style-type: none"> None.
General administration	<ul style="list-style-type: none"> None.

Impact on Code	
Code section	Potential impact

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None.
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None.

Impact on UNC Related Documents and Other Referenced Documents	
Storage Connection Agreement (TPD R1.3.1)	None.
UK Link Manual (TPD U1.4)	None.
Network Code Operations Reporting Manual (TPD V12)	None.
Network Code Validation Rules (TPD V12)	None.
ECQ Methodology (TPD V12)	None.
Measurement Error Notification Guidelines (TPD V12)	None.
Energy Balancing Credit Rules (TPD X2.1)	None.
Uniform Network Code Standards of Service (Various)	None.

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None.
Gas Transporter Licence	None.

Other Impacts	
Item impacted	Potential impact
Security of Supply	None.
Operation of the Total System	None.
Industry fragmentation	None.
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None.

6 Implementation

This Proposal should be implemented as soon as possible after an Ofgem direction.

We believe it is important that the implementation date should be before 1st November 2011 so that the improvements can be included in the reports covering the 2010/11 Gas Year.

0378

Modification

08 April 2011

Version 1.0

Page 13 of 16

© 2011 all rights reserved

7 The Case for Change

Advantages

1. Provides greater transparency over Shipper behaviour during the AQ appeal process, deterring any non-compliance and ensuring that any non-compliance can be identified and addressed.
2. Removes the current disparity in anonymity between Shippers.

Disadvantages

None identified.

8 Legal Text

None

0378

Modification

08 April 2011

Version 1.0

Page 15 of 16

© 2011 all rights reserved

9 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 0378 progress to a Workgroup for assessment.

0378

Modification

08 April 2011

Version 1.0

Page 16 of 16

© 2011 all rights reserved