

TRANSCO NETWORK CODE MODIFICATION PROPOSAL No. 0615

"Review of the Smaller Supply Point AQ Calculation Methodology"

Version 2.0

Date: 14/02/2003

Proposed Implementation Date:

Urgency: Review

Justification

Review proposal - see purpose of proposal

Nature of Proposal

To establish a review group to determine the accuracy of the SSP AQ calculation within the gas settlement regime. The output of this group will inform debate over the future development of the AQ Review Process itself.

The review should

- Show whether the AQ calculation methodology itself may introduce a systematic bias into the AQ which may have a material impact on final energy allocations after RbD. The different nature of User SSP portfolios, both in terms of size, geography and customer mix should be taken into account.
- Show whether or not errors in Transco's AQ calculation, due to erroneous reads and/or asset data, that remain (i.e. do not cross the LSP threshold) within the SSP market introduce a material impact on final energy allocations after RbD.
- Include discussion with the RbD Audit Sub Committee over increasing the scope of the RbD Audit to encompass Transco's AQ Calculation Process and the AQ Calculator.

Purpose of Proposal

With the introduction of RbD, in February 1998, the need to carry out Individual Reconciliations for all 20 million Smaller Supply Points was removed. The potential reduction in accuracy that resulted from the introduction of RbD was offset by the reduced cost to shippers associated with the Individual Reconciliations. Although RbD simplified the reconciliation process it placed great reliance on a number of feeder processes, including the AQ Review. A shipper's SSP AQ would now determine how much energy it would be allocated, rather than by retrospective adjustment to metered consumption.

Transco is responsible for calculating new AQs annually based on meter read history it holds. This process is known as the AQ Review. The first review was limited to Larger Supply Points and demonstrated the need for a shipper amendment phase due to the large number of errors in the AQ calculation. An Amendment Phase was established for future reviews for which Transco made available an AQ calculator allowing Users to determine an AQ using their own asset / read information. The first SSP review took place in 2000.

The AQ review was envisaged as a Transco led process with minimal User involvement. The development of the Amendment Phase altered this and has significantly increased the workload on Users. In place of Individual Meter Point Reconciliations Users now undertake their own meter point reconciliation against the Provisional AQ calculations.

Recently, the AQ Sub Group has been discussing the rules allowing amendments and some concern has been expressed that these and the wider RbD process may need to be fundamentally reviewed.

The purpose of this review would be to determine whether the underlying AQ calculation methodology itself contains a systematic bias that may introduce a distortion not previously considered.

There is an expectation, inherent to the concept of RbD, that Users' SSP portfolios are of sufficient size and mix that the application of a single demand profile and a single weather adjustment in each LDZ is appropriate and will not introduce biases or distortions. It is the application of these profiles and adjustments that determines an AQ from the metered consumption. This assumption needs to be tested. The AQ calculation methodology was developed in an environment that pre dates RbD where the AQ played a less important role.

Customers within the SSP market include: small offices, retail shops, restaurants, pubs, domestic space heating, domestic cooking, etc. Such groups are likely to display different demand characteristics.

At a meter point level the use of a single average demand profile and a single weather adjustment may result in an unstable AQ that fluctuates at each review with new/different read history. The possibility that this may introduce a systematic bias needs to be discounted since it will result in differences between the AQ calculated by Transco and the User.

During the 2002 review over 1.6 million amendments using optimal read history changed the Transco calculated AQ by over 1,000 kWh. This represents over 35% of an estimated 4.5 million candidate meter points - those that have been with a single supplier for over a year and where the supplier holds more optimal read information. This needs to be explored and an acceptable AQ movement established.

At an industry level there is evidence that an AQ distortion exists between the SSP market and the LSP market. This is evident in the flow of energy from the SSP market to the LSP market during the reconciliation process following the D+5 demand allocation. This is consistent with a relative understatement of the SSP AQ relative to the LSP AQ. What is not clear is whether such a bias exists between shippers within the SSP market.

Following the introduction of RbD a body of work was undertaken in order to provide comfort to the shipping industry that the process was robust and operated within an acceptable level of risk. This work included an RbD Audit, risk modelling, and verification analysis. However it had a finite scope and did not specifically ask questions over the robustness of the AQ calculation. It is therefore timely to fundamentally review the AQ calculation process and the interaction with the RbD and energy allocation processes. It is hoped that the work and the experience gained could provide support for the Review Group.

Consequence of not making this change

Review proposal

Area of Network Code Concerned

Section H

Proposer's Representative

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Proposer

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Signature

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