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Your Reference:UNC Modification Proposal 0292.

**Re: UNC Modification Proposal 0292:
'Proposed change to the AQ Review Amendment Tolerance for SSP sites'**

Dear Bob,

Thank for your invitation seeking representations with respect to the above Modification Proposal.

National Grid Gas Distribution (NGD) would like to offer comments with respect to this.

The Annual Quantity (AQ) amendment provisions under the Uniform Network Code (UNC) together with relevant supporting processes have been largely unchanged since implementation of Network Code Modification 0624 'Changes to the 2003 Annual Quantity (AQ) Amendment Process'¹. This Modification set out the terms under which Users could intervene in the calculation of an AQ which would ultimately be implemented in October of each year.

It was at this point in 2003 that the '20% rule' concerned with Smaller Supply Point (SSP) amendments was incorporated within the Network Code. Prior to this a 'tolerance' threshold of 1000 kWh existed. As Proposer of Modification 0624, NGD's predecessor, Transco's opinion was that the 20% offered a sensible balance between permitting non-trivial changes in the calculated Provisional AQ to be made and maintaining the largely automated AQ calculation process to proceed. The logic was that changes <20% would have a neutral impact across a Shipper's portfolio; i.e. aggregate increases could be expected to approximate to aggregate decreases. However the view was that changes >20% individually may have a material impact on a User's Transportation charge liability which may not be mitigated by an equivalent change in the opposite direction i.e. a 20% AQ reduction may not be compensated for by a 20% increase.

Whilst we appreciate that Users may come into possession of more accurate and up-to-date Meter Readings particularly in the AQ Review period which could improve the accuracy of the derived AQ, we have a concern that the root cause of inaccurate AQs may not be addressed by implementation of this Modification Proposal in isolation.

The derivation of an AQ is largely contingent on the availability of Meter Readings procured by the User and provided to the Distribution Network Operator (DNO) in accordance with UNC Transportation Principal Document (TPD) Section M3. These provisions set out the read frequency requirements dependant on the AQ of the relevant Supply Meter Point. Meter Readings are then used to derive a Relevant Metered Quantity using

¹ <http://www.gasgovernance.co.uk/sites/default/files/0624.zip>

a Relevant Metered Period in accordance with TPD Section H3.2. The Relevant Metered Quantity is then used to determine an AQ in accordance with TPD Section H3.4.

If Meter Readings are not procured in accordance with the UNC, then the accuracy of Provisional Aqs issued to Users at the commencement of the AQ Review is potentially compromised. It is understandable that the User would then wish to intervene manually to amend the AQ to be better reflective of prevailing consumption patterns. Naturally we would question why such readings are not provided to DNOs in compliance with UNC TPD Section M3. However, given that in excess of 95% of AQ amendments are in the SSP market and generally have consistent consumption behaviours, we would challenge whether it is efficient to provide a mechanism whereby small (i.e. <20% changes in consumption) AQ changes can be manually effected. It can be argued that a large scale increase in such activity as would be expected to occur under this Proposal is not consistent with the automated nature of the AQ Review process and is the principal reason why the 20% value was incorporated within the Network Code. The rationale for this was that for SSPs AQ amendment should be a process undertaken by exception.

On a point of clarity, TPD Section G1.6.4(b) identifies that AQ amendments should only be undertaken as a consequence of:

- incorrect Meter Readings (we interpret this as Meter Readings provided to the Transporter which are, despite User validation, submitted in error – for example as a consequence of digit transposition, etc), or
- Meter Readings procured before the User became registered to the relevant Supply Point, or
- incorrect Meter Asset details, Isolation, or the previous years AQ being 'rolled over'.

The UNC does not currently contemplate or indeed permit AQ amendment being undertaken as a consequence of more recent Meter Readings becoming available to the User (which we understand is a key driver for reducing the 20% value). NGD provided a presentation to the May 2010 UNC Distribution Workstream² setting out this position.

Notwithstanding the above, analysis presented by the DNOs' agent xoserve at the October 2010 UNC Distribution Workstream suggested that if the 20% value was reduced to 5% as advocated by Modification Proposal 0292, then the level of AQ amendment activity could increase from the 2010 position of 2.3m amendments to an estimated 8.7m amendments i.e. by a magnitude of 377%.

There is a risk that despite the above UNC provisions (whereby Users should not seek an AQ amendment by virtue of their having procured a more recent Meter Reading than that previously submitted by them and used for the derivation of the Provisional AQ value), Users may seek AQ amendment as a consequence of having such a Meter Reading in their possession. This may have the effect of compromising the ideal of an AQ being derived in accordance with TPD Section H3.2.5. For an Annual Read Meter this identifies an 'optimal' read period (between start and end 'delimiting' reads) of 42 weeks. Users may seek AQ amendment because the latest Meter Reading used by the User as part of the AQ Amendment request is likely to have been procured in the summer period. Given that consumption at a SSP is likely to be less in summer and TPD Section H3.2.4 sets out a minimum read period for AQ derivation of 6 months, there is a concern that this may provide an opportunity for Users to inappropriately reduce Aqs by ensuring that the Relevant Metered Period utilised to determine the AQ at a Supply Point is calculated based largely on a summer 'lower demand' period. However it will be noted that the effects of this in terms of 'skewing' the accuracy of the AQ are to a limited degree mitigated by the application of a Daily Adjustment Factor (DAF) and Annual Load Profile (ALP) in accordance with TPD Section H2.2.1.

Relevant objectives

The statement is made within the draft Modification Report under relevant objective Standard Special Condition A11.1 (d) that "This proposal would ensure more accurate allocation of costs, with Aqs being set that are more

² <http://www.gasgovernance.co.uk/sites/default/files/0292%200293%20-%20Distribution%20Workstream%20-%20CW%2025.05.10.ppt>

reflective of customer usage. This is because AQs will be using more accurate data and potentially be more up to date". On the basis that both transportation and energy allocation is undertaken on an aggregate and scaled basis in the NDM sector, we would challenge whether implementation would materially impact on cost allocation at an individual customer level, certainly in the SSP sector, where it is expected that most of the AQ amendments would originate.

Implementation

This Modification Proposal was raised on 14th April 2010 and is now at version 7.0. We understand that the proposer's aspiration is that this becomes effective for the 2011 AQ Review. We are concerned that relevant Workstream discussions have proven to be protracted and development of the associated business rules has only recently concluded. Notwithstanding this we believe that if a decision is made by Ofgem by the end of January 2011 that the Proposal should be implemented, it may be possible (subject to the discussions within the UK-Link Committee) to make the relevant systems and process changes to give effect to the Proposal for this years Review.

We trust that this information will assist in the compilation of the Final Modification Report.

Please contact me on 01926 653541 (chris.warner@uk.ngrid.com) should you require any further information.

Yours sincerely,

Chris Warner
Network Code Manager, Distribution.