

11 January 2011

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Dear Tim

**UNC Modification 292 - Proposed change to the AQ Review Amendment Tolerance for SSP sites**

Thank you for the opportunity to respond to the above Draft Modification Report.

This response is non-confidential and ScottishPower is happy for this to be posted on your website.

As Proposer of this Modification, ScottishPower fully supports implementation of this Proposal in time for the commencement of the AQ Review 2011. We have detailed our reasons why we believe this Modification should be implemented within this timescale within our covering response.

ScottishPower raised Modification 292 in April 2010 to propose a reduction to the AQ amendment tolerance level from 20% to 5%. This Modification was raised together with an alternative proposal (Modification 293) and at that time requested urgent status from Ofgem so that the Modifications could be developed and progressed for implementation on 1<sup>st</sup> July 2010. Ofgem's determination on urgency dated 30/4/10 stated "Despite our decision today we encourage the UNC modification panel to consider carefully whether there is scope for the normal process to be expedited for these modification proposals such that they may still be in a position to be decided upon ahead of the proposers suggested implementation date". It should be noted that ScottishPower has since withdrawn Modification 293 which proposed removing the AQ tolerance level completely.

Following concerns raised by some Transporters at the Mod Panel meeting held on 22 April 2010 "that there would be significant system and process changes to support implementation since substantially more transactions could be involved" ScottishPower amended the Modification 292 to introduce the concept of AQ amendment scheduling. This concept was deemed necessary in order to more proactively manage the processing of daily volumes of Shipper AQ amendments and to assist in alleviating perceived xoserve system processing constraints. The concept of AQ amendment scheduling had previously been proposed by xoserve in 2007 and 2008 but had not been taken forward due to lack of formal industry agreement. As a consequence, no formal UNC Modifications were raised at that time.

Development of the Modification has been difficult and somewhat frustrating at times. In particular difficulties have been experienced in attempting to determine the maximum system capability with regard to the number of AQ amendments that can be processed on a daily basis. However, xoserve and Transporters have worked with the Industry through discussions at the Distribution Workstream to develop the Modification 292 Proposal and to overcome any perceived barriers to implementation. Indeed, a Guidance Document has been produced by xoserve which sets out the rules for the utilisation of any spare AQ amendment capacity that may become available in order to maximise the opportunity for Shippers to schedule and process their amendments. All of the large Shippers have been fully engaged in the development of this Modification and have therefore been aware of the proposed implementation timescales for some time. We are therefore concerned if there are now additional concerns raised at this late stage of the process.

The performance of the AQ Review Process is a time related event and as such Modifications to enhance the process generally require to be implemented more urgently than other Modification proposals. Indeed when Modification 624 (20% tolerance) was introduced, the lead time provided was only 6 weeks prior to the start of the AQ Review Process. All indications are that Ofgem will make an implementation decision on Modification 292 at the earliest opportunity. With this in mind, there is the potential for there to be a period of approaching 4 months (Feb to May) implementation prior to the commencement of the AQ Review Process for 2011. ScottishPower believe in the circumstances that implementation is therefore achievable in time for this year's review (2011).

I trust that you will find these and the accompanying comments useful. Should you wish to discuss any aspect of the response, please do not hesitate to contact me.

Yours sincerely

Marie Clark  
Regulation Manager  
ScottishPower

## **Detailed Response to Modification 292**

### **1. Background**

Modification 0624 “Changes to the 2003 Annual Quantity amendment Process” was implemented on 12 April 2003. This Modification was developed following gaps which were identified within the legal text of the Network Code which did not at that time prevent Shippers from selectively submitting AQ amendments which resulted in AQ values only being decreased. The Modification established a 20% tolerance limit for Smaller Supply Point (SSP) AQ Amendments and introduced specific qualifying criteria for when AQ amendments could be submitted and required that Shippers submit AQ amendments in a balanced manner. Shippers could only propose a SSP AQ amendment, where they could demonstrate that the AQ was materially incorrect, based on meter reading history. The modification proposed that only amendments where the AQ would change by not less than 20%, in an either upward or downward direction, would be accepted.

Coupled with this it was proposed that the Shipper must use and be able to demonstrate a consistent amendment methodology, in both an upward and downward direction. ScottishPower fully participated within the development of Modification 624 and supported its implementation. However, it was always considered that the implementation of this modification was a short term solution and that further Modifications would be required to improve the reliability and operational integrity of the AQ Review Process. This view was expressed by Ofgem within their decision letter on Modification 624 (30/4/03) and the subsequent consultation “Review of Reconciliation by Difference” (31/3/05).

Detailed discussions have taken place within the industry on the frequency and performance of the AQ Review process and several Modifications have been raised for consideration most notably Modification 209 “Rolling AQ”. However for a number of reasons including the cost and extent of system changes required to deliver the proposed solution and delays to the progression of Project Nexus this Modification has not, at this stage, been taken forward.

Modification 81 which was implemented on 1/10/06 enhanced the AQ review reporting information published by Transporters by providing an overview of Users’ performance at various stages within the AQ amendment process in an anonymous format. ScottishPower believe that should Modification 292 be implemented, the transparency of Industry AQ amendment submission behaviour within the AQ review process will be sufficiently monitored through Mod 81 reporting.

### **2. Implications of the 20% Tolerance**

The AQ value which is assigned to a Supply Meter Point is a fundamental component in the derivation of the level of gas and transportation charges to be applied. Since the introduction of DNPC003, the effect that the AQ component has in determining the amount of transportation costs allocated to individual Supply Meter Points has become even more pronounced. The introduction of DNPC003 resulted in transportation costs almost entirely being based on capacity volumes with only marginal impact being

realised on the actual level of gas throughput. Therefore the AQ drives 95% of LDZ System Costs, with actual, up to date customer consumption driving less than 5% of the overall charge.

It is inequitable that Shippers should be restricted from proposing amendments to SSP AQ values where the movement in energy is greater or less than 20% of the proposed Transporter AQ value given that the AQ drives 95% of the transportation cost of all the energy allocated. The Shipper AQ amendment calculations, which are likely to be based on more up to date meter reading information, are therefore more representative of the actual consumption which is being offtaken by their customers. The inability of Shippers to fully utilise these metering readings within their AQ amendments results in erroneous AQ values being applied by Transporters for the forthcoming 12 months. As the AQ and SOQ values are used by Transporters for system planning purposes we believe that implementation of Modification 282 will allow them to more accurately evaluate the timing and extent of potential system upgrades and extensions.

ScottishPower believe that the revision of the current AQ tolerance level from 20% to 5% is long overdue and is therefore necessary change to address the current inequitable nature of the AQ Review process. Moreover, limiting the opportunity for AQ revision by applying such restrictions (20% tolerance) increases the potential for risk and subsequent adverse financial exposure. Shippers and their Suppliers will incur capacity charges which do not accurately reflect the consumption volumes used of their customers. It is worth noting that xoserve do not apply any such tolerance within their calculation of the proposed Transporter AQ, and therefore it seems wholly inequitable that a restriction of 20% continues to be placed on a Shippers proposed AQ Amendment value.

We believe that reducing the amendment tolerance to 5% is one of a number of measures that can be introduced to improve the performance of the current AQ Review Process. We view this as an interim step until such times as the Industry moves to individual meter point reconciliation for all Supply Meter Points through the delayed Project Nexus. We outline further measures to improve the AQ Review Process later in this response.

### **3. Impact of AQ Settlement Allocations on Unidentified Gas**

The initial throughput allocation of gas volumes to be assigned to NDM Supply Points is attributed between the LSP and SSP market sectors based on the Supply Point AQ and EUC. This allocation process is used to derive gas and transportation charges to be applied against each site. As meter readings are submitted for NDM LSP Supply Meter Points adjustments to allocations are made through Reconciliation by Difference (RbD). NDM SSPs are not reconciled individually, but in aggregate by market share, by credits and debits flowing into RbD following the individual reconciliation of NDM LSPs. Therefore any deemed over allocation within the LSP market sector will result in an equal under allocation within the SSP market sector and vice versa. Reducing the AQ amendment tolerance to 5% may result in the reduction in the initial allocation of throughput volumes to the SSP market sector. However when meter readings are used for LSP meter point reconciliations, the appropriate adjustments will flow through RbD.

ScottishPower is of the view that initial energy allocations between the NDM LSP and NDM SSP market sectors will be improved by the implementation of Modification 292.

Increased accuracy of AQ values following completion of the AQ Review process will have a positive effect on energy and cost allocations at the initial stages by providing Shippers with a more realistic view of the actual costs incurred against their customers' consumption. However, we do recognise that following individual meter point reconciliation that the overall volume of energy that flows through RbD may in fact be higher and as a consequence that reconciliation volumes to the NDM SSP market sector will be increased. However, we believe this will serve to increase the transparency of the actual level of unidentified gas and as a consequence will improve the potential volumes of energy to be reapportioned under the AUGÉ methodology. Accuracy in allocation must be viewed as a priority and this will serve to increase certainty and promote the integrity of the overall gas settlements process.

#### **4. Proactive Management of Supply Meter Point Data**

ScottishPower consider that the proactive management and maintenance of our customer portfolio is a necessary activity in order to enhance the accuracy of initial cost allocations. A fundamental exercise is the alignment of asset and metering technical components with our billing system and the maintenance of data held by xoserve within the Sites and Meters database. Alignment failures can in certain circumstances have a detrimental impact on the ability to calculate an AQ value.

ScottishPower has instrumented an extensive exercise to identify and resolve data anomalies and therefore increase the assurance of accuracy within our portfolio. This in turn enhances our ability to more accurately align customer billing with settlement allocations. We believe that any Shipper who undertakes a policy of proactive management of their portfolio should not be penalised when attempting to achieve increased accuracy within AQ values. The inability to amend AQ values to more accurately reflect consumption is an unintended consequence of applying an AQ amendment tolerance of 20% which prevents achievement of alignment between settlements allocations and the customer bill. NDM SSP Shippers under the current gas settlement arrangements face unquantifiable risks in the value of potential volumes of energy that require to be reconciled through RbD. Increased accuracy in AQ values will improve initial energy allocations and provide increased visibility on the true volumes of unidentified gas error within RbD.

#### **5. Further Improvements**

Further measures that could be taken forward to improve the performance of the AQ Review Process are:

- to improve the percentage of Supply Meter Point AQs that recalculate on an annual basis;
- to increase understanding of the system validation rules applied by xoserve within the AQ calculation;
- the assessment process of whether AQ values should or should not be rolled forward;
- the status of Supply Meter Points held within the Supply Point Register; and
- the expansion of Mod 81 reports to provide a clearer indication of Shipper amendment activity.

These discussions should take place within the auspices of the xoserve AQ Operational Forum.

There can be a number of circumstances present that can prevent an AQ value from re-calculating including anomalies within the meter asset details or other technical components of the Supply Meter Point or indeed the status of the site within the Supply Point Register. Statistics presented within the xoserve AQ Operational Forum report that the percentage of Supply Meter Point re-calculations within the SSP and LSP sectors following the 2010 AQ Review is currently SSP 83% and LSP 67%. The Industry would have expected positive movements in the percentage of AQ re-calculations year on year due to ongoing improvements in data quality and increased procurement and submission of meter readings. However this has not been the case with statistics measuring no increase in LSP re-calculations and only marginal increases in SSP calculations over the previous 4 years.

## **6. Implementation**

ScottishPower raised this Modification together with an alternative proposal (Modification 293) in April 2010 and at that time requested urgent status from Ofgem so that the Modification could be developed and progressed for implementation on 1<sup>st</sup> July 2010. Ofgem's determination on urgency dated 30/4/10 stated "Despite our decision today we encourage the UNC modification panel to consider carefully whether there is scope for the normal process to be expedited for these modification proposals such that they may still be in a position to be decided upon ahead of the proposers suggested implementation date". ScottishPower has since withdrawn Modification 293 which proposed removing the AQ tolerance level completely.

Modification 292 was amended in May 2010 following the initial Mod Panel Meeting to introduce the concept of AQ amendment scheduling by Shippers. This concept was deemed necessary in order to more proactively manage the processing of daily volumes of Shipper AQ amendments and to assist in alleviating perceived xoserve system processing constraints. The concept of AQ amendment scheduling had previously been proposed by xoserve in 2007 and 2008 but had not been taken forward due to lack of formal industry agreement. As a consequence, no formal UNC Modifications were raised at that time.

Xoserve has calculated that the maximum number of daily AQ amendments that their system can process is 250k which over the entire period of the AQ amendment window gives the opportunity for 13.25m AQ Amendments (53 Business Days commencing 1<sup>st</sup> June 2011 to 12<sup>th</sup> August 2011 at midnight). The projected number of industry AQ amendments based on Shippers own perceived amendment activity with the introduction of a 5% tolerance has been estimated at 6.4m (ROM Cost analysis dated 14/12/10). These figures would indicate that there is more than adequate allowance available to allow the full processing of all AQ amendments. Indeed Shippers could delay commencing their amendment submissions until half way through the amendment window and still complete their amendments before the window closure.

Development of the Modification has been difficult and somewhat frustrating at times. In particular difficulties have been experienced in attempting to determine the maximum system capability with regard to the number of AQ amendments that can be processed on a daily basis. However, xoserve and Transporters have worked with the Industry through discussions at the Distribution Workstream to develop the Modification 292

Proposal and to overcome any perceived barriers to implementation. Indeed, a Guidance Document has been produced by xoserve which sets out the rules for the utilisation of any spare AQ amendment capacity that may become available in order to maximise the opportunity for Shippers to schedule and process their amendments. All of the large Shippers have been fully engaged in the development of this Modification and have therefore been aware of the proposed implementation timescales for some time. We are therefore concerned if there are now additional concerns raised at this late stage of the process.

The performance of the AQ Review Process is a time related event and as such Modifications to enhance the process generally require to be implemented more urgently than other Modification proposals. Indeed when Modification 624 (20% tolerance) was introduced, the lead time provided was only 6 weeks prior to the start of the AQ Review Process. All indications are that Ofgem will make an implementation decision on Modification 292 at the earliest opportunity. With this in mind, there is the potential for there to be a period of approaching 4 months (Feb to May) implementation prior to the commencement of the AQ Review Process for 2011. ScottishPower believe in the circumstances that implementation is therefore achievable in time for this year's review (2011).

## **7. Achievement of Relevant Objectives**

ScottishPower believe that the implementation of Modification 292 will better achieve the fulfilment of the following relevant objectives:

### **a) Efficient and economic operation of the pipe-line system.**

- The calculation of the Annual Quantity is a fundamental component used by the Transporters when assessing the potential expansion of the Gas Distribution Network. ScottishPower believe that implementation of this Modification will improve the accuracy of AQ values.
- Will increase Transporters ability to plan for network development thus allowing them to operate network assets in a more efficient and economic manner.

### **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.**

ScottishPower believe that implementation of this Modification will have no impact on this relevant objective.

### **c) Efficient discharge of the licensee's obligations.**

- The implementation of this Modification will ensure that gas and transportation charges are more accurately targeted at the correct market sector.
- Will increase Transporters ability to plan for network development thus allowing them to operate network assets in a more efficient and economic manner.

**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.

ScottishPower is of the view that implementation of this Modification will result in:

- Increased accuracy of AQ values following completion of the AQ Review process will have a positive effect on energy and cost allocations at the initial stages by providing Shippers with a more realistic view of the actual costs incurred against their customers' consumption. However, we do recognise that following LSP meter point reconciliation that the overall volume of energy that flows through RbD may in fact be higher and as a consequence that reconciliation volumes to the NDM SSP market sector will be increased. However, we believe the scenario will serve to increase the transparency of the actual level of unidentified gas and as a consequence will improve the accuracy of potential volumes of energy to be reapportioned under the AUGÉ methodology.
- Introduce further incentives on Shippers to improve accuracy within their portfolio with costs being more appropriately targeted.
- Encourage new entrants to the market.
- Will result in increased certainty in gas and transportation costs. Shippers can through proactive portfolio management and meter reading submission more readily align energy settlement costs with customer billed volumes.
- Increased accuracy in AQ values will have a consequential positive effect on calculation of SOQ values.

**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.**

- ScottishPower believe that implementation of this Modification will have no impact on this relevant objective.

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

- Reducing the tolerance from 20% to 5% will increase Shippers ability to submit AQ amendments
- Will give a more accurate value on the level of unidentified gas within RbD and therefore ensure that on application of the AUGÉ methodology that the re-apportionment of costs between LSP and SSP market sectors will be applied in a more equitable manner.
- The introduction of scheduling of AQ amendments throughout the entire period of the AQ Amendment window will introduce increased efficiency in the use of Transporter systems and the resources that are employed to assist in the facilitation of the AQ Review process.