

Development Workgroup Report
Rolling AQ
Modification Reference Number 0209
Version 3.0

This Development Work Group Report has been prepared by Group Members and follows the format required by the UNC Modification Rules. The Group considered the merits of the Proposal and implementation options.

The Workgroup considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase.

1 The Modification Proposal

The current AQ process has been operating in much the same form and timescales since inception of code. The review was originally for large supply points (LSP) only and extended to cover small supply points (SSP) for October 2000.

The AQ value assigned to each supply point is a fundamental piece of information. It forms the basis of much of the day to day operation of the gas industry from capacity planning, energy balancing, charging and reconciliation. The accuracy of the information is therefore of great importance to User and Transporter alike. Under the current review process the AQ being used as a proxy for future demand is, on average, 18 months old at the time it is used. Where consumption is changing this provides a significant commercial risk to shippers and transporters. This has been particularly evident over the gas years since 2005 where reductions in domestic demand as a reaction to high prices are still feeding through to SSP AQ.

Output from review group 177 provided a straw man model for rolling AQ. This modification seeks to provide the detail required to support this straw man for implementation.

E.ON and xoserve developed a strawman that outlined how the AQ process would function on a rolling basis. This proposal has been amended and developed through the review group process as follows:

- Meter Reads

- Submit meter reads.

- Reject or accept meter read.

- If accepted MPRN will be put forward for AQ Review.

- USRVs will be put forward for review as per current process.

- All meter read types will be put forward for review (Exception will be opening read estimate which will only be used as an opening read for any variance period).

- Validation

- UK Link will look back at any earlier read for the MPRN targeting

- 42 Weeks for non-monthly read sites.

- 50 weeks for monthly read sites.

The system will however consider all reads between 9 months +1 day and 3 years apart.

Current Back Stop functionality will no longer apply.

xoserve will carry out a series of systematised validations to ensure AQ is correct.

These validations are set out in a proposed UNC Related Document “AQ Validation Rules” a copy of which will be appended to the Detailed Business Rules.

Where validations fail then a rejection file will be returned to the shipper with a reason code and the current AQ will apply to the next month (m+1)

For the next month following (ie month + 2):

If the calculated AQ is an increase on the current AQ, this calculated AQ will apply unless the User confirms that this AQ is incorrect.

If the calculated AQ is a decrease on the current AQ, this calculated AQ will only apply if the User confirms this AQ is correct.

A User that anticipates the rejection of a calculated AQ, may flag acceptance of this if it reasonably considers that the calculated AQ is correct.

- Timescales

All meter readings will be processed once per month.

New AQ values go live on 1st of the following month.

There will be no amendment process or T04 file submission.

- Appealing AQ Values

Users can submit a new meter reading to bring the AQ up to date.

Users can change meter readings using a read replacement where no subsequent read has been loaded.

Users can correct erroneous asset data using RGMA flows.

A User may submit an AQ appeal where:

Historically incorrect data is adversely affecting the AQ on a site.

There is a manifest change in usage.

The process means AQs may be incorrect for as little as one month whereas under the current process AQs can be incorrect for up to a year.

- Monitoring

Currently the AQ Review is monitored by:

UNC Modification 081 stats.

Reporting stats for AQ Ops Forum.

Reporting pack specifically for Ofgem.

Shipper appeal activity.

Appeals and meter read submissions increasing and decreasing AQs

Much of this will become redundant but monitoring requirements will need to be maintained.

- Implementation

E.ON sees this as a Nexus related change. Although there is benefit in this change being implemented as soon as possible, given current timings we anticipate that a scheduled release as part of Nexus would be of benefit to xoserve for management of Nexus and would help minimise costs for the industry. We see a benefit from a phased implementation with LSPs implemented first but we would like to see SSP implemented as soon as possible after this and no more than one year later.

- Thresholds

Unless confirmed as DM by the User, the AQ of a Supply Meter Point Component will remain above the DM threshold for three months before becoming mandatory DM.

Where the AQ of a Supply Meter Point Component rises and remains above the site specific correction threshold (ie 732,000 kWh) for three months a convertor will be installed.

Where the AQ of a Supply Meter Point Component falls below the site specific correction threshold (ie 732,000 kWh) the converted reading will continue to apply.

- Consequential Adjustments

Supply Point Offtake Quantities will be revised when Annual Quantities are revised using the applicable load factor.

Annual Quantities and Supply Point Offtake Quantities will reflect any changes in Winter Annual Ratios and Seasonal Composite Weather Variables whenever the Annual Quantity is revised. At the time the Seasonal Normal Composite Weather Variable is revised all AQs will be corrected by a calculated factor on a given date.

2 **Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

Standard Special Condition A11.1 (a): *the coordinated, efficient and economic operation of the pipe-line system to which this licence relates;*

Annual Quantities form the building block of many of the planning and system security activities of Transporters. As such, improving the accuracy of Annual Quantities will fundamentally improve the ability of Transporters to operate the pipe-line system in an efficient and economic manner.

Standard Special Condition A11.1 (b): *so far as is consistent with sub-paragraph (a), the (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or*

more other relevant gas transporters;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Increased accuracy of Annual Quantities, as a result of implementation, would increase certainty of the derived peak load forecasts. This would enable improved capacity and storage planning as required under the licence. Improvements in cost targeting would also be consistent with the achievement of this objective.

Standard Special Condition A11.1 (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;

Improvement in accuracy of Annual Quantities will ensure that energy is allocated more accurately on the original commodity invoice and minimise movement of energy between market sectors through reconciliation. This would be expected to minimise risk for RbD Shippers and reduce costs associated with reconciliation for all Shippers. It is expected that this would facilitate competition between relevant Shippers, minimise uncertainty for new entrants and increase revenue certainty for DNs. Improvement in accuracy of AQs and consequently SOQs would improve cost targeting, although one Transporter believed this would potentially be at the expense of reduced price stability.

Standard Special Condition A11.1 (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 (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (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.

Implementation would not be expected to better facilitate this relevant objective.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

4 The implications for Transporters and each Transporter of implementing the Modification Proposal, including:

a) implications for operation of the System:

No impact has been identified.

b) development and capital cost and operating cost implications:

Capital costs associated with the consequent UK Link Modification(s) would be incurred. If these Modifications were associated with Project Nexus these increased costs could be mitigated.

Minor reductions in operating costs due to a more even spread of workload and reductions in manual validation would be anticipated.

Improvements in SOQ determination would lead to more efficient capacity investment.

It is anticipated that system development could be in line with UKLink replacement, and may provide xoserve with a mechanism for implementing and testing a modular based replacement. This would minimise risk for all parties from the UKLink replacement activity. Timescales are expected to be in line with UKLink replacement. xoserve ROM costs estimate the change to be in the region of £990k - £1,910k based on amending the current system. We would expect the Nexus cost to not be greater than this, as work will be taking place on the AQ system already. Running costs are expected to be £240k - £410k per annum.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

It is expected that this would form part of the User Pays' charging structures if it were implemented prior to Project Nexus.

The development work group consider the determination of AQ is a core service, therefore the costs of developing this proposal as part of project Nexus should be recovered through the next GDPCR (2013).

d) Analysis of the consequences (if any) this proposal would have on price regulation:

No consequence for price regulation has been identified.

5 The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequence is anticipated.

6 The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

There will be system impacts for Transporters and Shippers. It was the view of Shippers on the development group that benefits will outweigh costs. Some Shippers are prepared to share their view of benefits with Ofgem and consider they outweigh the system costs associated with this change.

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7 The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Administrative and operational implications (including impact upon manual processes and procedures)

Users would receive and be able to respond to updated Annual Quantity information each month instead of in the annual process. This would improve the accuracy of NDM allocation and reduce the reconciliation quantity accordingly. Due to more frequent scrutiny of Readings, it might also improve Meter Information data quality.

Development and capital cost and operating cost implications

Costs associated with changes to Users' processes and systems are anticipated, although the majority of the Users on this DWG believed there to be a net benefit.

Improvements in AQ accuracy would affect SOQ calculation on which Transportation Charges are largely based.

Consequential improvements to commodity and energy balancing invoice amounts would be expected to reduce reconciliation quantities and charges.

Consequence for the level of contractual risk of Users

Potential monthly changes to NDM SOQ would reduce the current certainty but increase accuracy of invoice amounts.

More accurate daily quantities would lead to reduction of current Users' risks through reconciliation processes.

8 The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Consumers on direct transportation cost pass-through would see an immediate benefit to a similar extent as their shippers, whilst those on a bundled tariff would see a benefit at contract renewal or change of supplier. Where this reflects energy saving, this would be an energy efficiency incentive.

9 Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

10 Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- Improves cost targeting by increasing the accuracy of capacity charges and energy allocation.
- Potentially reduces RbD volumes by allocating energy to the correct market segment.
- Smooths current workload associated with the annual process.
- A number of Users have identified significant cost benefits but these are subject to commercial confidentiality. Those Users are willing to share this information on a confidential basis with Ofgem.

Disadvantages

- Costs of implementation identified in section 6 above, either before or as part of Nexus.
- The number of appeals is unknown and may increase workload.

11 Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Workgroup Report)

No written representations have been received.

12 The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

No such requirement has been identified.

13 Any other matter the Workgroup considers needs to be addressed

It is recommended that the UNC Distribution Workstream considers the implications for Transco Network Code 0640 processes.

UK Link Committee would need to consider implications for file formats and related system impacts.

In the event of direction to implement, it is suggested a committee of Users and Transporters is formed to discuss the implementation options of this Proposal.

14 Programme for works required as a consequence of implementing the Modification Proposal

The main programme for works would be associated with system and process changes.

15 Proposed implementation timetable (including timetable for any necessary information systems changes)

The implementation timetable would reflect system and process development timescales. It is recommended that implementation for LSPs takes place no more than twelve months prior to implementation for SSPs.

16 Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Workgroup recommendation regarding implementation of this Modification Proposal

The Workgroup considers that the Proposal and associated business rules are sufficiently developed and should now proceed to the Consultation Phase without the preparation of legal text.

The Development Work Group recommends consultation responses include a preference for:

- i) implementation prior to the delivery of project Nexus (at the earliest 2011) as a user pays service; or
- ii) implementation as part of project Nexus (currently expected around 2012/13).

18. Workgroup's comments on legal text

Not required for consultation.

19. Text