Action NEX08/01: All to consider the (unintended) consequences of the rolling AQ affecting EUC bands, and the potential increase in the frequency of band transfer.

When a site is supplied where usage differs from industry AQ there are two choices

1. Price and supply the customer based on their usage
    a. Volume impact at balancing based on differential between actual and allocated volumes – large imbalance charges at system buy or sell
    b. Reconciliation with associated price risk at SAP
    c. Price risk continues through period between AQ changes
2. Price and supply customer based on industry data
    a. Minimal impact at balancing as supplied volume equal to allocated volume
    b. Volume differential between actual usage charged to customer and energy purchase would require hedge to minimise risk
    c. Reconciliation with associated price risk at SAP
    d. Price mitigation required until AQ revised

In either case this risk will need management until AQ is revised.

Rolling AQ will allow more dynamic AQ changes. In the situation where a customer has changed usage then AQ revisions will move a site which may cross EUC boundaries changing the profile used for allocation.

In this case if you have priced a customer on actual usage the imbalance charges will start reducing, reconciliation will reduce and the price risk between purchase price and SAP will reduce meaning less risk mitigation required to ensure margin is maintained.

If you have priced on industry data then you have less hedge requirement – in effect the changing profile and AQ are a partial volume hedge reducing price risk.

Moving to a dynamic rolling AQ will move NDM closer to DM processes – less reliance on allocation, faster reconciliation to actual, which will provide a partial hedge to price risk and enable more reflective energy purchasing to consumer pricing.

The graphic below shows profile class 5, 6 and 7 for the current gas year. It shows that there is not a sudden disjoint between levels, so although the profile shape will move this should be slight month on month, particularly as you would be rolling in partial years at a time. Where AQ changes are moving sites across EUC bands then this will allow allocation to become more reflective of actual usage levels – over shorter periods the seasonal shape changes will be less evident making the volume level more important to reduce risk.

When rolling AQ was suggested the effect of moving sites across EUC bands as a period of consumption change rolled in to the AQ was considered. It was felt that as the volume reflectivity was more important and helped with portfolio risk this was a consequence that could be managed through Shipper risk processes. As a site consumes again and moves

back up through the EUC bands the associated changes could also be managed while gaining improvements to the whole allocation process.