Review Group 0177 Minutes

Friday 25 January 2008

Elexon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chair)	(JB)	Joint Office of Gas Transporters
Mike Berrisford	(MiB)	Joint Office of Gas Transporters
Brian Durber	(BD)	E.ON UK
Chris Warner	(CW)	National Grid Distribution
James Crump	(JC)	Ofgem
Joanna Ferguson	(JF)	Northern Gas Networks
Joel Martin	(JM)	Scotia Gas Networks
John Welch	(JW)	RWE Npower
Karen Kennedy	(KK)	ScottishPower
Louise Hellyer	(LH)	Total Gas & Power
Mark Jones	(MJ)	SSE
Mark Linke	(ML)	Centrica
Mitch Donnelly	(MD)	British Gas Trading
Nigel Nash	(NN)	Ofgem
Richard Myers	(RM)	Total Gas & Power
Sallyann Blackett	(SB)	E.ON UK
Simon Trivella	(ST)	Wales & West Utilities
Stefan Leedham	(SL)	EDF Energy
Steve Nunnington	(SN)	xoserve
Steve Taylor	(STa)	Centrica

1. Introduction and Status Review

1.1 Minutes from previous meeting

Chair (JB) pointed out some minor errors contained within the action table and thereafter the minutes of the previous meeting were approved.

1.2 Review of actions from previous meeting

Action RG0177/001: ST informed members that discussions had taken place with xoserve and a quick analysis indicates that changes could be made prior to, and within the 2012 UK Link replacement programme. However, more consideration of the principles and costs is required. Hopefully, he will be able to provide more meaningful information at the next meeting.

Chair (JB) asked, and members agreed, to carry forward the action.

Action: Carried forward

Action RG0177/005: SN advised members that no work has been undertaken as yet and he aims to provide a breakdown on why NDM AQs have not recalculated at the next meeting.

Chair (JB) asked, and members agreed, to carry forward the action.

Action: Carried forward

Action RG0177/006: Chair (JB) asked, and members agreed, to close the action.

Action: Closed

Action RG0177/007: Chair (JB) informed members that the Joint Office had agreed with the proposer to adopt a questionnaire approach to identifying and resolving some of the issues associated with a Rolling AQ Process. To date, two responses had been received (National Grid Distribution & EDF Energy) and these will be discussed in more detail under item 2.3 below.

Chair (JB) asked, and members agreed to close the action.

Action: Closed

Action RG0177/008: SB informed members that her presentation which will be discussed in more detail under item 2.2 below, does not contain any Shipper cost information, and as a consequence, would like to carry forward the action.

Chair (JB) asked, and members agreed, to carry forward the action.

Action: Carried Forward

2. Review Group Discussion

2.1 Presentation on impacts and costs

Members agreed that this item had already been discussed under the item above.

2.2 Assessment of Shipper Costs of Changing the AQ Review Process

SB advised members that in her view, the group will need to see which way the work is going before being able to progress this area further. She believes that developing business rules, or at least agreement to relevant high level principles, would be a benefit. ST pointed out to members that they will need to appreciate the differences between high level principles and detailed business rules.

Chair (JB) suggested that a UNC modification proposal, including a risk analysis to assist the authority in their decision making, could be one way of moving forwards.

2.3 Consideration of Potential Issues Associated with a Rolling AQ Process

SB provided a brief Rolling AQ presentation, a copy of which is available to view or download from the Joint Office web site at:

http://www.gasgovernance.com/Code/Reviews/RG0177/25Jan08/

Running through the presentation, JB asked if members agreed with the suggested benefits to which CW responded suggesting that it all 'hinges' on read performances. SN added that most AQ problems are associated with asset and read errors. MD suggested that incorrect tolerances will result in an increase in suppressions.

SB suggested that workload smoothing provides resource benefits around work consistency, personnel knowledge development and resource v's workload management etc.

MD questioned the 'Ability to react faster to consumer changes' statement, suggesting that the electricity model is a better option. For example, an LSP read taken at an empty premise in week one has a value of x, which is then followed by a re-read a week later for which the value is zero, does not reduce the RbD risk.

SB went on to remind members that where the six (6) month AQ window 'sits' in the year has a direct impact upon AQs and she is not looking to radically shrink the AQ window. – JB suggested that the focus of discussion had now moved away from the ability to react faster being seen as a benefit, to how do we actually achieve this.

Looking at 'minimising step changes', SB believes that the big October step change in AQs potentially causes problems in both long and short term balancing and adopting an incremental change approach would potentially reduce the purchasing and balancing issues. KK did not fully support this view and suggested that the T04

file, when issued, provided users with an early warning mechanism. MD suggested that removing the step change would not necessarily improve balancing and SL added that the balancing benefit gleamed from an incremental process would differ from Shipper to Shipper.

Members then discussed the possible impact of the 95:5 regime on the DNs, to which SN suggested the problem lies around prices being set in the June to July period which coincides with the open AQ window. ST acknowledged that from a DN perspective, the October step change can lead to pricing variations due to the mechanisms used and added that 'smoothing' out the step change, by moving to an incremental approach would be a benefit, that ultimately could lead to a more stable pricing structure.

Examining the 'Aggregate demand for a group of consumers' slide, SB informed members that the data is based upon a random (across all EUC bands, apart from DM's) sample set of customers. Furthermore, many assumptions have been made in collating the data, such as, Consumers defined within Code will get a six (6) monthly read, and a read in September 05 is based upon the 12 months back to September 04.

The data is not presented on a per customer basis. She added that the blue line relates to the 365 day rolling annual demand but is not weather corrected in this example. SB then suggested that over an 18 month period, the pink line could be expected to become closer to the blue line. SL added that EDF Energy had undertaken a similar data analysis exercise but included a weather correction factor on their equivalent 'blue line'. The result of their analysis produced a similar gap to the one displayed on E.ON's graph along with a similar time taken for the lines to converge. SN suggested that this reinforces the view that the problems are associated with the current time taken to process the AQs.

Looking at the improvements slide, JB pondered whether the 1% reduction in AQ towards 'actual consumption' helped to reduce the over/under recovery swing when setting prices, to which KK responded by suggesting that, in her view, it could only help to improve price setting. SN pointed out that moving from what it is now, to a 95% capacity regime reduces the total adjustment as capacity is not adjusted retrospectively

In closing, Chair (JB) thanked SB for her work on this presentation.

2.4 Work Programme Questionnaires

Chair (JB) ran though the two questionnaire responses by exception only.

Current AQ Process

(a) CW pointed out that his assessment includes aspects of his discussions with xoserve and other Transporters. SN suggested that for xoserve, it is more a question of redistribution of resources to 'match' the peaks.

Some members (KK, MD & MJ) agreed with SL's view that this is a marginal issue for their respective organisations, although it was recognised that it may be an issue for smaller suppliers. When asked, Transporter members indicated that they are reasonably happy with these views. However, KK pointed out that completing a one off annual AQ review examines the whole portfolio and can therefore become a resource issue;

(b) MD suggested that the issue is more to do with timing rather than volume. KK added that a rolling AQ would allow a review of AQs outside the current AQ window which would be a benefit;

(c) SB indicated that her staff believe the current process is too lengthy;

(d) MD wondered if this is a small issue, to which JF suggested that this very much depends upon your DN and ST informed members that this is WWU's biggest issue with the AQ review.

Chair (JB) summarised by suggesting that there remained disagreement on this matter, even between the DN's and that some parts of the market may consider this a bigger issue than others;

(e) JB asked if the RbD risks were a significant issue for Shippers. Consensus was that whilst it is a risk, it is not necessarily a significant one;

(f) One view put forward suggested that the more you do things, the less the opportunity there is for 'gaming'. MD believes that the soon to be introduced 95:5 regime, within which capacity will not be reconciled, may promote 'gaming'.

The whole concept of 'gaming' and whether or not it actually exists was discussed and some members believe a clear lack of substantial evidence to suggest it takes place means the real impact may be marginal. This was not necessarily a view supported by MD when he suggested that the concern is the potential commercial risk should someone actual do it. He reminded members of the 'historic' Code change that was implemented following a 'gaming event'. KK added that Shippers with a small portfolio, may have an opportunity to engage in a gaming exercise, but doubts whether a Shipper with a large portfolio has the same opportunity.

In summarising, SN suggested that adopting a rolling AQ review would not change the gaming position or potential.

Resources

2 JB reminded members that consideration of how to quantify the benefits and risks will be needed to enable the Authority to make an informed decision.

SB added that she could only provide an estimate of the benefits to E.ON;

3 MD stated that he would not wish to quantify this information as the work involved to achieve this would not be cost effective. Furthermore, without a detailed I.T. design brief, it remains difficult to quantify. When asked, Shippers indicated that this was a shared general Shipper view.

Summarising, JB clarified that this appears to be an issue surrounding quantification rather than confidentiality. CW added that he believes it is more about the integrity of the regime, rather than identification of 'equivalent FTE' savings.

Uncalculated AQs

4 JB indicated that whilst there may be a benefit here, uncertainty remains about how much it would be. SN remained uncertain that there is an actual benefit to be realised;

5 Members noted that it is more a question of whether or not this places an extra incentive on Shippers to obtain a meter read.

CW voiced concern that should the review group look to mandate more frequent meter readings within Code, there would be a significant impact upon system design and costs. SN supported this view, stressing the need to identify the future system load requirements. CW also added, that in his view, AMR's will provide a cost effective solution to the majority of meter read associated problems. In response, MD stated that it is not the intention of this review group to exceed the current Code provisions in this area, however, he would be concerned if the system could not cope with the mandated maximum capacity as specified within Code.

At this point, SN agreed to take an action to investigate the annual read volume profile and read window impacts (inc. daily volumes) and report back to the next meeting.

Current Change Process Outside the AQ Window

SN informed members that there were around 50k (meter point) appeals last year and this is quite a high LSP percentage somewhere in the region of 10%. MD stated that whilst this is currently an issue, it would diminish under a rolling AQ regime.

6 JB asked, and Shipper members indicated, that they share EDF's view on this matter.

Members were not of the opinion that trying to make the current regime easier was preferable to introducing a new rolling AQ regime.

Step Change Issue

10 MD indicated that he supports EDF's view on this item.

SB believes that issues surrounding AQ reconciliation profiling (energy movements) during the 01 October step change are reduced under a rolling AQ regime. MD added that whilst the step change is not a huge issue for Centrica, pricing stability is.

Risks and Gaming

11 JB indicated that he believes that this item links in closely to E.ON's presentation earlier in the meeting and wondered if it would be worthwhile investigating the perceived risks further. Members were of the view, that an action on E.ON to attempt to identify a value for RbD risk through misallocation of energy would be a valuable exercise. SB indicated that she believes xoserve have two (x2) RbD risk models available, to which SN agreed to take an action to investigate and provide if available.

Chair (JB) asked members if they considered E.ON's 0.8% reduction in misallocation of energy assumption to be correct and a sufficient basis upon which to model. KK added that she believes that it is also a movement and allocation issue and a rolling AQ would help to balance this out. SL added that the real issue for Shippers is the difference between their view on their balance position and that of National Grid's view on their balance position – as a consequence it is a Shipper issue;

15a SN advised that he is currently investigating AQ trends, with a view to presenting his findings to the Authority and Shippers, and is concerned that this current focus would diminish under a rolling AQ regime.

Validation

16 SN suggested that under a rolling AQ you will need to systematise the current manual check processes. ST added that parties will need to be able to fully understand requirements before any assessments can be undertaken.

Challenge Margin

18 MD believes that retaining an ability to challenge the AQ reading makes sense. However, what level it should be set at is questionable at this moment. SN did not support this view, believing the real issue is Shipper validation of reads prior to submission to xoserve and would not like to see this retained under a rolling AQ regime. He went on to point out to members that xoserve will not be able to cater for 12x mini AQ reviews under the proposed rolling AQ, as it currently takes up to 6 months to process the annual AQ review. Furthermore, improved automation

will be essential in achieving a rolling AQ approach. Whilst agreeing with SN's overall view, KK believes that a 'manifest error' facility should be available. This view was shared by the majority of members.

In closing, ST reminded members that the key issue here for system design is what approach is to be adopted in relation to the potential 12 mini AQ reviews.

Frequency of AQ Update

22a Chair (JB) asked if the group are looking towards the adoption of monthly reviews for the rolling AQ, and have opinions converged on this question? SB responded that the real issue is validation. ST suggested that some system analysis could be undertaken to 'flush out' some of the business rules required and agreed to start by taking an action to obtain a copy of the current validation rules for consideration at the next meeting, Members discussed the most appropriate approach for developing the business rules, before settling on agreement to develop the basic principles first. SB & SN agreed to take an action to develop some broad rolling AQ principles (strawman) for presentation and consideration at the next meeting.

SB asked how back stop dates would be utilised under a switch to a rolling AQ regime? SN responded that the current functionality would restrict a rolling AQ approach and this is clearly a business rule issue.

Action RG0177/009: xoserve (SN) to investigate the annual read volume profile and read window impacts (inc. daily volumes) and report back to the next meeting.

Action RG0177/010: E.ON (SB) to identify a value for RbD risk through misallocation of energy (including details on the composition of the 1% reduction figure) and report back to the next meeting.

Action RG0177/011: xoserve (SN) to investigate if they have access to two RbD risk models available for release and report back to the next meeting.

Action RG0177/012: WWU (ST) to obtain a copy of the current validation rules for consideration at the next meeting,

Action RG0177/013: E.ON & xoserve (SB & SN) to develop some broad rolling AQ principles (strawman) for presentation and consideration at the next meeting.

3. Diary Planning for Review Group

3.1 Workplan

Chair (JB) agreed to readjust the workplan to reflect the broad Rolling AQ Principles (strawman) when SB and SN had sufficiently developed them, and thereafter, identify a possible way forward.

Members then discussed where and when to hold the next meeting, suggesting that the 22 February 08 meeting should be relocated to the Solihull area, and thereafter, meetings should alternate between there and London. Additionally, to accommodate travel arrangements all meetings should now commence at 10:30am.

Action RG0177/014: Joint Office (JB) to reflect the output from the Rolling AQ Principles (strawman) development work within the workplan.

Action RG0177/015: Joint Office (MiB) to rearrange the 22/02/08 meeting to Solihull with a 10:30am start time.

4. AOB

None.

APPENDIX A.

ACTION LOG - Review Group 0177

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0177/ 001	14/11/2007	3.0	Identify the possible impacts and associated costs of implemented changes both prior to, and within, the 2012 UK Link Replacement programme.	WWU & xoserve (ST & SN)	Update due at February meeting. **Carried Forward**
RG0177/ 005	12/12/2007	2.1	SN to provide, and JO publish, statistics on why NDM AQs have not recalculated.	xoserve (SN) Joint Office (JB)	Update due at February meeting. **Carried Forward**
RG0177/ 006	12/12/2007	3.1	Arrange Review Group meeting for January 2008, preferably in London	Joint Office (JB)	Completed. **Closed**
RG0177/ 007	12/12/2007	3.1	All to consider issues presented and feedback at January 2008 meeting	All	Completed 25/01/08. **Closed**
RG0177/ 008	12/12/2007	3.1	EON (SB) to assess Shipper costs of changing the AQ Review process	EON (SB)	Update due at February meeting. **Carried Forward**
RG0177/ 009	25/01/2008	2.4	xoserve (SN) to investigate the annual read volume profile and read window impacts (inc. daily volumes) and report back to the next meeting.	xoserve (SN)	Update due at February meeting.
RG0177/ 010	25/01/2008	2.4	E.ON (SB) to identify a value for RbD risk through misallocation of energy (including details on the composition of the 1% reduction figure) and report back to the next meeting.	EON (SB)	Update due at February meeting.
RG0177/ 011	25/01/2008	2.4	xoserve (SN) to investigate if they have access to two RbD risk models available for release and report to the next meeting.	xoserve (SN)	Update due at February meeting.

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0177/ 012	25/01/2008	2.4	WWU (ST) to obtain a copy of the current validation rules for consideration at the next meeting,	WWU (ST)	Update due at February meeting.
RG0177/ 013	25/01/2008	2.4	E.ON & xoserve (SB & SN) to develop some broad rolling AQ principles (strawman) for presentation and consideration at the next meeting.	EON (SB) & xoserve (SN)	Update due at February meeting.
RG0177/ 014	25/01/2008	3.1	Joint Office (JB) to reflect the output from the Rolling AQ Principles (strawman) development work within the workplan.	Joint Office (JB)	Update due at February meeting.
RG0177/ 015	25/01/2008	3.1	Joint Office (MiB) to rearrange the 22/02/08 meeting to Solihull with a 10:30am start time.	Joint Office (MiB)	tbc.

*** Key to action owners**

MiB Mike Berrisford, Joint Office of Gas Transporters

JB John Bradley, Joint Office of Gas Transporters

ST Simon Trivella, Wales & West Utilities

SN Steve Nunnington, xoserve

SB Sallyann Blacket, E.ON UK