

Review Group Report
Review Proposal Reference Number 0177
Rolling AQ Review
Version 0.1

1 Introduction

This Review Group Report is presented for the UNC Modification Panel's consideration. The consensus of attendees is that this Review Group has finished its work in accordance with its Terms of Reference.

The main elements of a potential Rolling AQ Review process have been identified together with the advantages and disadvantages of moving from the current Annual process but a full cost benefit analysis has not been conducted. If any UNC party wishes to raise a specific Proposal to move to a Rolling AQ Review further development work would be required, including identification of the costs and benefits.

2 Review Proposal

E.ON UK raised Review Proposal 0177, for which the Terms of Reference are included as Appendix 1.

3 Review Process

In accordance with the Modification Rules, at its meeting on 18 October 2007, the Modification Panel determined that this Review Proposal should be referred to a Review Group for progression. This Review Group Report was subsequently compiled by the Joint Office of Gas Transporters, and approved by Review Group attendees.

4 Areas Reviewed

The Review Group discussions focussed on the following areas:

a) Current AQ Processes

On behalf of the Transporters, xoserve gave a presentation of how the current AQ process operates. This formed the basis of discussions in the Review Group under the following headings:

i) Resource Usage

Within xoserve, the annual nature of the current AQ review requires staff to be available primarily from April to September each year. Within that period there are two Appeal windows that generate additional peaks of workload. The October to March AQ workload is consequently much lower than this April to September period.

xoserve has taken steps to manage this peak activity which has mitigated the additional costs associated with workload peaks and troughs. For this reason it has not at this stage identified the cost savings that would be associated with a change to a rolling process.

Users also encounter some peaks of activity associated with the current annual process but these tended to be of a lesser nature than within xoserve.

ii) Numbers of Uncalculated AQs

xoserve already provide information on the total numbers of AQs that roll forward from year to year without recalculation. Concern was expressed by a number of Review Group members on the extent of roll forward and whether this was characteristic of an annual process.

iii) Current AQ Amendment Process Outside the Annual Window.

A process already exists for amending AQs outside the Annual Window that involves reconfirmation of the Supply Point. Amongst Review Group members there was a variety of views on how straightforward this process is in practice. Shipper members identified that this process is only used where major changes of consumption are identified.

iv) Demand Step Changes 01 October Each Year

It was recognised that changes in AQ in some cases lead to major step changes in demand. There was a variety of views expressed on the degree to which this is a problem. It was pointed out that these changes are predictable and therefore Users can take steps to balance their entry and exit portfolios in anticipation of the change in demand.

v) Risks for RbD Shippers

A number of Review Group members believed that this is a major issue with the current annual process. The Proposer identified the effect of inaccurate AQs on the scaling factor used in the NDM demand attribution calculation and suggested that a reduction of 1% in AQs towards actual consumption would lead to a 0.8% reduction in energy misallocation. It was considered that this effect particularly applied to Smaller Supply Points where RbD applies.[quantification of risk...]

vi) Potential for Gaming

It was recognised that tactical use of the Appeals process could reduce an individual User's transportation and gas cost exposure to the detriment of the Transporters and other Users. However, it was also acknowledged that there was little evidence of this occurring in practice.

b) Advantages and Disadvantages of Moving to a Rolling AQ Process

Advantages

To a great extent the advantages of moving to a Rolling AQ Process reflect the drawbacks associated with the current annual process as expressed above. Taking the areas where most advantage might be gained:

i) Reductions in Numbers of Uncalculated AQs

Review Group members acknowledged that changing to a Rolling AQ Process would not, of itself, affect the numbers of uncalculated AQs, as a proportion of the total. However, there would be a beneficial effect in ensuring that as soon as such Supply Points were read eg as a "must read", the new AQ was reflected in UK Link. This is related to the risk faced by RbD Users.

ii) Simplified Processing Outside AQ Window

A rolling AQ process would incorporate all such changes that currently require reconfirmation of the Supply Point and thereby overcome any complexities associated with the current Process.

iii) Risk Reduction

The more frequently the AQ is revised, the smaller would be the risk faced by RbD Users. This has been assessed as.....

Disadvantages

The disadvantages set-out below are associated with Systems. It is expected that costs and impacts would be reduced if changes were associated with UK Link Replacement, although this has not been assessed in detail.

i) System Costs

These costs would depend on the approach adopted. Currently the annual review process allows independence between systems that calculate the AQ from those that carry out routine Supply Point Administration and Invoicing. If adoption of a monthly review instead of an annual review were the outcome of this discussion, this degree of independence could be maintained and the systems costs would be minor. If, however, the intention was to recalculate the AQ whenever a meter reading was received and make the new value live immediately, a more integrated system approach would be required. Substantial development costs would be expected for such a fundamental change to processing structure.

In addition, system costs would be identified with an increased level of automated validation (see iii below)

ii) System Resilience

This is also associated with whether AQ processing can still be carried out in a discrete system. A more integrated system to feed through each meter reading into a revised AQ would potentially have more impact on system resilience than the current configuration. On the other hand, a certain amount of system disruption might be expected during data transfers between the AQ calculation systems and the main SPA systems. Moving to a monthly update cycle would increase the potential incidences of system disruption twelve fold, although for a shorter duration.

iii) Validation

The current process, particularly for appeals involves both manual and semi automated validation checks. It is envisaged that this level of manual checking would not be feasible if a change was made to a rolling AQ process. To maintain a comparable level of validation an increased level of automated validation would be required in order to adequately control Transporter and Shipper risks. Costs would be involved in developing and implementing this type of system change.

b) Practical Aspects of a Rolling AQ Process

The Proposer and xoserve developed a strawman which outlined how the AQ process would function on a rolling basis. The approach adopted was based on monthly AQ updates.

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5 Recommendation

The Modification Panel is invited to accept this report on the basis that this Review Group has finished its work in accordance with its Terms of Reference.

Appendix 1 Terms of Reference

Purpose

This review proposal seeks to establish the costs, benefits and opportunities associated with a rolling Annual Quantity (AQ) Review.

Background

The current AQ process has been operating in much the same form and timescales since inception of Transco's Network Code. The AQ Review was originally instituted for Larger Supply Points (LSP) and extended to cover Smaller 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 AQ 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 Users 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.

Current recalculation processes are limited due in part to the UK Link System that supports the process. With the UK Link System due for replacement in 2012, this provides an opportunity to review the current process and consider alternatives that may serve the industry better into the future in a cost effective manner. Potential implementation prior to UK Link Replacement is also worth consideration.

The industry is currently investigating opportunities offered by Smart Metering and Automatic Meter Reading (AMR) technology. Moves to use AMR to its full potential, or indeed any changes to current metering patterns, should provide more information on actual consumption. It would appear sensible to configure the processes supporting transportation and balancing to make optimum use of available information.

Scope and Deliverables

The Group is asked to:

1. Consider the existing Annual AQ Review and the current issues associated with it.
2. Discuss putting in place a mechanism to allow rolling AQ calculation.
3. Consider other alternatives short of rolling AQ calculation that would allow more timely AQ updates.
4. Identify how a change to rolling AQ may be implemented and any potential issues that would need resolving, including any phased implementation.
5. Consider costs and benefits and changes to risk profiles from adoption of a rolling AQ Review, both before and as part of the UK Link Replacement.

6. Consider, at a suitable level of detail, changes to processes and procedures in order to evaluate the associated advantages and disadvantages.
7. Consider Independent Gas Transporters' Supply Points as part of the Review.
8. Consider alternative methodologies to re-calculate Aqs on receipt of meter readings.
9. Examine similar processes in other industries, evaluating the lessons that have been learned.
10. Ensure that consideration is given to the UK Link replacement timeframe.

A Review Group Report will be produced containing the findings of the Review Group in respect of the work identified above.

Limits

The Review Group will consider changes required to the following:

- Uniform Network Code
- UK Link

The Review Group in its initial phase will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems
- Development of detailed business rules

Other than the details required in order to reach a conclusion on the way forward.

Composition

The Review Group will comprise the following representation

Name	Organisation
John Bradley (Chair)	Joint Office
Mike Berrisford (Secretary)	Joint Office
Sallyann Blackett (Proposer)	E.ON UK
Andy Smith	RWE Npower
Chris Warner	National Grid UKD
Joanna Ferguson	Northern Gas Networks
Joel Martin	Scotia Gas Networks
Marie Clark	ScottishPower
Mark Jones	SSE
Mitch Donnelly	Centrica
Phil Broom	Gaz de France
Richard Street	StatoilHydro

Shelley Rouse	StatoilHydro
Simon Trivella	WWU
Stefan Leedham	EDF Energy
Steve Nunnington	xoserve

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Information Sources

- Uniform Network Code – Sections (to be identified).
- GT, Shipper and Supplier Licences.
- Gas Act.
- Various Industry legislation as appropriate – may include reference to:
 - Gas Safety (Installation & Use) Regulations.
 - Gas Safety (Management) Regulations.
 - Industry Codes of Practice as relevant.

Timetable

It is proposed that a total period of 6 months be allowed to conclude this review.

- Frequency of meetings – monthly. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.