Workstream Report
Proposed change to the AQ Review Amendment Tolerance for SSP sites
Modification Reference Number 0292

Version 0.6 Draft

This Workstream Report is presented for the UNC Modification Panel's consideration. The Distribution Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. [The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]

1 The Modification Proposal

Background

The current Network Code rules in relation to the allowed amendment activity relates back to the early years of the SSP AQ Review Process. In the initial years of the AQ Review, there was some Shipper behavior where the process was used to "shave" AQs to provide volume and cost allocation benefits to their portfolio. This introduced additional costs to other Shippers operating in the SSP market, through the Reconciliation by Difference process.

With this in mind a modification proposal (Transco Network Code Modification No. 624) was implemented to put in place a tolerance for amendment activity, whereby a Shipper could only propose a Small Supply Point 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.

The modification was accepted and the rules were put in place to stop Shippers gaming. ScottishPower fully supported the introduction of the rules, at the time, as the best means of addressing gaming opportunities. 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 review process in an anonymous format. Should Modification 292 be implemented, the transparency of Industry behaviour within the AQ review process would be retained through Mod 81 reporting. The AQ value assigned to SSP supply points is key to the charges faced by Shippers in relation to their portfolio, for both gas and transportation charges. In addition it plays into the tariffs offered to domestic customers and the profitability of a domestic gas portfolio.

However since the introduction of DNPC003 the effect of the AQ has become ever more pronounced in determining the amount of transportation costs allocated to individual supply points.

It therefore no longer seems appropriate that there should be such a restriction on the

Shippers ability to alter Small Supply Point AQs and their ability to manage the costs associated with them. In addition, it would appear inefficient to continually keep SSP AQ values at a level of 20% over/under statement against potential amendment values, when these are also used by the Transporters to assess available network capacity and investment needs.

At the same time information from Xoserve suggests that AQs are going down by 5% per annum and as such, the restriction on the amendment activity of Shippers limits the ability for the market to recognise this reduction at meter point level.

If a more practical amendment process were therefore adopted it would address all of these issues and bring some of the benefits outlined in the Rolling AQ modification, which has stalled due to the Project Nexus discussions.

In support of the proposal, it is worth noting that Xoserve do not apply any tolerance to the proposed AQs that they put forward, prior to the amendment period, and therefore it would seem in equitable that such a restriction is placed on Supplier proposed amendment values.

Proposal

Overstated AQs have the potential to significantly impact on the profitability of a Supply business, however this impact has become much more pronounced since the distribution transportation charging changed to be more capacity (AQ/SOQ) focused. In past the capacity charges were 50% of the transportation bill whereas now they represent 95% of it. This means that Suppliers face transportation charges that are much more fixed in nature and are determined by the AQ value set for the site. The resultant issue is that if there is not sufficient throughput by the customer, to reflect the AQ value there is potentially not enough units to bill to recover the fixed (capacity based) transportation charges, thus impacting Supplier profitability.

For this reason this proposal seeks to reduce the SSP AQ amendment tolerance to 5%. This change will allow more cost reflective values to be applied and also aid in the Transporters understanding of network capacity needs.

Although this proposal will open up the amount of amendments that can be lodged for the SSP market, we believe that this is something that can be managed by Xoserve, as in the initial phases of the SSP AQ process an amendment could be lodged for any change to an AQ value. In addition as Xoserve charge for using the speculative calculator, a pre-cursor to amendment, they will be able to recover any additional administrative costs seen.

In addition, it is proposed to extend the current provisions within the UNC Section G 1.6.4 to provide that prior to the start of the AQ Review amendment window (31 May) that the Transporters will issue to each User a volume cap for the number of AQ Amendments that can be submitted in each Business Day during the window (up to 13 August), together with the total number of Industry amendments that can be submitted per Day. This volume cap will be calculated by Transporters based on a Shippers meter point count as at 1st April in each Gas Year, subject to a de minimus level of 500 amendments per Shipper per day or to a

value equal to the meter point count of the Shipper portfolio if less than the de-minimus level. For the avoidance of doubt the volume cap calculated for each User will apply in each Business Day for the duration of the AQ amendment window, but will have the de minimus level set, so as not to place an unnecessary operational burden on small suppliers. Users will be required to submit AQ amendments in a manner that the volume cap is not breached in any day throughout the period of amendment phase of the AQ review process. This requirement is intended to reduce any potential impact on xoserve systems and to mitigate the risks associated with Users submitting the majority of AQ amendments towards the end of the amendment window. The Transporter will be entitled to reject AQ amendments, which are non-compliant with any of the requirements of UNC and the applicable Guidance Document including manual referrals which fall out of validation.

Should additional system capacity become available, the details of how this capacity will be allocated to Users will be outlined within the applicable Guidance Document produced by xoserve.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

User Pays – implementation of this proposal would incur costs for the Transporters' Agency as their systems would need to be modified.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

Development costs: 100% SSP Shippers

Operational Costs: It is not clear whether any incremental operational costs will be incurred. However should this be the case, the current User Pays charge applied for use of the speculative calculator would be adjusted accordingly.

c) Proposed charge(s) for application of Users Pays charges to Shippers

User Pays charges applicable to Shippers:

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

3 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;***

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

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;***

Implementation would not be expected to better facilitate this relevant 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;***

This proposal would ensure more accurate allocation of costs, with AQs being set that are more reflective of customer usage. This would have the benefit of meeting the Relevant Objective of securing effective competition between Shippers and Suppliers.

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.

4 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.

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

a) implications for operation of the System:

No implications for operation of the system have been identified.

b) development and capital cost and operating cost implications:

No costs have been identified other that those to be recovered through User Pays.

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

Additional costs would be recovered through User Pays as detailed above.

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

No such consequence is anticipated.

6 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.

7 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

It is envisaged that there will be system impacts for Transporters, however it has not been possible to confirm the extent of these at this time. The impact on Users systems is unknown.

8 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 have the ability to facilitate the opportunities presented by the proposal. However there will be no requirement for them to do so. Therefore the extent of the impact on individual Users is unknown.

Development and capital cost and operating cost implications

No such costs have been identified.

Consequence for the level of contractual risk of Users

The level of a User's contractual risk will be reduced by the introduction of this proposal, as Users will be able to amend AQs to be more accurate in relation to customer usage.

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

No such implications have been identified.

10 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

The cost reflectivity would be improved.

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

Advantages

- Addresses the inequitable nature of the AQ Review process, where an LSP can be amended by any value, whereas a SSP has a 20% tolerance (UNC Section G 1.6.4).

Disadvantages

- None identified

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

No written representations have been received.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

14 The extent to which the implementation is required having regard to any

proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

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

No programme for works has been identified.

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

It is recommended that this proposal be implemented on 01 July 2010.

17 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.

18 Workstream recommendation regarding implementation of this Modification Proposal

The Distribution Workstream considers that the Proposal is sufficiently developed and should now proceed to the Consultation Phase. [The Workstream also recommends that the Panel requests the preparation of legal text for this Modification Proposal.]