Development Workgroup Report
Rolling AQ
Modification Reference Number 0209

Version 0.2

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.

As suggested text has been prepared, 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 Transco's Network Code. The review was originally for Larger Supply Points (LSP) only 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 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.

Output from Review Group 0177 provided a straw man model for rolling AQ. This Development Work Group has provided the detail required to support this straw man for implementation and the Detailed Business Rules are attached to this document.

The revised Proposal is 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:

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        - 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 is appended to the Detailed Business Rules.
    - Where validations fail, a rejection file will be returned to the User with a reason code and the current AQ will apply to the following month (ie month + 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 will go live on 1st of the following month.
    - There will be no amendment process or T04 file submission.
- Appealing AQ Values
    - Users may submit a new meter reading to bring the AQ up to date.
    - Users may change meter readings using a read replacement where no subsequent read has been loaded.
    - Users may 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.
- Monitoring
    - Currently the AQ Review is monitored by:
        - UNC Modification 081 stats.

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        - 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
    - Phased implementation with LSPs implemented first.
    - SSP no more than one year later.
    - May lend itself to a modular approach for UKL replacement.
- 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.

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***

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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.

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.

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

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Modification Proposal, including:

a) implications for operation of the System:

The current labour intensive annual review process would be replaced by a monthly process that relies upon automatic validation.

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 would 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.

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

It is proposed that…..

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

Changes to the UK Link System and to related computer systems would be anticipated.

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)

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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.

Development and capital cost and operating cost implications

Costs associated with changes to Users' processes and systems are anticipated.

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 SOQ would reduce the current certainty 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

No direct implications have been identified.

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

-

Disadvantages

-

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

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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

No such matter has been identified.

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. It is suggested that implementation would form part of Project Nexus.

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

Implementation would reflect the timescales of Project Nexus. It is recommended that implementation for LSPs takes place 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 is sufficiently developed and should now proceed to the Consultation Phase. As suggested text has been prepared, the Workgroup does not recommend that the Panel requests the preparation of legal text for this Modification Proposal.

18. Workgroup's comments on legal text

Suggested Text has been prepared by the Transporters and is included below.

19. Text

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