At what stage is this document in the process?

01 Modification

02 Workgroup Report

03 Draft Modification Report

04 Final Modification Report

0421:

Provision for an AQ Review Audit

This modification aims to introduce a voluntary audit of Shippers, whose update performance in the AQ Review process is less than 85% of their portfolio (including amendments phase) and introduce incentives to improve AQ accuracy.

Responses invited by 07 September 2012.

High Impact: Shippers

Medium Impact: -

Low Impact: Network Owners

Contents

About this document:

This document is a Draft Modification Report, which was issued for consultation responses, at the request of the Panel on 19 July 2012.

The close-out date for responses is 07 September 2012.

The Panel will consider the responses and agree whether or not this modification should be made.

Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Panel has determined that this modification does not meet the self-governance criteria.

Why Change?

As stated in Modification 0379, "The AQ Review process helps assign £billions of cost in the gas market and any issues or misuse of it can therefore have a material impact on the accuracy of cost allocation and therefore customer's bills. The current controls on Shipper's use of the AQ Review process are not proportionate to the potential damage that would be done to competition were the process to be misused". Therefore there should be more robust controls around the AQ Review process, not just the amendment phase, but also the process overall.

Over the past four years average performance by SSP and LSP Shippers has constantly fluctuated around 82% and 67%[1] (Dead and Extinct MPRNs included) respectively. This means that over the past four years there has been 18% of the SSP market not updating AQ and more significantly 33% of the LSP market.

The need to introduce an appropriate AQ performance target is substantiated by information recently presented at the Xoserve Customer Operations Forum (06 March) on Mod 0640 End of Year Reconciliations (SSP to LSP movements). It was reported that invoice reconciliations of circa £30m (1,537GWh) will be applied in March 2012 (period from 1/10/10 – 1/10/11). This value has increased from £10.3m (862GWh) in 2010. It has been reported that the number of Supply Points crossing the threshold (73,200kWh) has increased substantially (approximately 42%) within the last Mod 0640 reconciliation period.

Solution

This proposal will introduce a requirement for Shippers to have AQ performance levels to result in at least 85% (subject to periodic review) of their AQs (SSP and LSP portfolios individually) updating during the Review process. This would include those sites, which update by the 'Notification of Revision to Meter Point AQ stage (T04), have been subject to successful AQ Appeal activity, and those meter points where the Shipper has proposed a successful AQ amendment. For the avoidance of doubt the performance would take into account all meter points in the Shipper portfolio including dead (DE) and extinct (EX) [2]. (A process exists to deal with DE and EX meter points. Assets details need to be removed and a withdrawal required. A new meter point requires to be created, confirmed and assets attached). Current UNC Metering Reading performance obligations (UNC, Section M 3.4 & 3.5) require that for Monthly

[1] *As per Xoserve Operational Forum presentations November 2010.*

[2] *As dead and capped do not update the inclusion of these sites would reduce a Shipper's AQ*

Read sites a meter reading must be submitted not less frequently than once every 4 calendar months. For Annual Read sites meter reading performance should not be less than 70% within 12 months and 100% within 24 months. While the AQ performance target has been set initially at 85%, we believe that the cumulative effect of meter reading submissions should have permitted a build up of meter reading history and therefore should not prevent individual Shipper from performing to this AQ target level. In addition Shippers who subscribe to Mod 0279 reports can obtain access to historic meter readings relating to their portfolio.

If a Shipper does not achieve an 85% or more performance level on their SSP and LSP portfolios individually, the Transporters would notify the individual Shipper(s) of their performance level and should the Shipper elect to engage with an Auditor, the Shipper would be required to meet the cost of that audit. A list of Gas Industry Consultants/Auditors will be established. The principle of maintaining a list of Industry experts already exists. The Joint Office maintain a register of "Listed Independent Technical Experts" in relation to "Measurement Error Notification Guidelines". The auditor would work for the Shipper/Supplier to understand their meter reading strategy, meter reading submission process and AQ Review approach, including their approach to amendments, and in the case of LSP sites, their appeals. The auditor would then recommend an improvement plan for the Shipper, to aid them achieving the 85% performance level. An audit report would be produced and provided to Ofgem for information. Ofgem would then be afforded a new opportunity to have insight into the reasons why a Shipper is failing to meet the 85% performance level. In our opinion, if a Shipper, who has failed the AQ performance level, has genuine reasons for recording poor AQ performance, provision of the audit report to Ofgem, will not be viewed as a detrimental requirement.

If at the following year's AQ Review the Shippers performance was still below the 85% level, then the Transporter would apply "Shipper Charges" and the Shipper may elect for another audit to be undertaken, again with the Shipper paying for this. The level of "Shipper Charges" would be applied in accordance with the values contained within the Business Rules. Charges would be applied per meter point, where the Shipper update of AQ has been below 85%, for all meter points where the AQ has not been updated (including those with a meter point status of dead and extinct) e.g. a Shipper who achieves 84% performance in the SSP sector would pay charges based on 16% of their NDM meter point count.

Re-distribution of Shipper Charges

Those NDM SSP Shippers who have met the 85% performance level will receive the re-distribution of the Shipper Charges, based on their market share

For the avoidance of doubt the cost faces by the Transporter Agent (Xoserve) for running the scheme and creating monitoring reports would be met by those Shippers who fail to meet the relevant performance level.

Impacts and Costs

This modification would place a requirement on the Transporter to calculate AQ update performance by Shippers' IDs, which would be provided to the Industry on an anonymous basis. A report would be issued with the published Mod 0081 reports with Shippers' progressive performance levels. The final Mod 0081 report would include which Shippers fail the target level, the Transporter will notify those Shippers who can elect to appoint a Gas Industry Consultant/Auditor from an approved list. It is expected that costs will be incurred by the Transporter in producing this report.

The Transporter shall be required to administer the collection and redistribution of 'Shipper Charges'. Administration of this service will incur a cost, which shall be borne by Shippers who fail to meet the performance level. The charges collected by the Transporter shall be wholly redistributed to those NDM SSP Shippers that met the relevant performance target.

Costs would be placed on those Shippers (i.e. 'Shipper Charges'), whose performance is below 85% in each AQ Review. This would therefore provide an incentive for Shippers to invest in data quality measures and therefore drive more accurate allocation of gas and transportation costs. It would also bring parallels between gas and electricity, where performance is driven through incentives in meter reading and settlement and Shipper Charges for poor performance are also applied.

Implementation

The Workgroup consider it is important that the implementation date should be before 01 November 2012 so that audits can be carried out on the 2012 AQ Review. However, Xoserve consider this is unlikely as initial views on system development indicate a system development timescale of 6 to 12 months.

The Case for Change

Some Workgroup participants consider that the rules currently contained within the UNC around the AQ Review process do nothing to promote the update of AQ values on an annual basis. The poor overall industry performance is evidence of this situation, with the LSP market typically updating 67% and the SSP market typically updating 82%. Therefore an incentive is needed to assure the accurate allocation of gas and transportation costs.

Given the 67% performance in the LSP market it is unclear whether LSP sites are using readings to reallocate costs in time before the close out period.

Recommendations

All parties are invited to consider whether they wish to submit views regarding this modification.

2 Why Change?

As outlined in Modification 0379 – In the Non-Daily Metered (NDM) market the allocation of gas costs are allocated based on an estimate of how much gas a site has used. These estimated costs are then aggregated up to the sites on a Shipper's portfolio to calculate the charges that a Shipper is liable for.

The estimate referred to above is known as the Annual Quantity (AQ) value, and it is derived from historic consumption at a site. As with any other estimate based on historic information, the AQ will never absolutely reflect future usage, which in the case of energy is influenced by consumer behaviour (including reaction to price of fuel), regional variations and weather and temperature effects.

Under the AQ Review rules, as set out in TPD Section G of the UNC (G1.6.3), the Transporter will notify the Shipper of the proposed AQ values for each site, based on the meter reading information sent to the Transporter throughout the year. The Shipper then has the right to amend the AQ, where in the case of a Smaller Supply Point it considers that the Provisional Annual Quantity should be greater or lesser than the Provisional AQ notified by the Transporter by not less than 20% (revised to 5% as a result of the implementation of Modification 0292). In respect of any Large Supply Point there is no such tolerance (Ref UNC G1.6.4 (a).)

There are conditions as to when a Shipper is permitted to submit an amendment. These are outlined in UNC TPD G1.6.4(b), which states that the Shipper must reasonably consider that the Transporter's calculation of the Provision AQ is derived from either Meter Readings that are incorrect or were taken prior to Meter Readings available to the Shipper or where there are materially incorrect details used for the relevant Supply Meter Point.

In addition there is a requirement for the Shipper to have a consistent approach to submitting amendments to the Transporter.

The resultant AQs which are established during the AQ Review process are used to allocate gas and transportation costs across the industry for the next twelve months from October each year. It is therefore imperative that the AQs are accurate and that there are adequate controls in place to ensure that there is no "gaming" of the process for commercial advantage.

As identified in Modification 0379, the risk arising from misuse of the process is material: £billions of cost are allocated through the AQ process each year and it is calculated that were a Shipper with a 10% NDM market share to avoid just 1% of their costs through misuse of the AQ Review process, the misallocation of costs would be worth in the region of £6.5m. The potential distortion of cost allocation is significant and there are inadequate controls in place. However, there is equal ability to manipulate AQs via processes throughout the gas year, as there is at the point of amendment.

For this reason this modification is all encompassing and considers the Review overall and incentivises performance, as opposed to Modification 0379, which would see the industry tracking the average performance of the industry, which is far from adequate.

The need to introduce an appropriate AQ performance target is substantiated by information recently presented at the Xoserve Customer Operations Forum (06 March) on Modification 0640 End of Year Reconciliations (SSP to LSP movements) and reported that invoice reconciliations of circa £30m (1,537GWh) will be applied in March 2012 (period from 1/10/10 – 1/10/11). This value has increased from £10.3m (862GWh) in 2010. It has been reported that the number of Supply Points crossing the threshold (73,200kWh) has increased substantially (approximately 42%) within the last Modification 0640 reconciliation period.

3 Solution

This proposal will introduce a requirement for Shippers to have AQ performance levels to result in at least 85% (subject to periodic review) of their AQs updating during the Review process. This would include those meter points, which update by the Notification of Revision to the Meter Point AQ stage (T04 stage), have been subject to successful AQ Appeal activity, <u>and</u> those meter points where the Shipper has proposed a successful AQ amendment. For the avoidance of doubt the performance would take into account all sites in the Shipper portfolio including dead and extinct. Current UNC Metering Reading performance obligations (UNC, Section M 3.4 & 3.5) require that for Monthly Read sites a meter reading must be submitted not less frequently than once every 4 calendar months. For Annual Read sites meter reading performance should not be less than 70% within 12 months and 100% within 24 months. While the AQ performance target has been set initially at 85%, we believe that the cumulative effect of meter reading submissions should have permitted a build up of meter reading history and therefore should not prevent individual Shipper from performing to this AQ target level.

If a Shipper does not achieve an 85% or more performance level for their SSP and LSP portfolios separately, the Transporter would notify the individual Shipper(s) of their performance level and should the Shipper elect to engage with an Auditor, the Shipper would be required to meet the cost of that audit. A list of Gas Industry Consultants/Auditors will be established. The auditor would work for the Shipper to understand their meter reading strategy, meter reading submission process and AQ Review approach, including their approach to amendments, and in the case of LSP site, their appeals. The auditor would then recommend an improvement plan for the Shipper, to aid them achieving the 85% performance level. An audit report would be produced and provided to Ofgem for information. Ofgem would then be afforded a new opportunity to have insight into the reasons why a Shipper is failing to meet the 85% performance level. In our opinion, if a Shipper, who has failed the AQ performance level, has genuine reasons for recording poor AQ performance, provision of the audit report to Ofgem, will not be viewed as a detrimental requirement.

If at the following year's AQ Review the Shippers performance was still below the 85% level, then the Transporter would apply "Shipper Charges" and the Shipper may elect for another audit, again with the Shipper paying for this. The level of "Shipper Charges" would be applied in accordance with the values contained within the Business Rules. Charges would be applied per meter point, where the Shipper's update of AQ has been below 85%, for all meter points where the AQ has not been updated. E.g. a Shipper who achieves 84% performance in the SSP sector would pay charges based on 16% of their NDM meter point count.

Re-distribution of Shipper Charges

NDM SSP Shippers who have met the 85% performance level will receive the re-distribution of the Shipper Charges, based on their market share and performance. For the avoidance of doubt the cost faced by the Transporter for running the scheme and creating monitoring reports would be met by those Shippers who have failed the AQ performance target. Such costs will be apportioned to those Shippers based on the number of portfolio meter points failing the 85% AQ performance level. Should no Shippers fail the 85% performance level, Transporter costs will be smeared across the industry based on the number of meter points registered by a Shipper as at 1st 1/10/YY.

Business Rules – Provision of an AQ Review Audit

1. The calculation of AQ update performance will, subject to Business Rules 2 to 5, include all meter points in a Shipper's portfolio including those with a meter point status of Dead or Extinct, as held by the Transporter. Xoserve shall extract portfolio data as at 30/9/YY to identify Meter Points whose AQ updating during the Review Process in that year (YY). This would include those meter points , which update by the T04 stage, have been subject to successful AQ Appeal activity, and those meter points where the Shipper has proposed a successful AQ amendment. Meter Points that have been subject to any AQ Appeal activity (between 1/10/YY-1 and end of performance year YY), and as a consequence, have been successfully appealed (i.e. confirmation of AQ Appeal has been accepted) in the current Gas Year will be included within the 85% target.
2. New Connection sites established in the Gas Year in which the AQ Review is performed will be excluded from the 85% target if they fail to re-calculate. For the avoidance of doubt, if a new connection established within the Gas Year in which the AQ Review is performed does calculate it will be included in the calculation of the AQ update performance.
3. Threshold Crossers activity between 1/10/YY and the end of the performance year 30/9/YY. Threshold Crossers include AQ movements from LSP to SSP and vice versa) AQ activity will be included in the performance reports and will contribute to the market sector in which the AQ value was initially determined e.g. LSP to SSP AQ movement, will contribute to LSP performance measures.Meter points that have been gained and lost from a given shipper's portfolio following portfolio extract on 01/04/YY shall be excluded from the AQ performance calculation. i.e. Those meter points that are not common in the extract as at 01/04/YY and 30/09/YY will be excluded from the performance calculation.
4. The performance by Shipper would be calculated on a per Shipper ID on individual SSP and LSP portfolios basis and not by Licenced entity[3] and is the same level, irrespective of market segment.
5. If a Shipper does not meet the 85%[4] performance criteria they can elect to undertake an audit. AQ Performance will be derived to 2 decimal places i.e. 84.99% constitutes failure.
6. A grace period for "Shipper Charges" will apply from the point of implementation of the Modification such that where performance is below 85% the Shipper will have until the completion of next Review to improve and achieve at least the 85%. If reporting at the next Review reveals that the Shipper has not improved sufficiently, then they will face charges as set out in Business Rule 19. The scheme grace period would only apply to a Shipper once and only be applicable in the first 5 years of the scheme.

[3] *This mirrors the BSC electricity process around performance assurance.*

[4] *85% has been chosen, as it represents an improvement in the current SSP performance rate and will see a significant increase in LSP performance, bringing it more in line with current SSP*

7. New market entrants will not be subject to the scheme until after at least 12 months from the point of registering sites, as during that time the majority of their sites will be gains and they will have no meter reading history. New entrants will therefore be excluded from paying and receiving any charges in at least their first year nor shall their performance be shown in the anonymised reports provided to the industry. Once a shipper has a Live Confirmation prior to 01/10/YY-1 they shall be included in the year YY performance review but shall be subject to the same first year grace as other Shippers, if required. For the avoidance of doubt the grace period for a new Shipper in the first year of operation of this regime would run back to back with the scheme's initial grace period, unless the new entrant achieves 85% performance in year one. If 85% performance is achieved by the new entrant in year one, then they will be included within the re-distribution of charges together with all other Shippers who have met the target.
8. The Transporter will provide, on an anonymous basis but using the same pseudonyms as used in the Mod 81 reports, interim AQ performance reports at the same time as the issue of the published Mod 81 reports (1^{st} July and 1^{st} Aug) to inform Shippers of their progressive AQ amendment activity. For the avoidance of doubt Xoserve shall not be required to provide individual reports to each Shipper.
9. The Transporter would identify Shipper performance and indicate the number of Shippers where performance was below the 85% minimum standard and by how much (across their separate SSP and LSP portfolios). This report would be provided to industry on an anonymous basis, using the same pseudonyms as used in the Mod 81 reports, at the same time as the published MOD081 final report showing industry performance and would include all shippers. For the avoidance of doubt Xoserve shall not be required to provide individual reports to each Shipper.
10. Prior to the issue of the MOD081 reports the Joint Office would invite each Shipper and Transporter to nominate up to three (3) Gas Industry Consultants/Auditors to appear a Listed Gas Industry Consultant/Auditors and the Transporter/Shippers must nominate these to the Joint Office
11. The list of proposed Gas Industry Consultants/Auditors will be collated by the Joint Office and provided to the Uniform Network Code Committee for them to consider. The UNCC will consider the list of proposed Gas Industry Consultants/Auditors and will endorse or decline to endorse the individuals/companies by considering the appropriateness of their expertise. A list of endorsed Gas Industry Consultants/Auditors will then be established.
12. Prior to a Gas Industry Consultant/Auditor being placed on the Listed Gas Industry Consultant/Auditor list the Joint Office will request them to confirm in writing to the Joint Office and the nominating party their desire to be registered as a Listed Gas Industry Consultant/Auditor or not. Should the Gas Industry Consultant/Auditor wish to withdraw from the list they will notify their request to the Joint Office.
13. Once it is known which Shippers have failed the AQ Performance target the Transporter will notify those Shippers, who can elect to appoint a Gas Industry Consultant/Auditor from the approved List. The Shipper will then appoint and contract with one of the organisations/individuals listed on the UNCC approved list. The payment of the Consultant/Auditor will be the responsibility of the Shipper.
14. For the avoidance of doubt the "auditor" engaged by the Shipper subject to an audit requirement would be merely aiding the Shipper in improving performance and will not be held responsible for improving the performance of the Shipper

15. The scope of the audit would include but would not be restricted to:
    a. A review of the approach taken by the Shipper to the AQ Review and how amendments have been determined for both SSP and LSP sites (and in the case of an LSP Shipper (the appeals)
    b. A review of processes, and that they are managed in line with UNC requirements:
        i. Meter reading strategy, validation and submission
        ii. Meter exchange strategy, validation and submission
        iii. Data exceptions for reads, exchanges, disconnections, reconnections, new connections and their resolution
        iv. Vacant site management process
        v. Isolation and withdrawal process[5]

    The Gas Industry Consultant/Auditor will also highlight within their audit report where the UNC requirements have not been met.
16. The audit reports created by each auditor against the Shippers who did not make the 85% update performance would be provided to Ofgem for their information. The Shipper who is subject to the audit should have received sufficient information and guidance to enable them to make changes to their processes to allow their AQ performance to improve by the next AQ Review.
17. If at the time of the next AQ Review the Shipper has not improved performance, then "Shipper Charges" will be applied to them.
18. "Shipper Charges" will be levied on the basis of an appropriate incentive charge in accordance with the undernoted

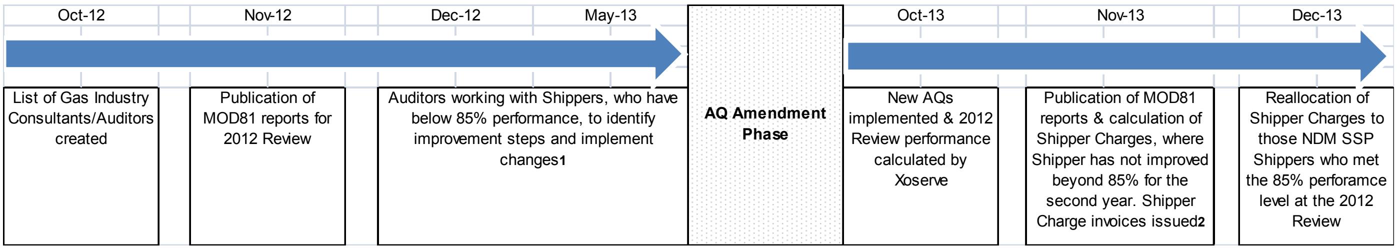
    SSP sites = £20

    LSP sites = £512

19. Where a Shipper's performance is below the 85% AQ update level after the grace period, and in the case of a new entrant the second grace period, Shipper Charges will be applied. The "Shipper Charge" will be calculated separately by SSP and/or LSP portfolio taking into consideration the requirements of Business Rules 1-5. The charges to those Shippers who have failed to meet the performance criteria will be issued on an ad-hoc invoice as a one off charge in the next available invoice.
20. There will be a re-distribution of the "Shipper Charges" to all of those NDM SSP Shippers who have had achieved 85% and above performance . The total value of charges will be distributed to Shippers on the basis of SSP market share at the final portfolio extract at [30/09/YY] (based on number of eligible MPRN's), relative to all those other Shippers who have met or exceeded the 85% performance level. The SSP portfolio will be determined based upon the prevailing AQ at the start of the AQ performance year.
21. The re-distribution will take place in the next available invoice following receipt of payment of Shipper Charges.
22. Costs incurred by Transporters for administering the AQ performance scheme will be met by those Shippers who have failed the AQ performance target. The costs apportioned to failing Shippers are charged to each failing Shipper based upon each failing Shippers individual proportion of the total number of failing Shippers in each market sector as measured on 30th September after the relevant AQ review. These costs are separate to the 'Shipper Charges' i.e. the charges collected by Transporters shall be wholly redistributed to those Shippers that met the relevant performance target.

23. Where there are no Shippers who meet the 85% performance level, or all Shippers meet the 85% level, any costs incurred by the Transporter will apportioned to Shippers based upon each Shipper's individual proportion of total number of non-daily metered supply points. This proportion is to be measured as at the 30th September after the relevant AQ review. For the avoidance of doubt in the first year of the scheme, where only monitoring takes places, any costs incurred by the Transporter will be apportioned in the same manner – i.e. to Shippers based upon each Shipper's individual proportion of total number of non-daily metered supply points. This proportion is to be measured as at the 30th September after the relevant AQ review.
24. For the avoidance of doubt Daily Metered and Unique Sites will be excluded from this process.

The process is demonstrated in the chart on the following page.



4 Relevant Objectives

Impact of the modification on the **Relevant Objectives:**	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards… are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

d) 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.

The provision of an audit mechanism around the AQ review process will give the industry more confidence that the process is working effectively, that Shippers are adhering to both the rules and spirit of the UNC in relation to the Review Process. In addition it will dissuade Shippers from any potential misuse of the process, during the amendment and appeal window and prior to the AQ Review commencing (pre-T04 stage) and better enable the industry to identify and resolve any misuse.

It is considered that this in turn will ensure that cost allocation in the gas market will be as accurate as possible thus facilitating effective competition between Shippers.

Under Modification 0421 the option for any Shipper who has less than 85% performance is to undertake a voluntary audit and work with the auditor to come up with a plan to improve performance that will ensure that more AQs update on an annual basis and that costs applied through allocation are more accurate. This will ensure more accurate allocation and apportionment of cost.

Some Workgroup participants were concerned that Shippers may be highlighted as failing to meet UNC requirements, which may damage their reputation. However, Audit findings may disprove the failure but this may not restore the impact on their reputation.

A Workgroup participant was concerned that the modification places a focus on the timely submission of meter reads but there is no guarantee that these will result in more accurate AQs, as the meter read may not be accurate and therefore does not reduce risk in this area.

Some Workgroup participants considered there are a number of reasons why an AQ may not be accurate and more frequent reads should reduce this risk, therefore more timely submissions of meter reads should give industry participants more confidence that the AQ is accurate.

5 Impacts and Costs

Consideration of Wider Industry Impacts

This modification is unlikely to have wider industry impacts.

Costs

Indicative industry costs – User Pays
Classification of the modification as User Pays or not and justification for classification
User Pays, since the Transporter Agency will face additional costs.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification **Set-up costs** Some Workgroup participants consider Shippers and Transporters should share the cost of the set up the requirements for the Modification, e.g. establishing reporting capability, and providing a mechanism to recover and redistribute 'Shipper Charges'. It is proposed that these costs be split between the Transporters and Shippers on a 50:50 basis. This is because it is equally in the Transporters' interests to have accurate AQs for systems planning and efficient network investment, as it is for the Shippers to ensure fair apportionment of costs. The costs apportioned to Shippers are to be charged to each Shipper based upon each Shipper's individual proportion of total number of non-daily metered supply points (based on the market sector at the period). This proportion is to be measured as at the date of implementation. Note this excludes Daily Metered and Unique Sites. Some Workgroup participants did not consider it appropriate for costs to be apportioned on a 50:50 basis and that all costs should be funded by Users, as they will gain the benefits of more accurate allocation.

Operational Costs The operational cost of the modification will be met by those Shippers who fail to achieve the performance level of 85%. Costs incurred by Transporters for administering the AQ Performance scheme will be met by those Shippers who have failed the AQ performance target. Such costs will be apportioned to those Shippers based on the number of portfolio meter points failing the 85% AQ performance level. Where there are no Shippers who meet the 85% performance level, or all Shippers meet the 85% level, any costs incurred by the Transporter will be smeared across the industry based upon the proportion of meter points within that Shippers portfolio as at 30/09/YY in relation to the total industry meter point portfolio. For the avoidance of doubt in the first year of the scheme, where monitoring takes places, any costs incurred by the Transporter will also be smeared to each Shipper based upon the proportion of meter points within that Shipper's portfolio as at 30/09/YY in relation to the total industry meter point portfolio.
Proposed charge(s) for application of Users Pays charges to Shippers
A draft ACS accommodating these changes has been published alongside this report.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve
The Xoserve cost estimate for the development of services is in the range £240,000 to £460,000.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	• System impacts identified.
Operational Processes	• Impacts identified.
User Pays implications	• A proposed ACS has been published alongside this report.

Impact on Users	
Area of Users' business	Potential impact

Impact on Users	
Administrative and operational	• Shippers may face a voluntary audit and may need to provide operational support and other resource, as necessary, for the duration of the audit.
Development, capital and operating costs	• Those Shippers who failed to meet the performance level may have increased operating costs, but these would be line with the costs of those Shippers who are currently meeting the performance level and therefore will only serve to put the Shippers on an equal footing. There may be a capital investment required, but again this will be to address the Shipper's shortcomings.
Contractual risks	• None.
Legislative, regulatory and contractual obligations and relationships	• None.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	• None identified.
Development, capital and operating costs	• This modification should help to ensure that the network is only sized to meet the consumer demand and therefore should be beneficial in the efficient use of capital.
Recovery of costs	• This modification may ensure that recovery of costs are made at the correct level from each party, as the AQs will be more accurate and costs targeted at those Users who have greater throughput on the networks.
Price regulation	• None

Impact on Transporters	
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None
Standards of service	• None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• None.
UNC Committees	• The UNCC will have an additional role of "approving" Gas industry Experts/Auditors to place on a Panel for use by the Shippers.
General administration	• None.

Impact on Code	
Code section	Potential impact
See Section 8, Text	
New guidance document to be developed	Requires approval by UNCC

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None.
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None.
Storage Connection Agreement (TPD R1.3.1)	None.
UK Link Manual (TPD U1.4)	None.
Network Code Operations Reporting Manual (TPD V12)	None.
Network Code Validation Rules (TPD V12)	None.
ECQ Methodology (TPD V12)	None.
Measurement Error Notification Guidelines (TPD V12)	None.
Energy Balancing Credit Rules (TPD X2.1)	None.

Impact on UNC Related Documents and Other Referenced Documents	
Uniform Network Code Standards of Service (Various)	None.

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None.
Gas Transporter Licence	None.

Other Impacts	
Item impacted	Potential impact
Security of Supply	None.
Operation of the Total System	None.
Industry fragmentation	None.
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None.

6 Implementation

It is proposed that implementation of this modification should be 01 November 2012 if an Ofgem direction to implement is received by 28 October 2012, 02 November 2012 if an Ofgem direction to implement is received by 01 November 2012, and immediately following any later Ofgem direction, so that it can be applied to the AQ Review this year and drive immediate improvements in data quality and allocation. Although the instruction of an auditor would apply following the 2012 AQ Review process, the application of Shipper Charges would not 'kick in' until following the AQ Review in 2013. This approach will ensure that Shipper has the ability to prepare and also work with the auditor to identify improvements in their process that will not only benefit the Shipper's own business and customers, in terms of data quality and up to date AQs, but also the industry more generally, through accurate allocation.

For the avoidance of doubt, the requirement to continue with a consistent approach to upward and downward movements in relation to AQ amendments will continue to apply.

The Workgroup considers it is important that the implementation date should be before 01 November 2012, so that audits can be carried out on the 2012 AQ Review. However, Xoserve consider this is unlikely as initial views on system development indicate a system development timescale of 6 to 12 months should the modification be directed to be implemented.

7 The Case for Change

Nothing in addition to that identified above.

8 Legal Text

Text

Wales & West Utilities has prepared Text at the request of the Modification Panel. This has been published as a separate document alongside this Report.

9 Recommendation

All parties are invited to consider whether they wish to submit views regarding this modification.

The close-out date for responses is 07 September 2012, which should be sent to enquiries@gasgovernance.co.uk.

A response template which you may wish to use is at www.gasgovernance.co.uk/0421

Consultation Ends

On 07 September 2012