

Stage 01: Proposal

0378:

Greater Transparency over AQ Appeal Performance

What stage is this document in the process?

- 01 Proposal
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This Proposal will give more transparency over the way in which Shippers use the AQ Review process.



The Proposer recommends
This Proposal is sent for development for two months.



Medium Impact:
Shippers



Low Impact:
Network Owners

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About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 21st April 2011. The Panel will consider the Proposer's recommendation, and agree whether this modification should proceed to consultation or be referred to a Workgroup for assessment.



3 Any questions?

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1 Summary

Is this a Self Governance Modification

We believe this proposal is self-governance because it only seeks to provide transparency over Shippers actions in the AQ Review process and not to change the process itself, thus meaning it has no material impact in itself. To that end we consider it fulfils the UNC Self-Governance criteria.

Why Change?

The AQ appeal process, which includes the AQ Review, 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 consumer's bills. We believe that the current transparency and controls on Shipper's use of the AQ appeal process are not sufficiently robust to provide the market with confidence that the process is working effectively and not being misused. The impact is that even if a Shipper were to misuse the AQ appeal process for financial gain, the controls on the process are not be sufficient to establish this in anything other than extreme circumstances. ~~We also consider that the current anonymity provisions around industry reporting in this area are no effective and apply unequally to different Shippers.~~

Solution

This proposal will increase the amount of data provided on the industry MOD81 reports so that there is more transparency about the way in which Shippers have used the AQ Review Process.

This Proposal will ~~also create a new report which provides the same data as in the proposed add to the existing~~ MOD81 report, ~~but specifically so that it covers~~ AQ appeals made outside of the AQ Review process. ~~This report will not be anonymous.~~

~~Finally, this proposal will also remove the anonymity which currently exists in the MOD81 reports.~~

Impacts & Costs

This Proposal will not change the rules around how the AQ appeal process works and therefore will have no impact on Network Owners other than a requirement to collate and publish more data.

The impact on Shippers will be limited to the fact that more information will be publicly available about the way in which they have used to AQ appeal process. As a User Pays change, they will also be required to fund the cost of any extra work required to support this Proposal.

Implementation

This Proposal should be implemented before 1st November 2011, that being the date that the new reports can be provided for the 2010/11 Gas Year.

The Case for Change

We believe that by improving the control and assurance framework around the AQ appeal process the industry will have more confidence that the process is working



Where can I find more information about how the AQ appeals process works?

The rules which govern the AQ appeals processes can be found in UNC section G, from paragraph 1.6 onwards. Link [here](#).

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effectively, Shippers will be dissuaded from any potential misuse of the process and the industry will be better able to identify and resolve any misuse.

We consider 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. In addition, we consider this Proposal will provide greater transparency over the degree to which Shippers are compliant with the existing Code obligations not to misuse the AQ appeal process, thus facilitating efficiency in the implementation and administration of the Code. This Proposal will therefore facilitate Relevant Objectives (d) and (f).

Recommendations

We recommend that this Proposal be sent for development for two months.

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2 Why Change?

Context

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 for all the sites on a Shipper's portfolio to calculate the charges that 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, the AQ is not absolutely accurate and therefore the AQ Review process exists to allow Shippers to correct any material variations between the AQ and the consumption they see at the site with the aim of improving the accuracy of cost allocation.

The rules around the AQ Review process provide for the Network Owners to advise the Shipper, for each of the NDM sites in their portfolio, a provisional AQ value by 31st May in each year. Shippers then have until 13th August in each year to appeal any AQ value which they consider to be inaccurate by submitting meter readings which substantiate the revised AQ being sought. Importantly, Shippers have an obligation to ensure that in the AQ Review they have applied a methodology which is consistent across their Supply Points, they have been even handed in their submission of AQ amendments – whether they be increases or decreases – and that it has not been selective over the AQs which it has finally appealed.

The risk arising from misuse of this process is material: £billions of cost is allocated through the AQ process each year and we calculate 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 ~£6.5m¹.

The Issue

The "MOD81 report" is actually a collection of reports, or datasets, used to provide transparency over Shipper activity following the AQ Review. It contains no information about any AQ appeal which was submitted outside of the AQ Review process.

From our experience of raising concerns about the way in which Shippers may have used previous AQ Reviews we believe that, aside from extreme cases, it is not possible to establish from the data in the MOD81 report whether any particular Shipper's actions have or have not been compliant with the provisions under Code. The report also does not provide any data on AQ appeals made by Shippers outside the AQ Review Process. The effect is that Shippers are unlikely to be able to use the MOD81 report to demonstrate non-compliance with Code provisions, and those facing allegations are unable to demonstrate their compliance. We believe that more data is required in this report to give the necessary transparency to establish whether the process has been properly used or not.

¹ Assuming approximate SSP aggregate AQ of 328 TWh at an average cost of approximately £20m p/TWh, or £6.5bn total value. 10% share of this cost is therefore approximately £650m, with 1% of that cost valued at approximately £6.5m.

~~We also believe the current report only offers partial anonymity, with some Shippers being easily identifiable in the report and others afforded full anonymity by virtue of the fact that portfolio size is given as a data item. British Gas for example can be easily identified by the number of Supply Points shown against them in the report whereas it is not always clear who the other Shippers are. Other Shippers are also affected. This discrimination is unwarranted and affords different levels of protection to different Shippers. We believe that the information contained within the reports is not commercially confidential and that furthermore no Shipper should have anything to hide in these reports. Consequentially, we propose that anonymity should be removed for all.~~

3 Solution

This Proposal will add the following three reports or datasets to the MOD81 report [considered by UNC TPD G1.6 document](#).

1. Aggregate effect of AQ movement during the AQ Review window expressed in kWh, by Shipper.
2. The number of increases and decreases in AQ made during the AQ Review, by Shipper, split by kWh movement bands.
3. A separate report providing the same data as the MOD81 report shows, but specifically covering AQ appeals submitted outside of the AQ Review process, split by Shipper and un-anonymised. This should be delivered once a year along with the final issue of the current MOD081 and detail all appeal activity for the previous gas year. Its headings will be based on the MOD81 report, showing, by Shipper, EUC and LDZ, a count of AQ Appeal, associated aggregate AQ movement, count of upward and downward appeals and associated aggregate AQ movement.

~~3. [An overview of the proposed reports is attached to this document as Appendix One.](#)~~

~~This Proposal will also change all reports in the MOD81 report document, including those proposed above, so that none are anonymous.~~

4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objectives d and f.**

Proposer's view of the benefits against the Code Relevant Objectives

Description of 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.	Yes, see below.
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	Yes, see below.

We consider this Proposal facilitates UNC Relevant Objectives (d) and (f). Our reasoning is given below.

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.

We believe that by improving the control and assurance framework around the AQ appeal process the industry will have more confidence that the process is working effectively, Shippers will be dissuaded from any potential misuse of the process and the industry will be better able to identify and resolve any misuse.

We consider 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.

f) Promotion of efficiency in the implementation and administration of the Code

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In addition, we consider this Proposal will provide greater transparency over the degree to which Shippers are compliant with the existing Code obligations not to misuse the AQ appeal process, thus facilitating efficiency in the implementation and administration of the Code.

5 Impacts and Costs

Impacts

This Proposal will impact both Shippers and Network Owners. Network Owners, who administer the AQ appeal process, will need to collect and report the additional data required under this Proposal. To the extent that there is cost associated with the implementation of this Proposal, Shippers will have to bear the cost of that implementation, ~~in addition to losing their anonymity in the MOD81 report.~~

Costs

Indicative industry costs – User Pays	
Classification of the proposal as User Pays or not and justification for classification	
User Pays	
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification	
Shippers will pay 100% of the costs associated with this. We believe that this is justified as the anticipated benefit will be entirely in the Shipper market.	
Proposed charge(s) for application of Users Pays charges to Shippers	
TBC	
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve	

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	• TBC
Operational Processes	• TBC
User Pays implications	• TBC

Impact on Users	
Area of Users' business	Potential impact

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Impact on Users	
Administrative and operational	• None.
Development, capital and operating costs	• TBC.
Contractual risks	• None.
Legislative, regulatory and contractual obligations and relationships	• None.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	• TBC
Development, capital and operating costs	• TBC
Recovery of costs	• TBC
Price regulation	• TBC
Contractual risks	• TBC
Legislative, regulatory and contractual obligations and relationships	• TBC
Standards of service	• TBC

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• None.
UNC Committees	• None.
General administration	• None.

Impact on Code	
Code section	Potential impact

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None.

Impact on UNC Related Documents and Other Referenced Documents	
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.
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

This Proposal should be implemented as soon as possible after an Ofgem direction. We believe it is important that the implementation date should be before 1st November 2011 so that the improvements can be included in the reports covering the 2010/11 Gas Year.

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7 The Case for Change

Advantages

1. Provides greater transparency over Shipper behaviour during the AQ appeal process, deterring any non-compliance and ensuring that any non-compliance can be identified and addressed.
- ~~2. Removes the current disparity in anonymity between Shippers.~~

Disadvantages

None identified.

8 Legal Text

None

9 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification 0378 progress to a Workgroup.

10 Appendix one – Overview of New Reports

AQ Appeal reporting (As in addition to existing MOD 81 reporting – This is the Publication of Statistical Information for AQ Appeals.

Release :	Reports to be released on 1 st of November (At the same time as the final MOD081 report) covering AQ appeal activity during the period ending 30 th September (of the year the report is released) for the previous gas year starting on the previous 01 st October. This report would cover the same categories of supplies as the MOD 081 report (e.g. Live NDM's)
AQ Appeal:	AQ Appeal activity, would be defined as any confirmation resulting from a nomination using an AQ appeal reference, where the confirmation effective date falls within the reporting period (the reporting period being 1 st October to 30 th September).
RSU:	Registered System User at the time of the confirmation effective date of the AQ appeal

Report 1: AQ Appeal Trends Report - Total Number of confirmed AQ appeals by LDZ - Count and Energy

The report is split by, LDZ, RSU and shows the number of confirmed AQ Appeals between the specified date parameters of the report. The report also captures how the energy values are affected, pre and post the confirmed AQ appeals. Included will be any MPR that has had a change in AQ resulting from and AQ appeal. In the case of aggregated supply points, it is intended that only the MPR's that had a change in AQ would be included. The "State" would be the registered system user at the time of the confirmation effective date of the AQ appeal.

LDZ	State	Count Of MPR	Sum Of Previous AQ	Sum Of New AQ
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Report 2: Confirmed AQ appeals – Increasing or Decreasing AQ by Shipper

The report captures the total number of confirmed AQ Appeals for each RSU and shows the affect of the appeals on the previous AQ values. It also indicates how the industry is / has undertaken AQ Appeals in regards to a balanced approach being applied.

State	Confirmed appeals	Decreasing AQs	Increasing AQs
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Report 5: EUC Band Changes – Decreasing AQs Energy for confirmed AQ Appeals

The report reflects the **DECREASING** energy values for each EUC band and tracks how this energy is dispersed between other EUC Bands following the confirmed AQ appeals. This report also captures in which EUC Zone the energy was allocated, and then captures where the energy has moved zones as a result of the confirmed AQ Appeal.

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State	LDZ Identifier	Previous EUC Band	01	02	03	04	05	06	07	08	09	Total Of NEW AQ
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Report 6: EUC Band Changes – Decreasing AQs by Meter Point for confirmed AQ Appeals

The report shows the same data as Report 5 although this report reflects count of Supply Points and Report 5 shows the data in kWh following the confirmed AQ Appeals.

State	LDZ Identifier	Previous EUC Band	01	02	03	04	05	06	07	08	09	Total Of MPRN
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Report 7: EUC Band Changes – Increasing AQs Energy for confirmed AQ Appeals

The report reflects the **INCREASING** energy values for each EUC band and tracks how this energy is dispersed between other EUC Bands following the confirmed AQ appeals. This report also captures in which EUC Zone the energy was allocated, and then captures where the energy has moved zones as a result of the confirmed AQ Appeal.

State	LDZ Identifier	Previous EUC Band	01	02	03	04	05	06	07	08	09	Total Of NEW AQ
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Report 8: EUC Band Changes – Increasing AQs by Meter Point for confirmed AQ Appeals

The report shows the same data as Report 7 although this report reflects count of Meter Points and Report 7 shows the data in kWh following the confirmed AQ Appeals.

State	LDZ Identifier	Previous EUC Band	01	02	03	04	05	06	07	08	09	Total Of MPRN
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Report 9: EUC Band Changes – Pre/Post Confirmed AQ Appeal Movement

The report captures all of the movement between EUC codes following successful confirmed AQ appeals. It shows the original starting point of the EUC band prior to the confirmed AQ appeal and then shows which EUC codes the Supply Points have moved into after the confirmed AQ appeal. The final column is a count that captures the gains and losses, the movement of Supply Points within that EUC code. This report would not include acquired brown field and previously shipperless supplies.

State	LDZ Identifier	Previous EUC Band	New EUC Band	Pre Appeal MPRs	Post Appeal MPRs	Difference
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MOD 081 reports not deemed as having an applicable AQ Appeal report

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Report 3: Confirmed AQ appeals Received by Outcome & Outcome Code (Accepted / Rejected / Referred) – Volume Count & Percentage of Total

The report captures the total number of confirmed AQ Appeals for each RSU received within the date parameters of the report and shows the aggregate volume of Outcome Codes, i.e. if the amendments were Accepted, Rejected or Referred.

State	All Amendments	Accepted Amendments	Rejected Amendments
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Report 4: Speculative Calculator File Submission outside of the AQ Review

The report demonstrates the volume of AQ enquires that have put through the Speculative Calculator for each RSU to derive revised AQ values (including multiple submissions on one meter point).

State	Spec Calc	Duplicates	Amendment Submitted	Spec Calc as Amendment	Total Portfolio	Portfolio as Spec
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Report 10: EUC Band for pre and post confirmation effective for AQ Appeals by LDZ

This report looks to capture the total affect of the years confirmed AQ Appeals on all Meter Points. The report is structured to show the RSU, LDZ and EUC band for pre-confirmation effective and then the position post confirmation effective of the AQ Appeal.

It looks to capture:

- The transfer of ownership, it captures the Previous Shipper (1st of October previous gas year) and the Current Shipper as at the 1st of October (new gas year).
- The previous LDZ and then the current LDZ, these are usually where there has been an address / postcode amendment on Sites and Meters.
- The previous EUC code and then the new EUC code.
- The total count of Meter Points.
- Previous AQ, this being the AQ value prior to the annual AQ review being undertaken, and then the new AQ going live as on the 1st of October.

Previous Shipper	Previous LDZ ID	Previous EUC Descriptions	Current Shipper	Current LDZ ID	Current EUC Description	MPR Count	Previous NDM AQ
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