

## Stage 01: Proposal

# 0380: Periodic Annual Quantity calculation

What stage is this document in the process?

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

The purpose of this Modification Proposal is to identify and seek implementation of a new UNC Annual Quantity (AQ) calculation regime. Commonly termed 'rolling AQ', this is intended to replace the existing annual AQ review arrangements.



The Proposer recommends that this Modification Proposal proceeds to a workgroup for assessment.



High Impact

Shippers and Transporters

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## About this document:

This document is a proposal, which will be presented by the Proposer to the Panel on 19 May 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.



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# 1 Summary

## Is this a Self Governance Modification

This modification does not meet the criteria for Self Governance due to the impacts on customers.

## Why Change?

ON 12<sup>th</sup> March 2008, E.ON UK raised UNC Modification Proposal 0209 'Rolling AQ'. Over the ensuing 15 months a UNC Development Workgroup undertook extensive work to produce comprehensive business rules from which Distribution Network Operators (DNOs) produced draft legal text. In 2009 the UNC Modification Panel determined that given the extent and significance of the changes required to associated systems and processes the Proposal be considered by the Project Nexus Workstream. Since then the Proposal has received no further consideration.

DNOs believe that the nature of a future UNC regime within the remit of the Project Nexus requirements gathering exercise is becoming clearer particularly in the areas of allocation and settlement. In this respect it is clear that the potential benefits of a new AQ regime would be consistent with any new arrangements. DNOs are also aware that the existing AQ review mechanism is coming under increasing scrutiny and challenge. This is in terms of behaviours in terms of User intervention in the appeals and amendment activity and forthcoming changes to the existing UNC provisions<sup>1</sup> which are likely to lead to increased manual intervention.

Given that Modification Proposal 0209 was raised under now redundant Modification Rules, DNOs believe that this should now be replaced by a new Proposal which would then be taken forward under the new UNC governance framework.

## Solution

It is proposed that the existing UNC provisions governing the annual generation, review and finalisation of Aqs be replaced by a new regime featuring the periodic (expected to be monthly) recalculation of Aqs. Unlike the current arrangements which feature extensive opportunities for manual intervention, the new regime would be largely automated in design and application.

## Impacts & Costs

For Modification Proposal 0209, indicative development costs were identified. However, given the amount of time which has elapsed since the generation of the Rough Order of Magnitude (ROM) costs and the likelihood of changes to the detailed business rules as part of development of this Modification Proposal, it would be necessary to undertake a new assessment of costs. It is envisaged that development costs could be recovered within the remit of Project Nexus funding arrangements.

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<sup>1</sup> 0292 Proposed change to the AQ Review Amendment Tolerance for SSP sites - <http://www.gasgovernance.co.uk/0292>



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## UNC AQ Provisions

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UNC text relating to Aqs can be found in TPD Sections G1.6 and H3.

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## Implementation

The implementation timetable would be likely to reflect system and process development timescales in the context of developments arising from the Project Nexus requirements gathering exercise.

## The Case for Change

The AQ calculation and review regime has been largely unchanged since introduction of Transco's Network Code in 1996.

While enhancements have been made to the relevant provisions, AQ derivation is fundamentally based on an annual review and re-calculation activity. Over recent years this process has come under increasing scrutiny. This has included challenges from some organisations over perceived inappropriate User behaviours during the amendment and appeal phases of the annual review. In addition, as described above a UNC Modification has been directed upon by the Authority and due to be implemented in 2012 which is likely to significantly increase the extent to which Users can manually intervene in the calculation of AQs. Further Modification Proposals have been recently raised proposing to introduce an AQ audit and to enhance AQ reporting information<sup>23</sup>.

Given the significance of the AQ in terms of UNC allocation and settlement arrangements, it is understandable that Users seek to ensure that the values are accurate as possible. However, the extent of current scrutiny has a consequential effect of increasing the manual effort necessary to administer the review process both for Users and for the DNOs agent. In addition, the level of manual intervention is known to constrain the capacity of the Transporters and Users computer systems.

Notwithstanding that the annual AQ review is well established and understood, DNOs believe it is timely that a periodic, likely to be monthly, 'rolling' recalculation of AQs similar to that originally identified and developed within the remit of UNC Modification Proposal 0209 be introduced, possibly as an early phase of implementation of the changes identified under the Project Nexus requirements gathering exercise.

DNOs view is that the monthly recalculation of AQs is consistent with identified changes to the allocation and settlement arrangements under Project Nexus and is sustainable as an enduring regime.

## Recommendations

It is recommended that this Modification Proposal proceeds to the Project Nexus Workgroup for assessment. This should involve a comprehensive review of the business rules, validation rules and legal text developed and provided under Modification Proposal 0209.

A reporting timescale of 6 months is suggested.

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<sup>2</sup> 0378 Greater Transparency over AQ Appeal Performance - <http://www.gasgovernance.co.uk/0378>

<sup>3</sup> 0379 Provision for an AQ Review Audit - <http://www.gasgovernance.co.uk/0379>

## 2 Why Change?

The AQ value assigned to each Supply Point forms the basis of much of the day to day operation of the UNC regime from capacity planning, energy balancing, settlement to individual and aggregate Meter Point reconciliation.

The accuracy of the information is therefore of significant importance to Users and DNOs. Under the current annual review process the AQ used as a proxy for future demand is, on average, 18 months old at the time it is used. Where consumption is changing this could constitute a significant commercial risk to Users and DNOs.

Users have stated that 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 the Smaller Supply Point (SSP) AQ.

In 2008 UNC Review Group 0177<sup>4</sup> provided a 'straw man' model for a monthly recalculation of AQs. E.ON and the DNOs agent, Xoserve developed a 'strawman' model which outlined how the AQ process would function on a rolling basis. Development work associated with Modification Proposal 0209 concluded in March 2009 and built on the recommendations of the Review Group. Detailed business and validation rules were identified following which suggested legal text was produced. Xoserve also provided indicative costs associated with a 'stand alone' implementation of a 'rolling AQ' regime as part of a Rough Order of Magnitude (ROM) impact assessment.

No further work has been undertaken with respect to Modification Proposal 0209. The UNC Modification Panel has previously determined that the Proposal should be subject to consideration within the remit of Project Nexus. However, there has to date been no detailed review of the Proposal within the Project Nexus (or any other) Workgroup.

DNOs believe that the potential benefits of a periodic AQ recalculation should be realised. Discussions within the remit of Project Nexus have shown that the AQ is a sustainable data item and is likely to retain its significance in any future allocation and settlement regime. Notwithstanding this, revised AQ calculation arrangements would be likely to deliver immediate benefits upon implementation and potentially eliminate longstanding issues with the existing regime. Consequently, DNOs' opinion is that development and implementation should be expedited as soon as reasonably practicable.

DNOs are aware that Modification Proposal 0209 was raised under now redundant Modification Rules and believe that this should now be replaced by a new Proposal which would then be taken forward under the new governance framework.

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<sup>4</sup> UNC Review Proposal 0177 Rolling AQ Review - <http://www.gasgovernance.co.uk/0177>

### 3 Solution

Under Modification Proposal 0209 the following documentation was produced:

- Detailed business rules<sup>5</sup>
- Validation rules<sup>6</sup>
- Legal text<sup>7</sup>

It is proposed that this be reviewed as to its currency and appropriateness for implementation in the light of recent industry developments. Examples of this are the increase in availability of remote reading devices and the advent of Smart Metering. In particular DNOs believe that the business rules associated with Supply Point Capacity specifically Supply Point Offtake Quantities (SOQs) are likely to change.

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<sup>5</sup> <http://www.gasgovernance.co.uk/sites/default/files/0209BusinessRules10.pdf>

<sup>6</sup> 08 January 2009 Final Validation Rules - <http://www.gasgovernance.co.uk/0209/030309>

<sup>7</sup> 0209 Rolling AQ legal text v2.0 15/05/2009 - <http://www.gasgovernance.co.uk/0209>

## 4 Relevant Objectives

The Proposer believes that implementation will better facilitate the achievement of **Relevant Objectives a, b, c, d, e 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.	Yes
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.	Yes
c) Efficient discharge of the licensee's obligations.	No
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
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.	No
f) Promotion of efficiency in the implementation and administration of the Code	Yes

### ***Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;***

AQs form the foundation of many of the planning and system security activities of Transporters. Consequently improving the accuracy of AQs is likely to improve the ability of DNOs to operate the pipeline system in an efficient and economic manner. More frequent calculation of AQs may provide DNOs with a more 'real time' view of demands placed on their respective systems. However, the realisation of such is entirely dependant on the frequency with which Valid Meter Readings are submitted by Users which are able to be utilised in the calculation of AQs. Notwithstanding this, for peak capacity planning purposes, most decisions are made several years in advance of the actual flows (to enable system reinforcement to be undertaken if necessary) and so the provision of more frequently recalculated AQs each month may be of limited benefit.

### ***Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or***

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***(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 subparagraphs***

***(a) and (b), the efficient discharge of the licensee's obligations under this licence;***

Increased accuracy of AQs, as a result of implementation, could increase certainty of the derived peak load forecasts. This would enable improved capacity and storage planning as required under the GT licence. Improvements in cost targeting would also be consistent with the achievement of this objective.

Notwithstanding this, the large majority of use of system costs relate to the provision of capacity within the system. The provision of updated AQs month-by-month is not necessarily beneficial to the estimation of peak capacity several years in advance and so the Modification Proposal may not provide any significant benefits in support of the provision of a cost-reflective transportation charging methodology.

***Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs***

***(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 AQs would ensure that energy is allocated more accurately on the original commodity invoice and minimise movement of energy between market sectors through reconciliation. This could be expected to minimise risk for Users having Smaller Supply Points (SSPs) through Reconciliation by Difference (RbD) and reduce costs associated with Individual Meter Point Reconciliation for all Users. It is expected that this would facilitate competition between relevant Users, minimise uncertainty for new market entrants and increase revenue certainty for DNOs. Improvement in accuracy of AQs and consequently SOQs could also improve cost targeting.

Measures which enable costs to be apportioned based on consumption information, which is more recent, increases cost reflectivity in respect of such throughput-related costs, which may in turn facilitate competition. However, under transportation charging arrangements, it should be noted that commodity-related charges, reflecting throughput-related costs, comprise only 3.5% of the DNO transportation charge total.

***Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs***

***(a) to (d), the 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;***

This Modification Proposal would not provide any additional incentives on suppliers above those already present. However, it is likely to ensure that more accurate AQs

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are recorded. Some Users consider that SSP AQs are overstated, and therefore this Modification Proposal could render it easier for suppliers to meet their supply security standards.

***Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;***

Implementation of this Modification Proposal would be consistent with the efficient administration of the UNC. Given that the recalculation of AQs occurs at an increased frequency, the likelihood of a new AQ value being calculated (as opposed to 'rolling over' a value calculated in a previous period) is increased subject to appropriate Meter Reading performance.

## 5 Impacts and Costs

### Costs

Indicative industry costs – User Pays
Classification of the proposal as User Pays or not and justification for classification
This Proposal is not classified as User Pays.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
Not applicable.
Proposed charge(s) for application of Users Pays charges to Shippers
Not applicable.

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

Not applicable.

## Impacts

### Impact on Transporters' Systems and Process

Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"><li>• Significant</li></ul>
Operational Processes	<ul style="list-style-type: none"><li>• Significant</li></ul>
User Pays implications	<ul style="list-style-type: none"><li>• None</li></ul>

### Impact on Users

Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"><li>• Significant</li></ul>
Development, capital and operating costs	<ul style="list-style-type: none"><li>• Significant</li></ul>
Contractual risks	<ul style="list-style-type: none"><li>• Low</li></ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"><li>• Significant</li></ul>

### Impact on Transporters

Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"><li>• Significant</li></ul>
Development, capital and operating costs	<ul style="list-style-type: none"><li>• Significant</li></ul>
Recovery of costs	<ul style="list-style-type: none"><li>• To be identified</li></ul>
Price regulation	<ul style="list-style-type: none"><li>• None</li></ul>
Contractual risks	<ul style="list-style-type: none"><li>• Low</li></ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"><li>• Significant</li></ul>
Standards of service	<ul style="list-style-type: none"><li>• None</li></ul>

### Impact on Code Administration

Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"><li>• Not applicable</li></ul>
UNC Committees	<ul style="list-style-type: none"><li>• Not applicable</li></ul>



### Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

### 0565 Transco Proposal for Revision of Network Code Standards of Service

at the following location:

<http://www.gasgovernance.com/networkcodearchive/551-575/>

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Impact on Code Administration	
General administration	• Not applicable

Impact on Code	
Code section	Potential impact
See suggested legal text	High

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)	Yes
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

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## 6 Implementation

The implementation timetable would be likely to reflect system and process development timescales in the context of developments arising from the Project Nexus requirements gathering exercise.

## 7 The Case for Change

*This section allows further development of the case than is included in the earlier summaries*

In addition to that identified the above, the Proposer has identified the following:

### Advantages

- Is consistent with and facilitates the future UNC allocation and settlement regime under development within Project Nexus.
- Improves cost targeting by increasing the accuracy of capacity charges and energy allocation.
- Potentially reduces Reconciliation by Difference (RbD) volumes by allocating energy to the correct market segment.
- Smooths current workload associated with the annual AQ review process.
- A number of Users have previously identified significant cost benefits but these are subject to commercial confidentiality. It is understood that those Users would be willing to share this information on a confidential basis with the Authority.
- Offer benefits to dual fuel Users if they can save costs by replicating IT systems for electricity and gas.
- Facilitates improved data quality.
- Encourages more Meter Readings to be submitted.
- Consumers should benefit from more accurate bills as when Meter Reading history is poor, bills are estimated based on AQs. Consequently more accurate AQs should result in more accurate bills.

### Disadvantages

- Extensive systems and process development may mean that the benefits of a periodic AQ recalculation regime are unlikely to be realised quickly.

## 8 Legal Text

*Text, either suggested or formal, should be inserted at this point. The status of this text should also be stated.*

## 9 Recommendation

The Proposer invites the Panel to:

- DETERMINE that Modification Proposal 0380 progress to the Project Nexus Workgroup for consideration.

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