

**Work Programme**  
**UNC Modification Reference Number 0177**  
**Rolling AQ Review**  
**Questionnaire**

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Organisation: **National Grid Distribution**

Stakeholder Group (if any): **Transporter (DNO)**

**Current AQ Process**

Indicate the extent to which you view these characteristics of the current process to be an issue.

(a) Resources to support peaky nature of review.

**Medium issue.**

**xoserve drafts in additional resources to manage the additional workload. This is to address manual analysis of all Smaller Supply Point threshold crossers and all Larger Supply Points.**

(b) Number/proportion of uncalculated AQs in Annual Review.

**'Medium' issue.**

**A high number of such is an indicator of lack of adherence to cyclic read obligations in the UNC and is therefore of concern as this will increase the risk of mis-allocation via the RbD methodology. Around 4 to 5 million meter points do not re-calculate each year with approximately 75% due to the absence of sufficient meter readings.**

(c) Cumbersome nature of changing AQs outside the amendment window.

**No issue.**

**We do not view the change method as cumbersome. It merely has inherent controls which are in place to minimise the risk of erroneous values which would have a detrimental impact on the integrity of the charging regime. With a robust periodic review of AQ based on accurate data there should be little requirement for AQ change outside the review period.**

(d) Large step change in demand each 01 October.

**Small issue.**

**We would view this as a natural consequence of an annual review of demand levels. As the AQ reflects retrospective demand, it is natural that there will be a fluctuation in consumption between individual Supply Points influenced by many different factors. That said, the change impacts volume driven projected revenues.**

(e) Risks to RbD shippers associated with delays in changing AQs.

**National Grid is not able to speculate on such risks.**

(f) Potential gaming opportunities eg through selective targeting of reads.

**'Medium' issue.**

Historically Transco and latterly National Grid Transco and National Grid have supported the industry in the implementation of commercial terms which minimise the opportunity for the introduction of inaccurate AQs to the Supply Point Register. Despite the presence of these terms, overall the majority (70%) of amendments requested are for reduction of the proposed AQ. *Though not in direct contravention of the UNC, this may be viewed as not within the spirit of the rules.* We believe it is important to maintain vigilance in this area.

## Resources

- 2 Would you be able to quantify the resources benefit from moving to a rolling AQ process that would be expected to produce a more even annual workload?

*Whilst an estimate of savings that xoserve would make in terms of manpower can be made, savings need to be offset by the cost of implementation.*

- 3 If so would you be able to provide this information:

(a) Directly to the Review Group for consideration?

(b) To a trusted party for the purpose of providing the Review Group with aggregated information?

*NGD would prefer to provide this data in response to the formal consultation phase for any subsequent proposal raised following conclusion of the Review Group. Our analysis would additionally include Transporter system costs.*

*To undertake such analysis, further clarification would be necessary in respect of the frequency and processes to be applied upon each AQ change, for example is there an amendment window open following each calculation.*

## Uncalculated AQs

- 4 What benefit would be derived if the proportion of uncalculated AQs were reduced?

*Demand would be more reflective and in theory would therefore minimise the risk of mis-allocation via the RbD methodology. From a Transporter perspective, this would indicate greater adherence to cyclic reading obligations and minimise the requirement for the Transporter to procure must reads.*

- 5 Do you believe that a rolling AQ process would serve to reduce this proportion and if so how?

*The uncalculated population will only reduce if a greater level of adherence to cyclic reading obligations is achieved by Shippers.*

### **Current Change Process Outside the AQ Window.**

- 6 To what extent does the current nature of the change process inhibit you from making changes outside the AQ window?

National Grid is not able to speculate on such.

- 7 If a faster process than the current confirmation based process were available, would you make more changes outside the AQ window?

National Grid is not able to speculate on such.

- 8 If a simpler process than the current confirmation based process were available, would you make more changes outside the AQ window?

National Grid is not able to speculate on such.

- 9 If a process that didn't involve changes in confirmation number were available, would you make more changes outside the AQ window?

National Grid is not able to speculate on such.

### **Step Change Issue**

- 10 Identify the adverse consequences in large step changes in AQ on 01 October each year.

National Grid may be required to review projected transportation income figures to ensure that actual income is in line with, and does not exceed allowed revenue.

- 11 Short of moving to a full Rolling AQ review, are there any other ways in which this issue might be alleviated, and if so what are they?

Specific to DNOs, the introduction of a capacity biased charging regime (95/5 split) would reduce the susceptibility of the overall allowed revenue to seasonal demand of step changes in demand.

The AQ Review could be more frequent, for example quarterly or monthly. Or there could be reviews of AQs at different times of the year based on geographical splits or by market sector. Alternatively, 'Rolling AQs' could be made effective on a monthly basis. (I.E. New AQs go live on 1<sup>st</sup> of each month. The costs of a daily processing frequency may be prohibitive.)

### **Risks and Gaming**

- 12 Identify the extent (eg major, moderate, minor, none) and nature of the perceived risk due the additional time-lag between reading and AQ adjustment that is associated with an Annual Process.

None from a Transporter perspective.

- 13 Short of moving to a full Rolling AQ review, are there any other ways in which this risk might be mitigated and if so what are they?

N/A.

14 Do you believe there is still a substantial issue with shippers gaming through targeting of reads?

No not currently.

15 If so:

(a) Do you believe that a rolling AQ process would serve to alleviate the issue and if so how?

In absence of any detailed proposal we are concerned that a more frequent or rolling review is likely to reduce the overall levels of validation applied to revised values. The existing annual review scrutinises shipper behaviour in that we are able to quantify amendments and which direction (increase or decrease) the AQ was amended for example. A rolling AQ Review environment however may not afford the time to apply this level of analysis. If AQ amendments were requested within the system tolerance/parameters this would not be questioned.

(b) Is there anything short of moving to a full rolling AQ review, that might alleviate this issue and if so what?

The restriction of the ability to amend AQ values or stricter application of UNC terms requiring Shippers to submit balanced amendment requests i.e: both up and down.

## Validation

16 Do you agree that as part of moving to a rolling AQ, much of the current validation processes would no longer apply?

We do not agree. We believe that the existing validation (and maybe advanced validation) would need to apply. The majority of this would need to be systematised to achieve the anticipated cost savings.

17 If so:

(a) Do you consider this to be a substantial issue?

Yes. AQ values which are not subject to validation are often incorrect. The validation currently employed would need to be applied to the current process but be systematised. This entails a cost but would be necessary to ensure accurate Aqs. More frequent calculations of AQ will not result in a more “robust” AQ in absence of sufficient validation.

(b) Can you suggest ways in which some validation might still apply and if so what?

Systematisation of current xoserve checks. Plus enhanced checks, for example exclusion of USRVs from the calculations.

## Challenge Margin

- 18 Do you believe that changing to a rolling AQ should prompt a change to the current 20% margin for AQ challenges?

In theory, the lower this margin the more accurate the AQ becomes. In the current environment the 20% rule reduces workload for Transporters though a fully systematised environment would remove the requirement for any manual checks. A reduced threshold is an option.

- 19 If so, indicate:

- (a) The preferred margin.

We have no specific preference at present.

- (b) Whether or not it is due for change anyway.

There is no formal requirement for review. This margin is formalised within the UNC and any change would need to be made via a UNC Modification and therefore the industry must identify how such a change furthers the relevant objectives.

## Must Reads

- 20 Do you believe that changing to a rolling AQ should prompt a change to the rules on must reads?

The majority of uncalculated AQ are due to the absence of cyclic readings. Any increase in the obligations in respect of must reads should increase the number of reads available for the AQ Review.

- 21 If so, indicate:

- (a) The preferred changes to the rules.

The key area to address is in respect of Smaller Supply Points. Current rules require Smaller Supply Points to be read once every 2 years and a reduction in this period would lead to more reads being available to facilitate the review but we believe that the focus should be on Shipper adherence to cyclic reading requirements.

- (b) Whether or not the rules are due for change anyway.

The rules may change but the key is the practical difficulties of read procurement and consequently the likelihood of compliance.

## Frequency of AQ Update

- 22 If a change was made to a rolling AQ should the AQ be updated

- (a) Following acceptance of each meter reading?

One option is to only revise the AQ if the reading would result in a change greater than a given percentage. Whether or not the confirmation process was included, the notice period to apply the new AQ would need to be at least 8 days to allow reflection of the amended value in Transporter systems.

(b) At a lower frequency (if so, what and why)?

In terms of system processing it may be easier to gather all meter reads submitted (for instance) up to 20<sup>th</sup> of the month and make the resultant recalculated AQs live from the 1<sup>st</sup> of the following month. Requirements would need to be identified such as pre-notification to shippers of new AQ values. If this is the case this will require a file flow similar to a Supply Point Offer, although without the necessity for it to be followed by a confirmation. Another possibility is to carry out an AQ Review quarterly.