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Your Reference:UNC Modification Proposal 0421

UNC Modification Proposal 0421 'Improve AQ Performance'

Dear Bob,

Thank you for your invitation seeking representations with respect to the above Modification Proposal which National Grid Gas Distribution (NGD) would like to support.

Do you support or oppose implementation?

Support

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

We believe that the measures identified within this Modification Proposal identify a pragmatic and proportionate solution to an enduring issue within the gas industry being that of ensuring AQs are regularly recalculated.

We are impressed and encouraged by the extent to which the Proposer has sought to provide evidence underpinned by appropriate and comprehensive analysis in support of the Proposal and note the assistance provided by Xoserve in this respect.

Are there any new or additional issues that you believe should be recorded in the Modification Report

NGD has raised UNC Modification Proposal 0432 'Project Nexus – gas settlement reform'. This features extensive proposed changes to the Annual Quantity (AQ) regime. We believe that there have been little or no industry discussions and development concerning whether the arrangements proposed within Modification Proposal 0421 are required or would be suitable for incorporation within a periodic AQ calculation framework. We would urge that this matter be addressed as soon as possible should a decision be made to implement this Modification Proposal.

Given the significance and innovative nature of this Proposal, if implemented we would suggest and expect that a thorough review of the outcome of the 2013 AQ Review be initiated at the appropriate time. This could include consideration of the level and appropriateness of the 'shipper charges'. Also

the success of the Proposal could be evaluated in the context of an AQ Performance Assurance framework although we do not consider such an arrangement could or should be developed until the potential benefit could be determined under a periodic AQ calculation regime as proposed under Modification Proposal 0432.

We would also anticipate that monitoring of AQ calculation performance would continue within the Xoserve AQ Operational Group.

Self Governance Statement:

Do you agree with the Modification Panel's decision that this should be a self-governance modification?

Not applicable.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

a) Efficient and economic operation of the pipe-line system.

We note the statement in the Draft Modification Report: "By driving more accurate AQs through incentivising update performance, Transporters will have a more accurate picture of customer demand. This in turn will be able to be factored into decisions on system capacity planning and investment". While we agree with the broad principle of this we note that such benefits to be marginal at best given the low significance of the AQ in this area.

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.

NGD notes the statement "At the present time there is a potential misallocation of significant sums of money in the application of transportation costs and through reconciliation by difference and it is not apparent that this is uniform across all Shippers in each market sector. This modification will address these issues, through promoting the timely update of AQ values and placing incentives on performance of AQ update". We broadly agree with this statement although it is unclear whether the level of the proposed incentive through the 'shipper charges' would be sufficient to discourage inactivity or inappropriate behaviours.

We further acknowledge the logic of the statement "In addition Shippers will address data anomalies, which stop sites with adequate meter readings from updating AQs and will encourage Shippers who are not providing sufficient meter readings to do so. This will have positive implications for customer billing and should help reduce the potential for Shippers to game the AQ Review process to their commercial advantage".

We note the comment "Should the provision of more frequent meter readings lead to more accurate AQs, this would allow Transporters to more accurately calculate and levy cost reflective transportation charges to the correct market sectors". We would challenge the accuracy of this statement on the basis that Transporters always seek accuracy and cost reflectivity of charges. We will do this based on the prevailing contractual regime and data made available to us.

Impacts and Costs:

Implementation costs would be incurred by Transporters as a consequence of implementing this Modification Proposal.

We note the comments in the Draft Modification Report "The costs of which will 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". We would strongly challenge the accuracy of this statement. The significance of AQ accuracy purely in terms of systems planning and investment is low. By far the greater role and function of the AQ is in the allocation and reconciliation of energy between Users having NDM Supply Points.

Consequently we support a User Pays arrangement based on a 100% User 0% Transporter split of charges and note that a proposed ACS change has been submitted based on this.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

Systems development work would be required to facilitate implementation of this Modification Proposal. Subject to the deliberations of the UK-Link Committee, a lead time of two months from Authority direction would be required.

Legal Text:

NGD has viewed the Legal Text as published by the Joint Office and is satisfied with the accuracy of its contents.

We note a minor typographic error as follows:

1.6.18

(e) in respect of each AQ Review User (in respect of the relevant AQ Review Year), the percentage (to two decimal points) of Larger Supply Meter Points within that AQ Review **Incentivized** User's Larger Supply Meter Point AQ Review Portfolio of which:

Is there anything further you wish to be taken into account?

No further matters have been identified.

We trust that this information will assist in the compilation of the Final Modification Report.

Please contact me on 01926 653541 (chris.warner@uk.ngrid.com) should you require any further information

Yours sincerely,

Chris Warner
Network Code Manager, Distribution