

Representation

Draft Modification Report

0421: Provision for an AQ Review Audit (previously 0379A)

Consultation close out date: 10 December 2012

Respond to: enquiries@gasgovernance.co.uk

Organisation: **ScottishPower Energy Management Ltd**

Representative: Marie Clark

Date of Representation: 10 December 2012

Do you support or oppose implementation?

Support

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

The rules currently contained within the UNC around the AQ Review process do nothing to promote the timely update of AQ values on an annual basis, or to incentivise improvements in data quality. Information presented by Xoserve at the AQ Performance Meeting on 28/11/12 reports that 619,931 SSP Meter Points and 18,228 LSP Meter Points with a Registered Shipper User have remained non-calculating for more than 12 months. The information provided by Xoserve was split by each AQ performance year and illustrated the number of Meter Points that had remained non-calculating within AQ year. There is currently a lack of adequate detailed performance measures around the AQ Review process. It is evident that some Shippers are not updating AQs on a large percentage of their portfolio each year and in some cases certain Meter Points are not updated for a number of years. Given that AQ values drive transportation and energy allocation and settlement costs this creates uncertainty for existing UNC parties and reduces confidence in the market for incumbent and new entrants alike. Within the Ofgem decision letter relating to the introduction of performance measures in relation to the resolution of User Suppressed Reconciliation Values (USRVs), it was stated "In considering this proposal we have noted with some concern the evidence suggesting that some USRVs remain unresolved for several years, in some cases stretching back to 2001. Suppliers are under licence requirements to read and inspect meters at least once every 2 years and we find it hard to understand why USRVs remain unresolved significantly beyond this window" ScottishPower therefore asserts that an incentive around AQ update performance is also needed to increase the accurate allocation of gas and transportation costs as it is of paramount importance that AQs are as up to date as possible given the key role that AQs (and by proxy SOQs) play in decisions on network requirements, capability and investment needs.

Introducing a minimum AQ performance standard of 85% within the UNC creates the correct incentive for Shippers to pro-actively manage their portfolio updates to Xoserve in a timely manner to permit AQ values to recalculate on an annual basis. Increased frequency of AQ updates and improved data quality will allow Transporters to allocate costs to the correct Shipper and market sector, in line with their Licence requirements.

For Shippers who fail to perform to the proposed AQ Performance target of 85%, Shipper Charges will be introduced and applied. Within Mod 141/141A decision letter Ofgem stated "We note the unsubstantiated view of the UNC141A proposer that the charges levied under UNC141 would be penal. The broad ranging support for this proposal from other respondents is that this is not a broadly held view..." Ofgem went on to state "On balance we consider the UNC141 will provide stronger, and more predictable, incentives to resolve USRVs than either the baseline or UNC141A. This should help to facilitate the accurate targeting of costs on those that cause them and help mitigate risks that errors will be smeared on the RbD community. This should help to reduce costs subsidies and increase market participants confidence that they will be settled on correct energy volumes"

We believe that the implementation of this Modification;

1. Improves network investment decisions by the Transporter, as AQ information will be more accurate and up to date.
2. Addressing data anomalies will give the Transporters a more accurate view of sites consuming gas on their networks and aid in understanding capacity needs.
3. Reduces or obviates the need for Transporters to undertake network reinforcement in areas of constrained capacity – thus ensuring that their networks are run both economically and efficiently.
4. Assists the Transporter in meeting their domestic supply security obligations. If AQs are not updating and are inaccurate, the Transporter has a false picture of demand needs of domestic customers in a 1 in 20 scenario and could therefore have a false expectation of gas requirements to meet the Licence requirement.
5. Ensures that consumers are not paying additional transportation costs for additional capacity investment driven by a false picture of demand through out of date AQs.
6. Provides greater assurance over Shipper activity in relation the whole AQ Review process, including the amendment and appeal phase.
7. Improvements in quality and accuracy of data held on the "Supply Point Register" which should aid the supply point transfer process.
8. Provides incentives on Shippers to address data anomalies, as set out within the Warnings Categories within the AQ Warning Reports.
9. Incentivises AQ update performance improvement, which in turn will make gas and transportation more accurate.
10. Incentivises LSP Shippers to submit meter readings, as they are obtained, ahead of the TO4 stage and that these are used to reconcile LSP sites and credit/debits are factored through RbD in a timely manner.
11. Places incentives on all Shippers to update more AQs on an annual basis and compensates Shippers who have met the performance target, but who, through no fault of their own, face the risk of costs associated with those sites with inaccurate AQs (from the Shippers who failed to meet the performance target).
12. Introduces an incentive mechanism of a similar nature and for the same reasons as the USRV process.
13. Introduces the first step to a much-needed Performance Assurance Framework in the gas market.
14. Brings increased consistency between the electricity and gas markets in relation to performance assurance. At present there is a 97% performance target in the electricity market.
15. Allows a grace period for new entrants. This Modification has been in development over the last 20 months and therefore should have allowed all Parties the opportunity to prepare for implementation and to put in place the necessary steps to address any performance issues that they currently have.

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

None

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

We believe that this modification facilitates the achievement of the UNC Relevant Objectives (a) (d) and (f)

a) Efficient and economic operation of the pipeline system.

AQ and SOQ information are of paramount importance to Gas Transporters, who utilise this information to forecast customer demand and assess network capacity requirements. In addition Transporters use this information in assessing and deciding future network investment requirements for system planning and Price Control purposes. The information is also paramount to the System Operator who uses it in determining the security of supply position. Transporters should therefore have a more up to date picture of offtake requirements to allow them to accurately allocate and settle transportation and energy costs to the correct market sector. Given the significant consequences of not updating the AQs and SOQs and the current lack of incentives on Shippers to perform to a minimum AQ performance standard, we believe that this presents an unquantifiable and unacceptable risk to Transporters in meeting their Licence requirement to operate the pipeline system economically and efficiently. In addition the poor standard of update also affects the Transporters' ability to service and accurately bill their customers (the Shippers).

In 2009, Scotia Gas Networks applied for a £28.4m Price control re-opener for 4 areas, as they had insufficient capacity to meet new demand. In their decision Ofgem disallowed two areas and £5m, as they believe that Scotia could gain/negotiate more accurate SHQs from customers to obviate the need for the additional investment. It is clear from this outcome that Ofgem recognise the need to have up to date (and hence more accurate) information which the Transporter can use in determining system capacity needs.

Each year, following the completion of the AQ Review, Xoserve produce information in the form of AQ Warning Reports of Meter Points that have failed to recalculate a revised AQ within the previous AQ Review period. A revision to the AQ can be made either via AQ appeal (for LSP sites only) or by Xoserve calculating a new AQ using valid meter readings (prior to the issue of the T04 file) or through Shipper amendment during the amendment window.

The following information has been provided to demonstrate the potential error in AQ and SOQ values which may lead Transporters to make inaccurate assumptions relating to network planning decisions. The number of Meter Points live with a Registered Shipper User which featured on the AQ Warning Reports (non-calculating AQs) for the AQ Review of 2011 and for 2012 was as follows:

AQ Warnings with Registered Shipper User					Recurring Warning		
	2011		2012			2012 Energy	
	Count of MPRNs	Energy TWh	Count of MPRNs	Energy			
SSP	2,134,516	29.105	1,798,056	Awaiting information from Xoserve	SSP	619931	Awaiting information from Xoserve
LSP	52,923	13.240	55,918		LSP	18228	

Source: Xoserve AQ Performance Reporting 2011 and 2012

Following completion of the AQ Review 2012, Xoserve reported that a large number of meter points remained non-calculating year on year (2005-2011) i.e. recurring AQ warnings SSP – 619,931 and LSP – 18,228. At the time of writing this consultation response the value of the energy associated with these Meter Points is unknown. However Xoserve has been requested to provide this information to the industry. In addition we believe that evidence is available within Xoserve systems of Meter Points with dubious Meter Point Status or Meter Status which prevent the AQ from re-calculating. Meter Points with a status of "Dead" and "Extinct" do not attract gas deemed allocation however Supply Point or meter read activity may be present. Addressing data anomalies will give the Transporters a more accurate view of sites consuming gas on their networks and aid in understanding capacity needs. If this modification is implemented it should have the effect of incentivising Shippers to address data errors.

ScottishPower has presented within our benefits case, information published by Xoserve on the numbers of non-calculating Meter Points and the energy associated. While this information may be fluid in that LSP Shippers have the ability to appeal AQ values throughout the Gas Year, it is clear from the data on recurring AQ Warnings that many AQs fail to recalculate year on year. Shippers do not have direct access to the information held within Xoserve systems, however Transporters do and Ofgem can request it. We therefore believe that Ofgem and the Transporters will have a greater insight into the benefits of this MOD, which may not be apparent to the rest of the industry at present.

The proposal to introduce a minimum AQ performance level of 85% with Shipper Charges being applied for failure to meet this level will introduce an incentive for Shippers to more proactively manage their portfolio and the update of AQs and SOQs to the Transporter. This in turn will provide Transporters with a more accurate estimation of customer demand and offtake. We believe that 85%

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should be viewed as a performance starting point and that year on year improvements should be an industry aspiration.

c) Efficient discharge of the licensee's obligations.

This modification will support all Transporters in meeting their obligations to maximise the accuracy of data supporting the AQ review process and associated performance by incentivising parties to update data for sites in a timely manner to ensure the costs are accurately reflected. While Shippers have obligations to update the Supply Point Register, Transporters have a role to maintain it. If Transporters become aware that information held within the Supply Point Register may be inaccurate or incomplete Transporters should proactively contact shippers and challenge the information held.

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.

Inaccuracies in AQ and SOQ values result in the misallocation of costs between Shippers and their Suppliers, as inaccuracy of the AQ values for the sites that are not updating factor straight into Reconciliation by Difference (RbD) volumes. Proactive management of Meter Point information which supports the AQ Review process is important to ensure that Meter Point AQs can be updated in a timely manner. Xoserve has presented information at the AQ Performance meetings which outlines that a large volume of Meter Points remain non-calculating year on year i.e. recurring AQ Warnings SSP – 619,931 and LSP – 18,228 (2005 – 2011).

Xoserve has reported via the recent AQ Performance meeting on 28/11/12, the undernoted AQ performance levels for 2012, which are significantly higher than those reported in previous years by Xoserve – this is because previous reporting did not include Shipper AQ amendments and appeals. The AQ Performance figures for 2012 include AQ appeals, Xoserve calculated and Shipper amendments:

LSP – 89.88%
SSP - 92.03%

Given the aggregate performance levels experienced, it would seem wholly acceptable that all Shippers have the ability to meet the 85% target, indeed on average the figure is already being met as detailed above. Xoserve reported that for the 2012 AQ Review 17 SSP Shippers and 9 LSP Shippers failed to reach an 85% performance level.

ScottishPower's benefits case to support Mod 421 demonstrates the potential sensitivity to the SSP market from inaccuracies in the LSP site AQs. Using Method 5 using Data set 2C (Applying % under/overstatement (Appendix 1, Method 5)) and taking a prudent approach i.e. +/- 5% adjustment in energy assigned against the LSP AQ Warnings Report 2011 translates to a under/overstatement of approximately 662GWh, £17.5m or £0.82 per SSP customer. However it is impossible to accurately state whether AQ movements will be positive or negative, but it is more probable that Shippers will have proactively targeted Meter Points with over-estimated AQ values in order to mitigate financial exposure and risk.

Within the electricity industry, Suppliers are required under the Balancing and Settlement Code to perform to a minimum 97% standard. Suppliers are audited against the achievement of a series of performance targets with financial penalties being applied for failure to reach the required standards.

Currently the UNC does not stipulate a minimum AQ Review Performance measure and therefore lacks appropriate incentives for Shippers to manage AQ and data updates in a timely and accurate manner. Introducing a minimum standard of 85% within the UNC creates the correct incentive for Shippers to pro-actively manage their portfolio updates to Xoserve in a timely manner to permit AQ values to recalculate. Increased frequency of AQ updates and improved data quality will allow Transporters to allocate costs to the correct Shipper and market sector.

Increased accuracy in cost allocation between market sectors and between individual Shippers will have a positive effect on competition and could encourage new entrants. New entrants will also have increased confidence that they will not be allocated energy volumes and costs which do not directly relate to their customers.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

ScottishPower will be assigned a share of the cost relating to the development of Xoserve reporting to support the implementation of this Modification.

Implementation:

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

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As this Modification has been in development for 20 months we believe that the Modification should be implemented with initial AQ Performance reporting calculated based on an individual Shipper AQ Review performance for 2012. This report can be used by Shippers as a benchmark against achieving the required 85% measure. AQ Review performance reporting and application of Shipper Charges will commence on completion of the AQ Review 2013.

Legal Text:

Are you satisfied that the legal text and the proposed ACS (see www.gasgovernance.co.uk/proposedACS) will deliver the intent of the modification?

As Proposer we believe that the legal text provided reflects the intended solution as outlined within the Business Rules of Mod 421.

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

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No