

Modification proposal:	Uniform Network Code (UNC): Greater Transparency over AQ Appeal Performance (UNC378)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office of Gas Transporters, Parties to the UNC and other interested parties		
Date of publication:	23 July 2012	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

The Annual Quantity (AQ) represents an estimate of the amount of gas to be off-taken at a Supply Meter Point during a period of one year³. AOs are used in a number of Uniform Network Code (UNC) processes, including the billing of energy, calculation of transportation charges and settlement of gas between users.

The UNC requires Gas Transporters (GTs) and Shippers to engage every year in a process to review AOs at Supply Meter Points, referred to as the AQ review process. Under this process, each year by 31 May for Smaller Supply Points (SSPs) and 30 June for Larger Supply Points (LSPs), GTs provide Shippers with a Provisional AQ for the Supply Meter Points in their portfolios. From these respective dates up to 13 August, Shippers have the ability to review the AQ values. This is the AQ Review period. The AOs are then confirmed by the GT on 14 September,⁴ and effective on 1 October (the start of the next Gas Year). This period is distinct from the AQ appeal window, which runs from when the GT confirms the new AQ until 31 July in the following calendar year. During this latter period, Shippers have the ability to challenge and amend the confirmed AOs for LSPs.

Modification UNC081⁵ introduced an obligation on GTs to publish information on the AQ Review Period. From October 2006, Xoserve⁶ has published an annual report (known as the UNC081 report) outlining, on a non-attributable basis, the activity during the AQ Review Period, which provides transparency over Shipper activity following the AQ review process⁷. However, unlike the arrangements for the AQ Review Period, there is no obligation on GTs to report on Shipper activity during the AQ appeal window.

The modification proposal

British Gas (the proposer) raised UNC378 in April 2011. The proposal seeks to increase the amount of data contained in the UNC081 report to provide greater transparency about the way in which Shippers use the AQ Review Period. The proposal seeks to include the following additional information in this report:

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ Referred to as the Gas Year.

⁴ The confirmed AQ will either be the Provisional AQ or the AQ provided by the Shipper.

⁵ UNC081 "AQ Review Process - publication of information", was accepted by the Authority on 21 August 2006 and introduced on 1 October 2006.

⁶ Xoserve is the agent for GTs and provides a range of centralised services to the gas industry in Great Britain.

⁷ Data in the reports include: the effect of the AQ recalculation, the number of amendments raised, the number of successful amendments made and the numbers of speculative calculations by Shipper in aggregate during the AQ review process.

1. The aggregate effect of AQ movement during the AQ Review Period, expressed in kWh by Shipper.
2. The number of increases and decreases in AQ made during the AQ Review Period, by Shipper, split by kWh movement bands.

In addition, the proposer notes that the current UNC081 report does not provide any data on AQ appeals made by Shippers outside the AQ Review Period. It is therefore proposed to introduce a separate report covering the AQ appeal window. This report would provide the same data as the current UNC081 report (similarly on a non-attributable basis), and would incorporate the proposed additions listed above.

The cost to develop the proposal is estimated to be in the range of £26,000 to £39,000. It is proposed that Shippers will pay all of the cost as the anticipated benefit will be largely in the Shipper market.

UNC Panel⁸ recommendation

At the UNC Panel meeting of 19 January 2012, seven votes were cast in favour of the proposal and three against. The UNC Panel therefore recommended that the modification be implemented. The views of the UNC Panel are set out in the Final Modification Report (FMR)⁹.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the final version of the FMR dated 11 July 2012. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC¹⁰; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties¹¹.

Reasons for the Authority's decision

We note that five of those who responded to the consultation were in support of the modification, two offered qualified support, two were neutral and one did not support the proposal. These stakeholders presented various views on the proposed modifications and where relevant these are discussed further below.

We have assessed the proposed modification against the UNC Relevant Objectives. We consider that this proposal will better facilitate the achievement of Relevant Objective (d) which is considered further below and is neutral when assessed against the other Relevant Objectives which are not considered further in this letter.

⁸ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

⁹ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at <http://www.gasgovernance.co.uk/>

¹⁰ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/index.php?pk=folder590301>

¹¹ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 (as amended).

We note that some members of the modification development workgroup considered that the modification, by increasing transparency on how Shippers are complying with the UNC, would better facilitate the achievement of relevant objective (f). We consider the impact of increased transparency is unlikely to be felt in the implementation and administration of the code under relevant objective (f). We consider the effect of increased transparency under relevant objective (d) as set out in further detail below.

UNC relevant objective (d) 'The securing of effective competition between Shippers'

The proposal would increase the availability and amount of information on the activity of industry participants during the AQ Review Period and AQ appeal window. The proposer argues that the proposal would see an improvement in the performance assurance framework around the AQ Review Period and AQ appeal window, which should lead to the industry having more confidence that the AQ review process and, in particular, the AQ appeal process are working effectively. This is likely to dissuade shippers from any potential misuse of the process and enable industry to better identify and resolve any misuse.

We agree that this additional information would enable industry participants to become more effective in scrutinising Shipper activity during the AQ Review Period and AQ appeal window, to the extent that it would increase Shippers discipline in using these processes properly. We further consider that the accuracy in cost allocation of transportation and energy charges (which are based on the AQ) in the gas market would improve. This should ultimately facilitate more effective competition between Shippers.

The respondent who did not support the proposal argued that it would add cost and complexity to industry processes for no appreciable gain, and may lead to unfounded accusations about Shipper activity. The respondent argued that the additional information provided would not demonstrate appropriate or inappropriate use of the current AQ review process.

We consider that increasing the level of information available to the industry could encourage industry participants to scrutinise Shipper activity more effectively and identify possible misuse. This would help to promote more effective performance assurance in the market. Nevertheless, we recognise that the reports in isolation may be insufficient to draw robust conclusions about how the AQ review and AQ appeal processes are being used and that, as discussed below, further measures may also be necessary.

For the reasons set out above, it is our view that the proposal is likely to better facilitate the achievement of relevant objective (d).

Further issues

Legal text

We note that the drafting of some parts of the FMR for UNC378 lacked clarity, which caused some initial difficulties in the drafting of the legal text. After discussions with the proposer and the drafter of the legal text, we are now satisfied that the legal text contained in the final FMR will give effect to the proposed modification.

Performance assurance framework

Several respondents raised concerns that the proposal does not provide a comprehensive change to the current performance assurance framework. In addition, one respondent considered the proposal would not assist in recording the full range of AQ amendments that take place, in particular amendments influenced by meter readings submitted prior to the T04 stage¹².

We have signalled in the past¹³ that we would support the establishment of a more robust set of performance assurance controls around the AQ and other UNC processes. This has yet to be accomplished. The continuing lack of progress is disappointing.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC378 '*Greater Transparency over AQ Appeal Performance*' be made.

Colin Sausman

Partner, Smarter Markets

Signed on behalf of the Authority and authorised for that purpose

¹² T04 is the name of the file sent annually by xoserve notifying each shipper of a revision of the AQ. These files contain the Provisional AQs that GTs submit to shippers prior to the start of the AQ Review Period.

¹³ See, for example, our decision letters on UNC292 (available at <http://www.gasgovernance.co.uk/0292>) and UNC387 (available at <http://www.gasgovernance.co.uk/0387>)