Stage 02: Workgroup Report

At what stage is this document in the process?

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

0421 (0379A):

Provision for an AQ Review Audit

0421 (0379A) aims to introduce the a voluntary audit of Shippers, whose update performance in the AQ Review process is less than 85% of their portfolio (including amendments phase) and introduce incentives to improve AQ accuracy.

The Workgroup recommends that these modifications should now proceed to Consultation

High Impact:
Shippers

Low Impact:
Network owners

Contents

About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 21 June 2012, on whether Modification 0421 (0379A) is sufficiently developed to proceed to the Consultation Phase and to submit any further recommendations in respect of the definition and assessment of this modification.

Any questions?

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1 Summary

Is this a Self-Governance Modification

The Panel have determined that this modification does not meet the self-governance criteria.

Why Change?

The AQ Review process helps assign £billions of cost in the gas market and any issues or misuse of it can therefore have a material impact on the accuracy of cost allocation and therefore consumer's bills. Both proposers believed that the current controls on Shipper's use of the AQ Review process are not proportionate to the potential damage that would be done to competition were the process to be misused.

The Workgroup agree that there should be more robust controls around the AQ Review process, not just the amendment phase, but the process overall.

Over the past four years average performance by SSP and LSP Shippers has constantly fluctuated around 83% and 65%[1] respectively. This means that over the past four years there has been 17% of the SSP market not updating AQ and more significantly 35% of the LSP market.

The need to introduce an appropriate AQ performance target is substantiated by information recently presented at the xoserve Customer Operations Forum (6th March) on Mod 640 End of Year Reconciliations (SSP to LSP movements) reported that invoice reconciliations of circa. £30m will be applied in March 2012 (period from 1/10/10 – 1/10/11). This value has increased from £10.3m for the previous Mod 640 reconciliations. It has been reported that the number of Supply Points crossing the threshold (73,200kWh) has increased substantially (approximately 42%) within the last Mod 640 reconciliation period.

Although Scottish Power appreciate the intent of the British Gas modification, they do not consider that it represents the best solution for ensuring robust and up to date AQs are derived through the AQ review process, and it limits accuracy of AQ which are ultimately used to allocate Shipper costs

Solution

This proposal will introduce a requirement for Shippers to have AQ performance levels to result in at least 85% (subject to periodic review) of their AQs (SSP and LSP portfolios individually) updating during the Review process. This would include those sites, which update by the T04 stage, have been subject to successful AQ Appeal activity, and those sites where the Shipper has proposed a successful AQ amendment. For the avoidance of doubt the performance would take into account all sites in the Shipper portfolio including vacants, dead and capped etc[2]. Current UNC Metering Reading performance obligations (UNC, Section M 3.4 & 3.5) require that for Monthly Read sites a meter reading must be submitted not less frequently than once every 4 calendar months. For Annual Read sites meter reading performance should not be less than 70% within 12 months and 90% within 24 months. While the AQ performance target has been set initially at

[1] As per Xoserve Operational Forum presentations November 2010.

[2] As dead and capped do not update the inclusion of these sites would reduce a Shipper's AQ update performance

Where can I find more information about how the AQ appeals process works?

The rules which govern the AQ appeals processes can be found in UNC section G, from paragraph 1.6 onwards. Link here.

85%, we believe that the cumulative effect of meter reading submissions should have permitted a build up of meter reading history and therefore should not prevent individual Shipper from performing to this AQ target level.

If a Shipper does not achieve an 85% or more performance level on their SSP and LSP portfolios individually, the Transporters would notify the individual Shipper(s) of their performance level and should the Shipper elect to engage with an Auditor, the Shipper would be required to meet the cost of that audit. A list of Gas Industry Consultants/Auditors will be established. The auditor would work for the Shipper/Supplier to understand their meter reading strategy, meter reading submission process and AQ Review approach, including their approach to amendments, and in the case of LSP sites, their appeals. The auditor would then recommend an improvement plan for the Shipper, to aid them achieving the 85% performance level. An audit report would be produced and provided to Ofgem for information. Ofgem would then be afforded a new opportunity to have insight into the reasons why a Shipper is failing to meet the 85% performance level.

If at the following year's AQ Review the Shippers performance was still below the 85% level, then the Transporter would apply "Supplier Charges" and the Shipper may elect for another audit to be undertaken , again with the Shipper paying for this. The level of "Supplier Charges" would be applied in accordance with the values contained within the Business Rules. Charges would be applied per meter point, where the Shipper/Supplier's update of AQ has been below 85%, for all meter points where the AQ has not been updated (including dead, capped etc) e.g. a Shipper who achieves 84% performance in the SSP sector would pay charges based on 16% of their NDM meter point count. The rationale being that those NDM Suppliers who have met the 85% performance level should receive the re-distribution of the Supplier Charges, based on their market share amongst those Shippers who have met the AQ performance level. For the avoidance of doubt the cost faces by the Transporter Agent (Xoserve) for running the scheme and creating monitoring reports would be met by those Shippers who were subject to audit. Such costs will be in equal proportion based on the number of Shippers to be audited.

Impacts & Costs

Modification 0421 (0379A) will place a requirement on the Transporter to calculate AQ update performance by Shippers ID which would be provided to the Industry on an anonymous basis. A report would be issued with the Mod 81 reports with Shippers progressive performance levels. The final Mod 81 report would include Shippers final position in achievement of the AQ performance target. Once it is known which Shippers fail the target level the Transporter will notify those Shippers who can elect to appoint a Gas Industry Consultant/Auditor from an approved list. It is expected that costs will be incurred by the Transporter in producing this report.

The only other costs would be placed on those Shippers, whose performance is below 85% in each AQ Review. This would therefore provide an incentive for Shippers to invest in data quality measures and therefore drive more accurate allocation of gas and transportation costs. It would also bring parallels between gas and electricity, where performance is driven through incentives in meter reading and settlement and Supplier Charges for poor performance are also applied.

Implementation

The Workgroup consider it is important that the implementation date should be [before 1st November 2012 so that audits can be carried out on the 2011 AQ Review.]

The Case for Change

Scottish Power believe that the rules currently contained within the UNC around the AQ Review process do nothing to promote the update of AQ values on an annual basis. The poor overall industry performance is evidence of this situation, with the LSP market typically updating 65% and the SSP market typically updating 82%. They therefore believe that an incentive is needed to assure the accurate allocation of gas and transportation costs. Given the 65% performance in the LSP market it is unclear whether LSP sites are using readings to reallocate costs in time before the close out period of. Scottish Power have asked *the Transporter* for information on this and expect this to be discussed as part of the assessment process.

Recommendations

[The Workgroup considers that the Modification is sufficiently developed and should now proceed to the Consultation Phase.]

2 Why Change?

Context

In the Non-Daily Metered (NDM) market the allocation of gas costs are allocated based on an estimate of how much gas a site has used. These estimated costs are then aggregated up for all the sites on a Shipper's portfolio to calculate the charges that Shipper is liable for.

The estimate referred to above is known as the Annual Quantity (AQ) value, and it is derived from historic consumption at a site. As with any other estimate bases on historic information, the AQ is not absolutely accurate and therefore the AQ Review process exists to allow Shippers to correct any material variations between the AQ and the consumption they see at the site. Scottish Power also highlight that the AQ will never reflect future usage.

Under the AQ Review rules, as set out in section G of the UNC (G1.6.3), the Transporter will notify the Shipper of the proposed AQ values for each site, based on the meter reading information sent to the Transporter throughout the year. The Shipper then has the right to amend the AQ, where in the case of a Smaller Supply Point it considers that the Provisional Annual Quantity should be greater or lesser than the Provisional AQ notified by the Transporter by not less than 20%% (revised to 5% as a result of the implementation of Mod 292). In respect of any Large Supply Point there is no such tolerance. (ref UNC 1.6.4 (a))

There are conditions as to when a Shipper is permitted to submit an amendment. These are outlined in UNC 1.6.4 (b), which states that the Shipper must reasonably consider that the Transporter's calculation of the Provision AQ is derived from either Meter Readings that are incorrect or were taken prior to Meter Readings available to the Shipper or where there are materially incorrect details used for the relevant Supply Meter Point.

Importantly, Shippers have an obligation to ensure that in the AQ Review they have applied a methodology which is consistent across their Supply Points, they have been even handed in their submission of AQ amendments – whether they be increases or decreases – and that it has not been selective over the AQs which it has finally appealed.

The resultant AQs, which are established during the AQ Review process are used to allocate gas and transportation costs across the industry for the next twelve months from October each year. It is therefore imperative that the AQs are accurate and that there are adequate controls in place to ensure that there is no "gaming" of the process for commercial advantage.

The risk arising from misuse of this process is material: £billions of cost is allocated through the AQ process each year and we calculate that were a Shipper with a 10% NDM market share to avoid just 1% of their costs through misuse of the AQ Review process, the misallocation of costs would be worth ~£6.5m[3].

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[3] Assuming approximate SSP aggregate AQ of 328 TWh at an average cost of approximately £20m p/TWh, or £6.5bn total value. 10% share of this cost is therefore approximately £650m, with 1% of that cost valued at approximately £6.5m.

Despite the significant impact of the AQ Review process, and the impact that would arise from any misuse of it, the controls around it are inappropriately weak. British Gas consider it a major flaw in industry governance that, given the amount of cost, which the process allocates, in the NDM market, there is no provision for an audit of Shipper behaviour.

The need to introduce an appropriate AQ performance target is substantiated by information recently presented at the Xoserve Customer Operations Forum (6th March) on Mod 640 End of Year Reconciliations (SSP to LSP movements) reported that invoice reconciliations of circa. £30m will be applied in March 2012 (period from 1/10/10 – 1/10/11). This value has increased from £10.3m for the previous Mod 640 reconciliations. It has been reported that the number of Supply Points crossing the threshold (73,200kWh) has increased substantially (approximately 42%) within the last Mod 640 reconciliation period.

3 Solution

This proposal will introduce a requirement for Shippers to have AQ performance levels to result in at least 85% (subject to periodic review) of their AQs updating during the Review process. This would include those sites, which update by the T04 stage, have been subject to successful AQ Appeal activity, and those sites where the Shipper has proposed a successful AQ amendment. For the avoidance of doubt the performance would take into account all sites in the Shipper portfolio including vacants, dead and capped etc. Current UNC Metering Reading performance obligations (UNC, Section M 3.4 & 3.5) require that for Monthly Read sites a meter reading must be submitted not less frequently than once every 4 calendar months. For Annual Read sites meter reading performance should not be less than 70% within 12 months and 90% within 24 months. While the AQ performance target has been set initially at 85%, we believe that the cumulative effect of meter reading submissions should have permitted a build up of meter reading history and therefore should not prevent individual Shipper from performing to this AQ target level.

If a Shipper does not achieve an 85% or more performance level, for their SSP and LSP portfolios separately the Transporter would notify the individual Shipper(s) of their performance level and should the Shipper elect to engage with an Auditor, the Shipper would be required to meet the cost of that audit. A list of Gas Industry Consultants/Auditors will be established. The auditor would work for the Shipper/Supplier to understand their meter reading strategy, meter reading submission process and AQ Review approach, including their approach to amendments, and in the case of LSP site, their appeals. The auditor would then recommend an improvement plan for the Shipper, to aid them achieving the 85% performance level. An audit report would be produced and provided to Ofgem for information. Ofgem would then be afforded a new opportunity to have insight into the reasons why a Shipper is failing to meet the 85% performance level.

If at the following year's AQ Review the Shippers performance was still below the 85% level, then the Transporter would apply "Supplier Charges" and the Shipper may elect for another audit, again with the Shipper paying for this. The level of "Supplier Charges" would be applied in accordance with the values contained within the Business Rules. Charges would be applied per meter point, where the Shipper/Supplier's update of AQ has been below 85%, for all meter points where the AQ has not been updated. E.g. a Shipper who achieves 84% performance in the SSP sector would pay charges based on 16% of their NDM meter point count. The rationale being that those NDM Suppliers who have met the 85% performance level should receive the re-distribution of the Supplier Charges, based on their market share and performance. For the avoidance of doubt the cost faced by the Transporter for running the scheme and creating monitoring reports would be met by those Shippers who were subject to audit. Such costs will be in equal proportion based on the number of Shippers to be audited.

0379A Business Rules – Provision of an AQ Review Audit

1. The calculation of AQ update performance will, subject to Business Rules 2 to 5, include all sites in a Shipper's portfolio, including: Capped, Clamped, Cut Off, Dead, Extinct, Faulty, Inactive, Live, Missing Meter, Other, Removed, Spin Capped and Unknown status, as held by the Transporter and reported on at the AQ Operational Forum in the Warnings Report at a national level, post

work carried out by the Transporter Xoserve shall extract portfolio data as at 30/9/YY.Sites that have been subject to any AQ Appeal activity (between 1/10/YY-1 and end of performance year YY), and as a consequence, have been successfully appealed (i.e. confirmation of AQ Appeal has been accepted) in the current Gas Year will be included within the 85% target.

2. New Connection sites established in the Gas Year in which the AQ Review is preformed can be excluded from the 85% target if they fail to re-calculate   For the avoidance of doubt, if a new connection established within the Gas Year in which the AQ Review is preformed does calculate it will be included in the calculation of the AQ update performance.
3. There is a requirement to take into account of portfolio activity by excluding meter points that have been gained and lost from a given shipper's portfolio.
4. The performance by Shipper would be calculated on a per Shipper ID on individual SSP and LSP portfolios basis and not by Licenced entity[4] and is the same level, irrespective of market segment.
5. If a Shipper does not meet the 85%[5] performance criteria they would be subject to an audit Performance will be derived to 2 decimal places i.e. 84.99% constitutes failure and would be subject to audit.
6. A grace period for "Supplier Charges" will apply from the point of application of the scheme, such that where performance is below 85% the Shipper will have until the completion of next Review to improve and achieve at least the 85%. If reporting at the next Review reveals that the Shipper has not improved sufficiently, then they will face charges as set out in Business Rule 19. The scheme grace period would only apply to a Shipper once and only be applicable in the first 5 years of the scheme.
7. New market entrants will not be subject to the scheme until after at least 12 months from the point of registering sites, as during that time the majority of their sites will be gains and they will have no meter reading history. New entrants will therefore be excluded from paying and receiving any charges in at least their first year and then will be subject to the same first year grace as other Shippers, if required. For the avoidance of doubt the grace period for a new Shipper would run back to back with the scheme's initial grace period, unless the new entrant achieves 85% performance in year one. If 85% performance is achieved by the new entrant in year one, then they will be included within the re-distribution of charges together with all other Shippers who have met the target.
8. The Transporter will provide, on an anonymous basis, interim AQ performance reports at the same time as the issue of the Mod 81 reports (1st July and 1st Aug) to inform Shippers of their progressive AQ amendment activity.
9. The Transporter would identify Shipper performance and indicate the number of Shippers where performance was below the 85% minimum standard and by how much (across their separate SSP and LSP portfolios . This report would be provided to industry on an anonymous basis at the same time as the MOD081 final report showing industry performance and would include all shippers. For the avoidance of doubt xoserve shall not be required to provide individual reports to each Shipper.
10. Prior to the issue of the MOD081 reports the Joint Office would invite each Shipper and Transporter to nominate up to three (3) Gas Industry Consultants/Auditors to appear a Listed Gas Industry Consultant/Auditors and the Transporter/Shippers must nominate these to the Joint Office

[4] This mirrors the BSC electricity process around performance assurance.

[5] 85% has been chosen, as it represents an improvement in the current SSP performance rate and will see a significant increase in LSP performance, brining it more in line with current SSP performance [83%]

11. The list of proposed Gas Industry Consultants/Auditors will be collated by the Joint Office and provided to the Uniform Network Code Committee for them to consider. The UNCC will consider the list of proposed Gas Industry Consultants/Auditors and will endorse or decline to endorse the individuals/companies by considering the appropriateness of their expertise. A list of endorsed Gas Industry Consultants/Auditors will then be established.
12. Prior to a Gas Industry Consultant/Auditor being placed on the Listed Gas Industry Consultant/Auditor list the Joint Office will request them to confirm in writing to the Joint Office and the nominating party their desire to be registered as a Listed Gas Industry Consultant/Auditor or not. Should the Gas Industry Consultant/Auditor wish to withdraw from the list they will notify their request to the Joint Office.
13. Once it is known which Shippers have failed the AQ Performance target the Transporter will notify those Shippers. who can elect to appoint a Gas Industry Consultant/Auditor from the approved List The Shipper will then appoint and contract with one of the organisations/individuals listed on the UNCC approved list. The payment of the Consultant/Auditor will be the responsibility of the Shipper.
14. For the avoidance of doubt the "auditor" engaged by the Shipper subject to an audit requirement would be merely aiding the Shipper in improving performance and will not be held responsible for improving the performance of the Shipper (and the relevant Supplier).
15. The scope of the audit would include but would not be restricted to:
    a. A review of the approach taken by the Shipper (and the relevant Supplier) to the AQ Review and how amendments have been determined for both SSP and LSP sites (and in the case of an LSP Shipper (and the relevant Supplier) the appeals)
    b. A review of processes, and that they are managed in line with UNC requirements:
        i. Meter reading strategy, validation and submission
        ii. Meter exchange strategy, validation and submission
        iii. Data exceptions for reads, exchanges, disconnections, reconnections, new connections and their resolution
        iv. Vacant site management process
        v. Isolation and withdrawal process[6]

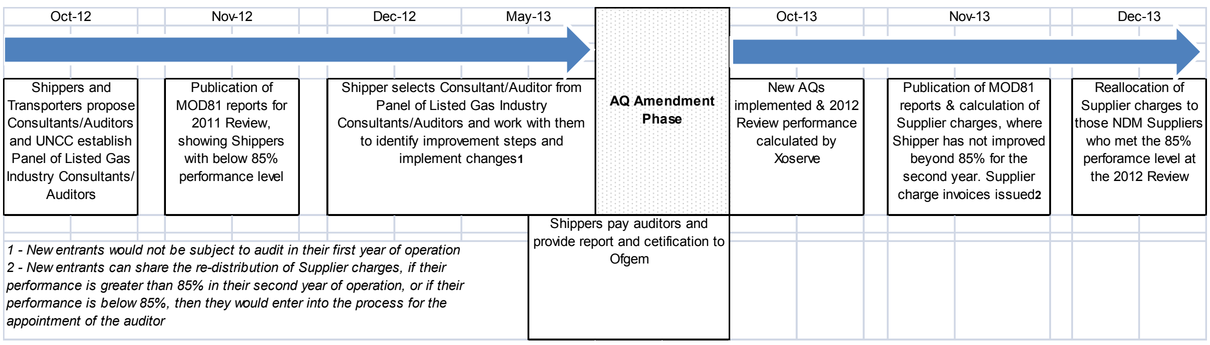
    The Gas Industry Consultant/Auditor will also highlight within their audit report where the UNC requirements have not been met.
16. The audit reports created by each auditor against the Shippers (and the relevant Supplier) who did not make the 85% update performance would be provided to Ofgem for their information. The Shipper (and the relevant Supplier) who is subject to the audit should have received sufficient information and guidance to enable them make changes to their processes to allow their AQ performance to improve by the next AQ Review.
17. If at the time of the next AQ Review the Shipper (and the relevant Supplier) has not improved performance, then "Supplier Charges" will be applied to them.
18. "Supplier Charges" will be levied on the basis of an appropriate incentive charge in accordance with the undernoted

    SSP sites = £20
    LSP sites = £512

[6] For the avoidance of doubt this list is not conclusive

19. Where a Shipper’s performance is below the 85% AQ update level after the grace period, and in the case of a new entrant the second grace period, Supplier Charges will be applied. The “Supplier Charge” will be calculated separately by SSP and/or LSP portfolio taking into consideration the requirements of Business Rules 1-5 The charges to those Shippers who have failed to meet the performance criteria will be issued on an ad-hoc invoice as a one off charge in the next available invoice.
20. There will be a re-distribution of the “Supplier Charges” to all of those NDM Shippers who have had achieved 85% and above performance (with the exception of new entrants in the first two years, if applicable). The total value of charges will be distributed to NDM Shippers on the basis of market share (based on number of eligible MPRN’s), relative to all those other Shippers/Suppliers who have met or exceeded the 85% performance level.
21. The re-distribution will take place in the next available invoice.
22. Where there are no Shippers who meet the 85% performance level or all Shippers meet the 85% level there will be no charges applied and any costs incurred by the Transporter will be smeared across the industry on the basis of market share. For the avoidance of doubt in the first year of the scheme, where monitoring takes places, but there are no Supplier charges applied any costs incurred by the Transporter will also be smeared across the industry on the basis of market share (based on volume of MPRN’s) as at 1st October of the Gas Year following the AQ Review.
23. For the avoidance of doubt Daily Metered and Unique Sites will be excluded from this process.

The process is demonstrated in the chart on the following page.



4 Relevant Objectives

Impact of the modification on the **Relevant Objectives:**	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
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.	None.
c) Efficient discharge of the licensee's obligations.	None.
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.	Positive
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.	None.
f) Promotion of efficiency in the implementation and administration of the Code	Positive
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators	None

The Workgroup consider that:

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

Implementation of Modification 0421 (0379A) may drive more accurate AQs through incentivising update performance as Transporters will have a more accurate picture of customer demand. This in turn will be able to be factored into decisions on system capacity and investment.

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.

The provision of an audit mechanism around the AQ review process will give the industry more confidence that the process is working effectively, that Shippers are adhering to both the rules and spirit of the UNC in relation to the Review Process. In addition it will dissuade Shippers from any potential misuse of the process, during the amendment and appeal window and prior to the AQ Review commencing (pre-T04 stage) and better enable the industry to identify and resolve any misuse.

It is considered that this in turn will ensure that cost allocation in the gas market will be as accurate as possible thus facilitating effective competition between Shippers.

Under Modification 0421 (0379A) the option for any Shipper who has less than 85% performance to undertake a voluntary audit and work with the auditor to come up with a plan to improve performance it will ensure that more AQs update on an annual basis and that costs applied through allocation are more accurate. This will ensure more accurate allocation and apportionment of cost.

f) Promotion of efficiency in the implementation and administration of the Code

The modification should provide greater transparency over the degree to which Shippers are compliant with the existing Code obligations, thus facilitating efficiency in the implementation and administration of the Code.

5 Impacts and Costs

Consideration of Wider Industry Impacts

This modification is unlikely to have wider industry impacts.

Impacts

Both modifications will impact both Shippers and Network Owners. Network Owners will need to procure or provide the audit service and Shippers will bear the costs associated with that.

Costs

Indicative industry costs – User Pays
Classification of the modification as User Pays or not and justification for classification
User Pays since the Transporter Agency will face additional costs.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
Shippers and Transporters will share the cost of the set up the requirements for the MOD e.g. establishing reporting capability, establishing a Panel of Gas Industry Experts/Auditors. 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. The operational cost of the modification will however be met by those Shippers who fail to achieve the performance level of 85% on an equal share basis, for example if there are 5 Shippers who fail to meet the performance level, then they will each pay a proportion of the costs for each meter point that fails to meet performance to cover the costs of running the arrangement. The costs here will be those that Transporter incurs see for dealing with producing actual reports and administering the collection and re-distribution of payments associated with performance.
Proposed charge(s) for application of Users Pays charges to Shippers
TBC
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve
TBC

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact

UK Link	• TBC
Operational Processes	• TBC
User Pays implications	• TBC

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• Shippers facing an audit will need to provide operational support and other resource, as necessary, for the duration of the audit.
Development, capital and operating costs	• Those Shippers who failed to meet the performance level may have increased operating costs, but these would be line with the costs of those Shippers who are currently meeting the performance level and therefore will only serve to put the Shippers on an equal footing. There may be a capital investment required, but again this will be to address the Shipper's shortcomings.
Contractual risks	• None.
Legislative, regulatory and contractual obligations and relationships	• None.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	• This modification will be beneficial to system operation, as it will drive more accurate and up to date AQs and will therefore ensure that the system is being balanced to an appropriate level. In addition it will ensure efficient network investment is made, as the AQs will be more reflective of actual usage.

Impact on Transporters	
Development, capital and operating costs	• This modification should ensure that the network is only sized to meet the consumer demand and therefore should be beneficial in the efficient use of capital
Recovery of costs	• This modification will ensure that recovery of costs are made at the correct level from each party, as the AQs will be more accurate and costs targeted at those Users who have greater throughput on the networks
Price regulation	• TBC
Contractual risks	• None
Legislative, regulatory and contractual obligations and relationships	• None
Standards of service	• None

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• None.
UNC Committees	• The UNCC will have an additional role of "approving" Gas industry Experts/Auditors to place on a Panel for use by the Shippers
General administration	• None.

Impact on Code	
Code section	Potential impact

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
The modification proposes a new UNC Related Document	
Network Entry Agreement (TPD I1.3)	None.

Impact on UNC Related Documents and Other Referenced Documents	
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)	None.
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	This modification will have a positive impact on security of supply, as it will ensure that a greater percentage of AQs are updated and therefore lead to more accurate view of User requirements.
Operation of the Total System	None.
Industry fragmentation	None.
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	None.

6 Implementation

It is proposed that implementation of this modification should be 1st November 2012 if an Ofgem direction to implement is received by 28th October 2012, 2nd November 2012 if an Ofgem direction to implement is received by 1st November 2012, and immediately following any later Ofgem direction, so that it can be applied to the AQ Review this year and drive immediate improvements in data quality and allocation. Although the instruction of an auditor would apply following the 2012 AQ Review process, the application of Supplier Charges would not kick in until following the AQ Review in 2013. This approach will ensure that Shipper has the ability to prepare and also work with the auditor to identify improvements in their process that will not only benefit the Shippers own business and customers, in terms of data quality and up to date AQs, but also the industry more generally, through accurate allocation.

The Shipper will have the ability to influence their performance ahead of the 2012 and 2013 AQ Review process, such that it is entirely in their gift to avoid Supplier Charges. For the avoidance of doubt, the requirement to continue with a consistent approach to upward and downward movements in relation to AQ amendments will continue to apply.

The Workgroup consider it is important that the implementation date should be [before 1st November 2012 so that audits can be carried out on the 2011 AQ Review.]

7 The Case for Change

Advantages

1. Provides greater transparency over Shipper behaviour during the AQ Review process, deterring any non-compliance and ensuring that any non-compliance can be identified and addressed.
2. Ensures that AQ update performance improves and therefore gas and transportation cost allocation is more accurate.
3. Places incentives on all Shippers to update more AQs on an annual basis.
4. Ensures that LSP Shippers submit meter readings ahead of the T04 stage and that these are used to reconcile LSP sites and credits/debits are factored through RbD in a timely manner.
5. Brings consistency between the electricity and gas markets in relation to performance assurance.
6. Improves network investment decisions by the Transporter, as AQ information will be more accurate.
7. Has corresponding benefits to security of supply by ensuring that there is a more accurate and up to view of User requirements.

Disadvantages

None identified.

8 Legal Text

To be provided by the Transporters (WWU).

9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0421 (0379A) be submitted for consultation.