

**Terms of Reference – v1.0**  
**UNC Modification Reference Number 0177**  
**Rolling AQ Review**

**Purpose**

This review proposal seeks to establish the costs, benefits and opportunities associated with a rolling Annual Quantity (AQ) Review.

**Background**

The current AQ process has been operating in much the same form and timescales since inception of Transco's Network Code. The AQ Review was originally instituted for Larger Supply Points (LSP) and extended to cover Smaller Supply Points (SSP) for October 2000.

The AQ value assigned to each Supply Point is a fundamental piece of information. It forms the basis of much of the day to day operation of the gas industry from capacity planning, energy balancing, charging and reconciliation. The accuracy of the information is therefore of great importance to User and Transporter alike. Under the current AQ Review process, the AQ being used as a proxy for future demand is, on average, 18 months old at the time it is used. Where consumption is changing, this provides a significant commercial risk to Users and Transporters. This has been particularly evident over the Gas Years since 2005 where reductions in domestic demand, as a reaction to high prices, are still feeding through to SSP AQ.

Current recalculation processes are limited due in part to the UK Link System that supports the process. With the UK Link System due for replacement in 2012, this provides an opportunity to review the current process and consider alternatives that may serve the industry better into the future in a cost effective manner. Potential implementation prior to UK Link Replacement is also worth consideration.

The industry is currently investigating opportunities offered by Smart Metering and Automatic Meter Reading (AMR) technology. Moves to use AMR to its full potential, or indeed any changes to current metering patterns, should provide more information on actual consumption. It would appear sensible to configure the processes supporting transportation and balancing to make optimum use of available information.

**Scope and Deliverables**

The Group is asked to:

1. Consider the existing Annual AQ Review and the current issues associated with it.
2. Discuss putting in place a mechanism to allow rolling AQ calculation.
3. Consider other alternatives short of rolling AQ calculation that would allow more timely AQ updates.

4. Identify how a change to rolling AQ may be implemented and any potential issues that would need resolving, including any phased implementation.
5. Consider costs and benefits and changes to risk profiles from adoption of a rolling AQ Review, both before and as part of the UK Link Replacement.
6. Consider, at a suitable level of detail, changes to processes and procedures in order to evaluate the associated advantages and disadvantages.
7. Consider Independent Gas Transporters' Supply Points as part of the Review.
8. Consider alternative methodologies to re-calculate AQs on receipt of meter readings.
9. Examine similar processes in other industries, evaluating the lessons that have been learned.
10. Ensure that consideration is given to the UK Link replacement timeframe.

A Review Group Report will be produced containing the findings of the Review Group in respect of the work identified above.

### **Limits**

The Review Group will consider changes required to the following:

- Uniform Network Code
- UK Link

The Review Group in its initial phase will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems
- Development of detailed business rules

Other than the details required in order to reach a conclusion on the way forward.

### **Composition**

The Review Group will comprise the following representation

<b>Name</b>	<b>Organisation</b>
John Bradley (Chair)	Joint Office
Mike Berrisford (Secretary)	Joint Office
Sallyann Blackett (Proposer)	E.ON UK
Andy Smith	RWE Npower
Chris Warner	National Grid UKD
Joanna Ferguson	Northern Gas Networks
Joel Martin	Scotia Gas Networks
Marie Clark	ScottishPower
Mark Jones	SSE
Mitch Donnelly	Centrica
Phil Broom	Gaz de France
Richard Street	StatoilHydro
Shelley Rouse	StatoilHydro
Simon Trivella	WWU
Stefan Leedham	EDF Energy
Steve Nunnington	xoserve

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

#### **Information Sources**

- Uniform Network Code – Sections (to be identified).
- GT, Shipper and Supplier Licences.
- Gas Act.
- Various Industry legislation as appropriate – may include reference to:
  - Gas Safety (Installation & Use) Regulations.
  - Gas Safety (Management) Regulations.
  - Industry Codes of Practice as relevant.

#### **Timetable**

It is proposed that a total period of 6 months be allowed to conclude this review.

- Frequency of meetings – monthly. The frequency of meetings will be subject to review and potential change by the Review Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman’s Guidelines.