

Modification Report
AQ Review Process - publication of information
Modification Reference Number 0081
Version 2.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

The Annual AQ revision process is key to a number of industry processes. The supply point Annual Quantity is used to determine the allocation of energy each day to that supply point and hence to the Shipper and Supplier responsible. The quantities assessed under this process not only drive the allocation of energy for consumption billing purposes but underpin the calculation of daily consumption of Non-Daily metered supply points for energy balancing purposes.

Because so many commercial practices are reliant upon the accuracy of the Annual Quantity, this review process should be subject to more rigorous scrutiny and audit. Implementation of this Modification Proposal would deliver greater transparency of the process by providing publication of more detail of the changes to AQs by the annual review process and the amendments and appeals which would arise from the review.

The UNC (Section G, para 1.6.4) describes the manner in which AQs may be amended by Users and their obligations in approaching this exercise in a consistent and balanced way. The proposed form of reporting would evidence that obligation and provide greater confidence to all Users that the accuracy and reliability of AQs was maximised.

The UNC (Section G, para 1.9.10) contains an obligation upon Transporters to publish information regarding the manner in which the AQ review is conducted. This Proposal seeks to enhance this requirement.

It is recognised that there are potential limitations to the publication of data due to the confidential nature of specific supply point consumptions within an individual Shipper portfolio. However, for other purposes data of this nature has been published in an anonymous format, thereby providing an overview of Users' performance in these processes without directly identifying specific Users.

Format of information to be published

In keeping with a practice adopted for publication of potentially commercially sensitive data across the industry in the past, it is proposed that a "Shipper A, Shipper B.... Shipper Z" format be adopted. The identity of each Shipper would not be available to parties other than the Transporters and the Regulator, but each User would have greater assurance that all other Users were conforming to their obligations under Licence and UNC. The Regulator would, as now, have access to the identity of each individual User in order to provide continued regulatory scrutiny of the process.

Information to be published (text taken from workstream report)

It is proposed that data be made available to all Users:-

- Effect of AQ recalculation (by User and by LDZ) - the recalculation process applied each year will amend a number of AQs. Information should be published to indicate the overall impact of the process, including any bias toward increasing or decreasing AQs. This would be published by 1 November each year.

- Number of amendments raised (by User and in aggregate) - this would also be shown by direction, i.e. those amended upward and downward in order to show both the effect and any bias. This interim information would be published on 1 July and 1 August with final figures to be published on 1 November.
- Number of amendments successful (by User and in aggregate) - also shown by direction, i.e. those amended upward and downward in order to show both the effect and any bias. This interim information would be published on 1 July and 1 August with final figures to be published on 1 November.
- The number of speculative calculations by Shipper by aggregate during the AQ review process. This interim information would be published on 1 July and 1 August with final figures to be published on 1 November.

(NB - dependent upon the date of implementation of this proposal, it is recognised that these dates may not all be achievable in the first year, in which case publication would be as soon as possible thereafter)

For categories 1,2 & 3 the above the data published would show:-

- The scale of such changes, separately for increases and decreases. We propose that this be demonstrated by numbers of AQs changing by percentages by AQ bands.
- The absolute change in energy terms, i.e. the aggregate kWh of all increases and the aggregate kWh of all decreases in AQ. This information would be displayed by EUC bands thus making it possible for assessment of the mean increases and decreases achieved by amendment.
- The net impact of the number of changes where supply points have moved between EUC bands. For each EUC band the data would show the number added to each EUC band and the number removed from each EUC band

The report format would ideally publish this information by each User within each LDZ but it is recognised that this may require significant system change. Therefore it is proposed that information is published by User across all LDZs. The division by LDZ is not included within this Proposal at this time. The proposer may consider this as the subject of further development in a subsequent proposal.

2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives

The Proposer believes that implementation of this Modification Proposal will further the relevant objectives, as specified in SSC A11 of the Gas Transporters licence, by:-

- Efficient and economic operation of the pipe-line system (para (a))
- Securing effective competition between relevant suppliers and shippers (para (d)and (ii))

More accurate AQs and the enhanced scrutiny and governance of the AQ process provided by this Modification Proposal would facilitate both of these objectives.

More accurate AQs will deliver better information of the likely demands upon the networks that will in turn enable better planning and operation. Greater transparency of the process will eliminate, or at least reduce, the potential for Users to gain competitive advantage from any biased approach to the amendment process.

The Workstream was in agreement with the above statements.

EON, NG UKD, NG NTS and SGN agreed that the modification proposal would better facilitate the specified relevant objectives.

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

The implementation of this proposal should not have any effect on security of supply, operation of the Total System, or industry fragmentation.

4. The implications for Transporters and each Transporter of implementing the Modification Proposal, including

a) implications for operation of the System:

No implications for operation of the system have been identified that directly affect the Transporters.

b) development and capital cost and operating cost implications:

Some development and operating costs will be incurred by xoserve.

c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:

Costs that will be incurred are anticipated to be minimal and therefore no cost recovery mechanism is proposed.

d) analysis of the consequences (if any) this proposal would have on price regulation:

No such consequences on price regulation have been identified.

5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal

No such consequences have been identified.

6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users

No systems implications have been identified.

7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk

Users at the Workstream believe that this Proposal would reduce their level of contractual risk.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party

Potential greater consumer billing accuracy by Suppliers.

9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal

No such consequences have been identified.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages

- greater transparency
- greater confidence in the accuracy and reliability of AQs
- enhanced scrutiny of the use of the AQ Review process

The proposer confirmed that the purpose of the Modification Proposal is to *"improve the transparency of the Annual process of setting and revising Annual Quantities (AQs). It is evident from information provided to industry fora recently that there are still a number of Users that appear to be submitting appeals and amendments with a methodology designed to give a favourable outcome, rather than reflect the accuracy of this key data. We believe that the improved transparency of the AQ process will provide the necessary incentive upon Users to approach this exercise in a consistent and equitable manner. Any deviation from such approach would be evident to the rest of the industry, and to the regulator, and could therefore be addressed in an appropriate way"*.

Adding *"We are aware that some of the information identified in this Modification Proposal is already made available to the industry through ad hoc reports. We are of the view that the transparency of the process will be much improved by a more structured regime included within UNC obligations"*.

NG UKD agreed that *"the enhanced scrutiny and governance of the AQ review process is likely to lead to more accurate AQs"*.

SGN believes the proposal *"would provide greater transparency and opportunity to scrutinise changes in AQs. As such it should provide participants with greater confidence that changes in AQs are appropriate and reliable. SGN understands that much of this*

information is currently available and could be produced in the format stated and within the timescales specified without significant additional effort".

SP "believe that implementation of formal reporting requirements will deliver overall benefits to the AQ Review process. Timely reporting will ensure the visibility of Shipper amendment activity during the actual amendment phase together with the impact that successful AQ amendments have on final Shipper AQ positions".

Disadvantages

- some costs may be incurred in the extraction of the data from existing systems and reporting in a form accessible to Users.

11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

| <u>Organisation</u> | <u>Abbreviation</u> | <u>Position</u> |
|----------------------------|---------------------|-----------------|
| British Gas Trading | BGT | For |
| E.ON UK | EON | For |
| National Grid Distribution | NG UKD | For |
| National Grid Transmission | NG NTS | For |
| RWE Npower Plc | RWE | For |
| Scotia Gas Networks | SGN | For |
| Scottish Power | SP | For |

The SME would make the following additional observations.

On Page 1 (paragraph 4), the proposal refers to section G1.9.10 of the UNC. However, this reference only applies in respect of the Supply Point Information Service under SSC 31 of the Transporter's licence and not AQ publication, so it is not appropriate to include under this proposal.

The bullet points at the top of Page 2, requests that the reports are provided **on** specific dates (e.g. 1 July, 1 August and 1 November). To ensure consistency is applied within the UNC, it is suggested the wording be changed to read "by" the specified dates. It is suggested that these bullet points are also numbered.

The three bullet points (midway down Page 2) describing how the data should be published, asks for the information to be shown by AQ Bands and EUC Bands. It is suggested that these are replaced by the defined term "EUC" for clarity and consistency within the UNC. This will still provide the level of information request by the proposal.

The proposer has one observation on the draft legal text provided. *"The Modification Proposal itself specified the inclusion of the effect in energy terms of the movement in AQs arising from amendments and appeals. Although the drafting does provide for the reporting of the number of supply points in each category, as specified, the energy effect is not provided"*.

NG UKD stated *"this Modification Proposal does not feature any changes to the AQ review / calculation related methodology. It requires publication by Transporters of AQ information. Provided National Grid's confidentiality obligations are protected which we believe would be the case, we advocate the proposed changes. Incorporation of terms within the UNC regarding publication of information concerning the AQ Review process, as outlined in the Proposal, may provide additional contractual protection when releasing such information"*.

Adding "AQ accuracy delivers better information with respect to the likely demands upon the networks and in turn enables better planning and operation. Greater transparency of the process eliminates, or at least reduces, the potential for Users to gain competitive advantage from any biased approach to the AQ amendment process".

NG NTS offered the following comments

The proposal does not state that the publication of information relates to LDZ sites only and should therefore be an obligation on DN transporters only. National Grid NTS feels that this clarification point should be reflected in the legal text.

The proposal refers to UNC Section G 1.9.10 as containing an "obligation upon transporters to publish information regarding the manner in which the AQ review is conducted". National Grid NTS would like to point out that Section G 1.9.10 of the UNC refers to Standard Special Condition A31, which does not refer to the publishing of information regarding the AQ review. There is a UNC obligation to carry out the AQ review but any subsequent information published following the review is not done so as a result of any licence obligation.

The proposal refers to when the information is to be published. Some information is specified as requiring to be published "by" a certain date and other information is required "on" a certain date. National Grid NTS feels that in this area the proposal would benefit from greater consistency and therefore would suggest that subsequent relevant legal text should, in all cases, be changed to read "by".

RWE stated that *"this mod does not seek to describe what the Transporters and Users could or should do if abuse is suspected and this should be left until the effect of this mod (if approved) is tested. In the interim as the data will be attributed anonymously Users may expect the Regulator to act more openly in dealing with cases of suspected abuse"*.

RWE sympathetic to the Transporters concerns about the confidentiality of the data, concurred that the use of a Shipper A, Shipper B system should suffice.

12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

14. Programme for works required as a consequence of implementing the Modification Proposal

A period of development will be required to deliver the full objectives of the modification proposal.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Implementation of the Modification Proposal is sought as soon as possible. It is thought that publication of the effect of the initial review may be possible as an extension of the existing non obligated process undertaken by xoserve. In order to facilitate the ex post publication of the effect of appeals and amendments it would be necessary to incorporate this into UNC shortly after the issue of the final AQs for 2006/07. For this reason a date of 1 October 2006 has been specified.

NG UKD "understand that a period of development would be required to deliver the full objectives of the Modification Proposal and therefore recognise that subject to the appropriate direction from Ofgem, immediate implementation may not be able to be achieved".

16. Implications of implementing this Modification Proposal upon existing Code Standards of Service

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

17. Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

At the Modification Panel Meeting held on 20 July 2006, of the 9 Voting Members present, capable of casting 10 votes, 10 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

18. Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas & Electricity Markets Authority in accordance with this report.

19. Text

Draft Legal Text

TPD Section G, paragraph 1.6.

Add new paragraphs 1.6.18, 1.6.19 and 1.6.20 to read as follows:

“1.6.18 The Transporters shall publish, by the dates specified in paragraph 1.6.20, a report containing the following information in respect of each User (on a non attributable basis):

(a) in aggregate across all End User Categories:

- (i) the number of applications made by the User during the User AQ Review Period (in accordance with paragraph 1.6.4) for an increase in the Provisional Annual Quantity and for a decrease in the Provisional Annual Quantity;
- (ii) the number of such successful applications made by the User during the User AQ Review Period (in accordance with paragraph 1.6.7) that resulted in a User Provisional Annual Quantity shown by the resulting increase and decrease in comparison to the Provisional Annual Quantity;
- (iii) the number of Speculative Calculation enquiries made by the User during the preceding Gas Year;

(b) by each End User Category:

- (i) the number of Supply Meter Points where the Annual Quantity has increased or decreased as a result of the successful applications referred to in (a)(ii) shown as a percentage of the total number of Supply Meter Points in that End User Category;
- (ii) the change to the Annual Quantity in aggregate (expressed in kWh) that has occurred due to the increases or decreases as a result of the successful applications referred to in (a)(ii);
- (iii) the number of Supply Points that have moved from one End User Category to another End User Category as result of the successful applications referred to in (a)(ii);

(c) by each LDZ, the number of such successful applications made by the User during the User AQ Review Period (in accordance with paragraph 1.6.7) that resulted in a User Provisional Annual Quantity shown by the resulting increase and decrease in comparison to the Provisional Annual Quantity.

1.6.19 For the purposes of paragraph 1.6.18:

- (a) “User AQ Review Period” is the period during which the User may apply for a User Provisional Annual Quantity in accordance with 1.6.4(a), commencing on the AQ Review Date and ending on the 13 August in the preceding Gas Year;
- (b) “Speculative Calculation” means an estimate of the Annual Quantity of a Supply Point derived by the User, using relevant Meter Reads for the Supply Point and the speculative calculator tool which is available for use within UK Link.

1.6.20 The dates for the publication of the information to be contained in the report in accordance with paragraph 1.6.18 shall be in the case of:

- (a) paragraph 1.6.18(a) and (b), by no later than:
 - (i) 1 July, in respect of Smaller Supply Meter Points on an interim basis;
 - (ii) 1 August, in respect of Larger Supply Meter Points on an interim basis;
and
 - (iii) 1 November in respect of all Supply Meter Points on a final basis;in each case in the relevant Gas Year.
- (b) paragraph 1.6.18(c), by no later than 1 November in the relevant Gas Year, in respect of all Supply Meter Points on a final basis.”

Part IIC - Transitional Rules

Add new paragraph 1.7 to read as follows:

“1.7 TPD Section G: Supply Points

1.7.1 Where, due to the implementation date of Modification 0081, the Transporter is unable to publish the report by the dates specified in paragraph 1.6.20 then the Transporter shall publish such reports(s) as soon as practicable after such implementation date.”

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters

Signature:

Date :