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7th May 2009
Your Reference: 0209

Dear John,

Re: Modification Proposal 0209 - Rolling AQ

Thank you for your invitation seeking representations with respect to the above Modification Proposal. National Grid (Distribution) ('NGD') provides qualified support to the implementation of this proposal.

We believe that maximising the opportunity for Meter Readings submitted by Users to generate Annual Quantities (AQ) which better reflect the consumption at a Supply Point can better facilitate the allocation and reconciliation settlement processes utilised in the generation of Energy Balancing and Transporter Commodity charges. In addition a more frequent review of AQs increases the likelihood of a new AQ value being calculated (as opposed to 'rolling over' a value calculated in a previous period) due to the increased opportunity for Meter Readings to deliver an AQ

We believe that, on balance, the potential benefits highlighted above outweigh our concerns as identified below in our comments in respect of the Draft Modification Report. Our support is qualified on the basis of the concerns identified below.

NGD has the following comments to make in respect of specific sections of the Draft Modification Report which is the subject of this consultation:

1. The Modification Proposal

We have three particular concerns with the Proposal:

(a) Mandatory DM Threshold.

We believe that the integrity of the UNC requirements detailed within section G1.5.2 should be maintained such that wherever an AQ increases above 58,600,000kWh, the Daily Read Requirement should apply. This requirement should not be contingent upon the consumption remaining above threshold for a continuous period of three months, as is detailed within the Proposal. We note that section 46 of the Business Rules (version 1.0 – dated 8 January 2009) appears to conflict with the Proposal in this respect.

(b) Site Specific Correction Factor.

We are concerned that in this respect the proposal may be inconsistent with provisions contained within The Gas (Calculation of Thermal Energy) Regulations 1996 in respect of the requirement for a site specific temperature and pressure conversion factor where the Supply Point AQ is reasonably expected to exceed 732,000 kWh. We believe that the UNC would be inconsistent with the Regulations if it stated that a convertor should only be installed where the AQ remains above 732,000kWh for a continuous period of three months.

(c) Load Factor Consistency.

We are concerned that under the proposal, revised load factors would only be applied to those Supply Points where a Meter Reading has been provided and an AQ recalculated. This would lead to differences in deemed peak demands for loads with the same AQ within a load category. For example, if a User submits a Meter Reading for an Annual Read meter in August, a Supply Point Capacity (SOQ) value derived from the prevailing load factor would be calculated which would then change from the 1st October (under current arrangements) whereas if the User does not submit a new Meter Reading they would not benefit from the revised load factor. This arrangement would make the SOQ “out of sync” with the NDM profiles by almost a year in the latter case and therefore cost reflectivity would diminish relative to the current UNC rules. In addition, the fact that providing a Meter Reading leads to earlier use of any revised load factor may give rise to circumstances where Users may elect **not** to supply a Meter Reading because of the load factor, and consequential peak-related charging implications.

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

(a) Efficient and economic operation of the pipeline system

Whilst acknowledging that more frequent calculation of AQs may provide Transporters with a more ‘real time’ view of demands placed on their respective systems, the realisation of such is entirely dependant on the frequency with which Valid Meter Readings are submitted by Users which are able to be utilised in the calculation of AQs. For peak capacity planning purposes, most decisions are made several years in advance of the actual flows (to enable system reinforcement to be undertaken if necessary) and so the provision of more frequently recalculated AQs each month is of very little, if any, benefit.

(c) Efficient discharge of the licensee’s obligations under this licence.

The large majority of use of system costs relate to the provision of capacity within the system. As indicated above, the provision of updated AQs month-by-month is not necessarily beneficial to the estimation of peak capacity several years in advance and so the proposal does not provide any significant benefits in support of the provision of cost-reflective transportation charging methodology, as required by the licence.

(d) Securing of effective competition between relevant shippers and relevant suppliers.

We agree that measures which enable costs to be apportioned based on consumption information, which is more recent, increases cost reflectivity in respect of such throughput-related costs, which may in turn facilitate competition. However, under the transportation charging arrangements, commodity-related charges, reflecting the throughput-related costs, comprise only 3.5% of the DNO transportation charge total. We are also not convinced that any reduced reconciliation volumes would facilitate competition as we do not believe that the costs incurred by a User in validating such increase in direct proportion to the value of the reconciliation. We also dispute that this proposal would increase revenue certainty for DNOs as stated in the Draft Modification Report. As detailed elsewhere within this representation, we believe that there is a risk that implementation may result in *less* certainty in respect of revenue with the consequence of increased Transportation charging volatility.

(f) Efficiency in the implementation and administration of the Uniform Network Code

Whilst the Draft Modification Report does not identify any facilitation of this objective, we believe that implementation would facilitate the *implementation* of the Uniform Network Code, specifically the AQ Review process. As such a process would be operated on an increased frequency, the likelihood of a new AQ value being calculated (as opposed to ‘rolling over’ a value calculated in a previous period) is increased. As such, there will be an increased opportunity for Meter Readings to deliver an AQ.

4. Implications for Transporters.

Whilst the Draft Modification Report identifies specific options for funding the cost of the change (dependant on the timing of implementation) we believe that an assessment in respect of implementation at Project Nexus is premature as such arrangements are currently being discussed within the UNC Nexus Workstream.

(d) *Consequences on price regulation*

From 2009 DNO Transportation charges take effect from 1st April annually. DNOs are required to provide 2 months notice of revised distribution charges and therefore it is necessary to predict the aggregate level of SOQ, per day and by load band, from the 1st April through to the following 31st March during January of each year. Under the current capacity regime the SOQ remains largely unaltered between January, when setting charges, and September each year. A forecast is required to determine the impact on SOQs from the NDM profile and AQ review. Accordingly, DNOs benefit from a relative certainty of SOQs for six months of the formula year and forecast the other six months. A Rolling AQ as advocated by this Proposal would lead to a rolling SOQ. Over time this may lead to improved forecasting for the October to March period at the expense of the relative certainty in SOQs from April to September. Whilst the rolling SOQ may smooth out the impact of the annual AQ review in October of each year this is dependant on a stable monthly read frequency which may not be obtained in the short to medium term pending rollout of Smart / Automated meter reading. Under the proposal there is thus an increased risk of transportation revenue under or over recovery in any particular year leading to less stable transportation charges.

8. Implications for Consumers

The Draft Modification Report states that “*consumers... would see an immediate benefit*”. On the assumption that the benefit referred to is reduced supply charges, this statement makes the assumption that all Aqs will reduce. It is worthy of note that a more frequent review of Aqs would equally reflect AQ *increases* in a more timely manner and therefore there may be consumers who experience increased supply charges sooner than under prevailing terms. It is therefore perhaps appropriate to summarise that supply charges would be quicker to reflect changes in the consumer’s consumption levels (both increases and decreases).

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

Disadvantages

An additional disadvantage of implementation is the risk of increased price volatility as referred to in paragraph 4(d) above as a consequence of the within-year variability of the SOQ.

17. Workgroup recommendation

Our preference would be for implementation (if an appropriate direction is provided by the Authority) as part of Project Nexus. As noted above in section 4 above, any assumptions in respect of cost arrangements for implementation at Nexus are premature as such arrangements are currently being considered within the Nexus Workstream.

We trust these comments will be useful for compilation of the Final Modification Report. Please contact Chris Warner 01926 653541 (chris.warner@uk.ngrid.com) should you require any further information with respect to the above.

Yours sincerely

Richard Court
Commercial Manager, Distribution.