Rough Order of Magnitude (ROM) Analysis

for

Modification Proposal 0292 Proposed change to the AQ Review Amendment Tolerance for SSP sites

Version 1.0

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ROM provided:	14 December 2010

Change driver / origin

Modification Proposal 292 describes that Overstated AQs have the potential to significantly impact on the profitability of a Supply business, however this impact has become much more pronounced since the distribution transportation charging changed to be more capacity (AQ/SOQ) focused. In past the capacity charges were 50% of the transportation bill whereas now they represent 95% of it. This means that Suppliers face transportation charges that are much more fixed in nature and are determined by the AQ value set for the site. The resultant issue is that if there is not sufficient throughput by the customer, to reflect the AQ value there is potentially not enough units to bill to recover the fixed (capacity based) transportation charges, thus impacting Supplier profitability.

For this reason this proposal seeks to reduce the SSP AQ amendment tolerance to 5%. This change will allow more cost reflective values to be applied and also aid in the Transporters understanding of network capacity needs.

Although this proposal will open up the amount of amendments that can be lodged for the SSP market, we believe that this is something that can be managed by Xoserve, as in the initial phases of the SSP AQ process an amendment could be lodged for any change to an AQ value. In addition as Xoserve charge for using the speculative calculator, a pre-cursor to amendment, they will be able to recover any additional administrative costs seen.

In addition, it is proposed to extend the current provisions within the UNC Section G 1.6.4 to provide that prior to the start of the AQ Review amendment window (31 May) that the Transporters will issue to each User a volume cap for the number of AQ Amendments that can be submitted in each Business Day during the window (up to 13 August), together with the total number of Industry amendments that can be submitted per Day. This volume cap will be calculated by Transporters based on a Shippers meter point count as at 1st April in each Gas Year, subject to a de minimus level of 500 amendments per Shipper per day. For the avoidance of doubt the volume cap calculated for each User will apply in each Business Day for the duration of the AQ amendment window, but will have the de minimus level set, so as not to place an unnecessary operational burden on small suppliers. Users will be required to submit AQ amendments in a manner that the volume cap is not breached in any day throughout the period of amendment phase of the AQ review process. This requirement is intended to reduce any potential impact on xoserve systems and to mitigate the risks associated with Users submitting the majority of AQ amendments towards the end of the amendment window. The Transporter will be entitled to reject AQ amendments, which are non-compliant with any of the requirements of UNC including manual referrals which fall out of validation.
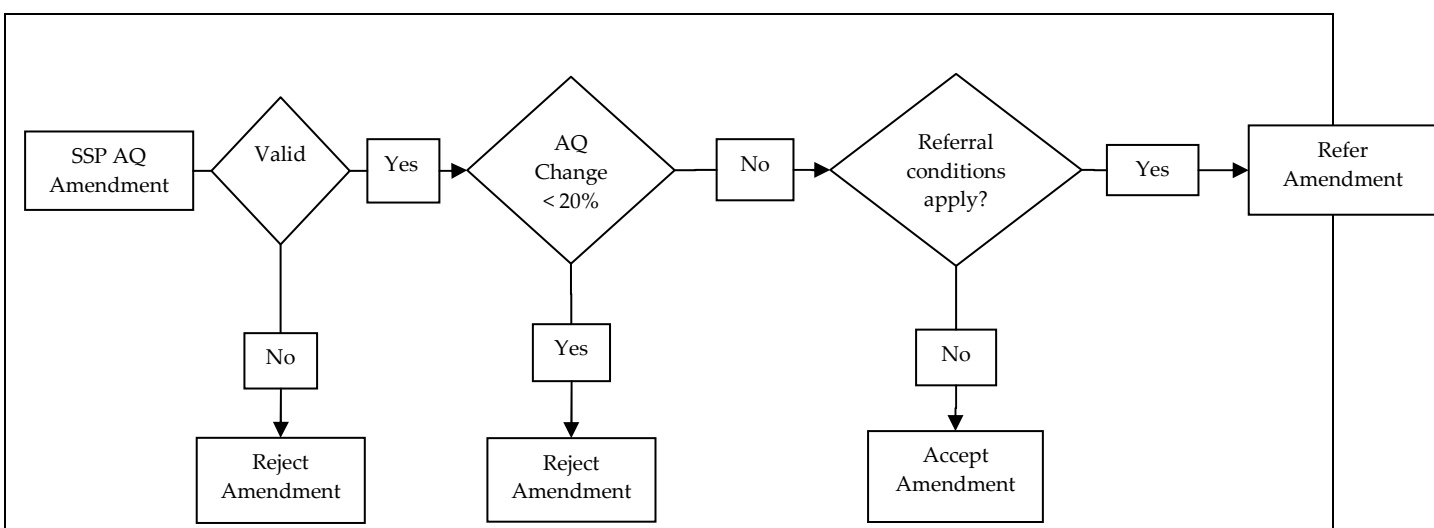
Analysis

The functional change to the SSP AQ amendment tolerance from 20% to 5% is a relatively small change, however, it is likely to increase the volume of AQ Amendments submitted and accepted, such that there is a significant risk that the systems that process the AQ amendments may not be capable of processing the anticipated volumes within the annual AQ amendment window.

The predicted volumes of AQ Amendments based on a variance of 5% could increase by 3.8 million this is in addition to the existing 2.6 million AQ amendments (source AQ2009) giving a predicted total of 6.4 million amendments. In previous years, the submission of AQ amendments by Users has been concentrated in the 2nd half of the AQ amendment window.

The number of AQ Amendment referrals manually processed by xoserve operations should not increase as those SSP AQ amendments that would qualify for referral, but whose AQ deviation is less than 20% will still be rejected.

The following demonstrates the current acceptance and rejection rules for SSP AQ.

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┌─────────────┐      ◇ Valid      ┌─────┐    ◇ AQ          ┌─────┐    ◇ Referral      ┌─────┐    ┌──────────┐
│ SSP AQ      │ ───▶ Valid ──────▶│ Yes │──▶ Change   ────▶│ No  │──▶ conditions ────▶│ Yes │───▶│ Refer    │
│ Amendment   │                   └─────┘    < 20%         └─────┘    apply?          └─────┘    │ Amendment│
└─────────────┘                                                                                  └──────────┘
```

- SSP AQ Amendment → Valid?
  - No → Reject Amendment
  - Yes → AQ Change < 20%?
    - Yes → Reject Amendment
    - No → Referral conditions apply?
      - No → Accept Amendment
      - Yes → Refer Amendment

Reject Amendment (under Valid → No)

Reject Amendment (under AQ Change < 20% → Yes)

Accept Amendment (under Referral conditions apply? → No)

Changes to exiting Business rules

- For the Shippers' calculated AQ amendment to be accepted, the difference between the AQ amendment and the AQ in place, must be greater than or equal to 5%.

- If the difference between the AQ amendment and the AQ in place is less than 5%, then reject.

- If the difference between the AQ amendment and the AQ in place is greater than or equal to 5% but less than 20% and referral Conditions apply, then reject, otherwise accept.

- If the volume cap for the daily total number of AQ amendments is breached, then the Transporter or its agent (xoserve) is entitled to reject.

The following demonstrates the understanding of the 'to be' acceptance and rejection rules for SSP AQ.
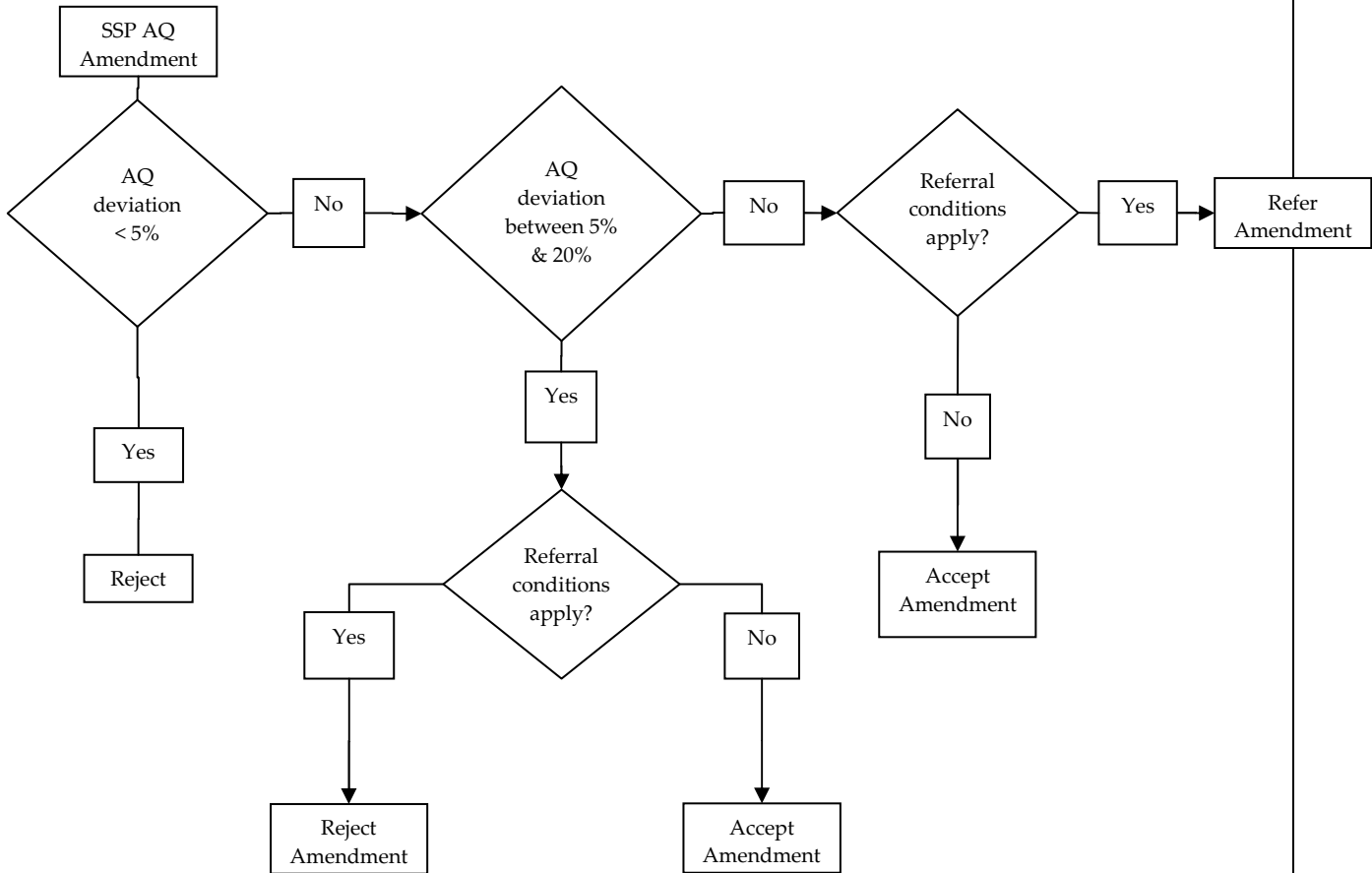
Potential process changes to facilitate AQ amendments are processed

Determine a daily AQ amendment file submission volume cap, for each Shipper. This is to ensure shippers consider and plan the submission of AQ amendment files.

ROM Costs & Timescales

Note: ROM information is not based on any formal systems analysis.

Estimated costs:

System analysis, design, development and implementation

The development and implementation of the application change and the development of the systems and processes for the management of the system capacity aspect of the service envisaged by this proposal, will cost at least **£40k**, but probably not more than **£100k**, to deliver.

The broadness of the range is caused by the unknowns associated with the system capacity management aspect as the business rules are still under development and it is envisaged that more than on solution will exist.

Ongoing costs

It is anticipated that there will be additional operational costs associated with managing the file submissions in accordance with the

business rules. At this point in the modification process it is not proposed that an ongoing service charge is developed as there are still many unknowns, for example AQ Amendment submission behaviour. However, should it become apparent that costs are required to be recovered from a User Pays service charge a modification to the Agency Charging Statement will be proposed.

Estimated duration:

- The Analysis Phase, will take at least **2 weeks**, but probably not more than **3 weeks**
- Delivery; including detailed design and development, testing and post implementation support; will take at least **27 weeks**, but probably not more than **32 weeks.**
- The total of for the project is therefore in the range of 29-35 weeks, including post implementation support.

Assumptions

- The volumes of submitted do not materially differ from the anticipated volumes stated in the analysis section.
- Daily amendment allowances included rejected as well as accepted / referred AQ amendment.
- The business rules managing capacity are agreed very quickly.

Concerns

Service Levels

- Shippers do not adhere to their submission profile which will lead to difficulties in delivering the AQ Amendment service to the overall community

Business Rules:

- Shippers do not filter out the < 5% AQ amendments before submitting files to xoserve and so unused system capacity is partially wasted on rejecting records.

Note: the concerns above are those identified to date based upon the stated requirements. Detailed analysis may identify more topics to be considered, as would changes to the current stated requirements.

Impacts

xoserve:

- Daily monitoring and communication of AQ amendment volume caps and rejection of files.
- Potential larger than normal FTE costs associated with intensive out of Business hours working, due to monitoring the receipt of AQ amendment files during the AQ Amendment window.

Networks:

- None identified at present

Shippers

- Shippers are required to submit SSP AQ Amendments in a profile that minimises the risk of rejection.

Ofgem

None identified at present