

Stage 04: Final Modification Report

0378:

Greater Transparency over AQ Appeal Performance

What stage is this document in the process?

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

This Proposal will give more transparency over the way in which Shippers use the AQ Review process.



Panel recommended implementation



Medium Impact: Shippers



Low Impact: Network Owners

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About this document:

This document is a Final Modification Report, presented to the Panel on 19 January 2012.

The Authority will consider the Panel's Recommendation and decide whether or not this change should be made.



3 Any questions?

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1 Summary



Is this a Self-Governance Modification?

The Modification Panel determined that this modification should not follow Self Governance procedures as it may have impacts on competition between Shippers, and the provision of protected information may impact customers.

Why Change?

The AQ appeal process, which includes the AQ Review, 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. The Proposer considers that the current transparency and controls on Shipper's use of the AQ appeal process are not sufficiently robust to provide the market with confidence that the process is working effectively and not being misused. The impact is that even if a Shipper were to misuse the AQ appeal process for financial gain, the controls on the process are not sufficient to establish this in anything other than extreme circumstances.

Solution

This proposal will increase the amount of data provided on the industry MOD81 reports so that there is more transparency about the way in which Shippers have used the AQ Review Process.

This Proposal will add to the existing MOD81 report so that it covers AQ appeals made outside of the AQ Review process.

Impacts and Costs

This modification will not change the rules around how the AQ appeal process works and therefore will have no impact on Network Owners other than a requirement to collate and publish more data.

The impact on Shippers will be limited to the fact that more information will be publicly available about the way in which they have used to AQ appeal process. As a User Pays change, they will also be required to fund the cost of any extra work required to support this modification.

Implementation

This modification should be implemented as soon as possible after a decision to authorise it.

The Case for Change

The Proposer considers that by improving the control and assurance framework around the AQ appeal process the industry will have more confidence that the process is

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](#).

working effectively, Shippers will be dissuaded from any potential misuse of the process and the industry will be better able to identify and resolve any misuse.

This in turn will ensure that cost allocation in the gas market will be as accurate as possible thus facilitating effective competition between Shippers. In addition, this modification will provide greater transparency over the degree to which Shippers are compliant with the existing Code obligations not to misuse the AQ appeal process, thus facilitating efficiency in the implementation and administration of the Code. This modification will therefore facilitate Relevant Objectives (d) and (f).

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, 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 with the aim of improving the accuracy of cost allocation.

The rules around the AQ Review process provide for the Network Owners to advise the Shipper, for each of the NDM sites in their portfolio, a provisional AQ value by 31st May in each year. Shippers then have until 13th August in each year to appeal any AQ value which they consider to be inaccurate by submitting meter readings which substantiate the revised AQ being sought. 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 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 ~£6.5m¹.

The Issue

The "MOD81 report" is actually a collection of reports, or datasets, used to provide transparency over Shipper activity following the AQ Review. It contains no information about any AQ appeal that was submitted outside of the AQ Review process.

The Proposer considers that, aside from extreme cases, it is not possible to establish from the data in the MOD81 report whether any particular Shipper's actions have or have not been compliant with the provisions under Code. The report also does not provide any data on AQ appeals made by Shippers outside the AQ Review Process. The effect is that Shippers are unlikely to be able to use the MOD81 report to demonstrate non-compliance with Code provisions, and those facing allegations are unable to demonstrate their compliance. The Workgroup considered that more data is required in this report to give the necessary transparency to establish whether the process has been properly used or not.

¹ 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.

3 Solution

This Proposal will add the following three reports or datasets to the MOD81 report considered by UNC TPD G1.6.

1. Aggregate effect of AQ movement during the AQ Review window expressed in kWh, by Shipper.
2. The number of increases and decreases in AQ made during the AQ Review, by Shipper, split by kWh movement bands.
3. A separate report providing the same data as the MOD81 report shows, but specifically covering AQ appeals submitted outside of the AQ Review process, split by Shipper. This should be delivered once a year along with the final issue of the current MOD081 and detail all appeal activity for the previous gas year. Its headings will be based on the MOD81 report, showing, by Shipper, EUC and LDZ, a count of AQ Appeal, associated aggregate AQ movement, count of upward and downward appeals and associated aggregate AQ movement.

An overview of the proposed reports is attached to this document as Appendix One.

4 Relevant Objectives

Implementation will better facilitate the achievement of **Relevant Objectives d and f.**

The benefits against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None.
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.	Yes, see below.
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	Yes, see below.
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	

The Workgroup considered that this Proposal facilitates UNC Relevant Objectives (d) and (f).

- 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.

Some Workgroup members considered that by improving the control and assurance framework around the AQ appeal process the industry will have more confidence that the process is working effectively, Shippers will be dissuaded from any potential misuse of the process and the industry will be better able to identify and resolve any misuse. This in turn will ensure that cost allocation in the gas market will be as accurate as possible thus facilitating effective competition between Shippers.

Some Workgroup members disagreed that the modification is likely to benefit this relevant objective between Shippers as it provides information that does not directly increase competition.

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

The Workgroup considered that this modification will provide greater transparency over the degree to which Shippers are compliant with the existing Code obligations not to misuse the AQ appeal process, thus facilitating efficiency in the implementation and administration of the Code.

Wales & West Utilities do not consider that the implementation of this proposal will have a clear positive or negative impact on the achievement of the relevant objectives.

Noting that the current process does not provide any data on AQ appeals and as such there is no audit trail of appeals and subsequent changes that may have been applied to AQs, Scotia Gas Networks feel that this modification adds value to the AQ review process.

5 Impacts and Costs

Consideration of Wider Industry Impacts

None identified.

Impacts

This modification will impact both Shippers and Network Owners. Network Owners, who administer the AQ appeal process, will need to collect and report the additional data required under this Proposal. To the extent that there is cost associated with the implementation of this modification, Shippers will have to bear the cost of that implementation.

Costs

Indicative industry costs – User Pays
Classification of the Proposal as User Pays or not and justification for classification
User Pays
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
Shippers will pay 100% of the costs associated with this. This is justified, as the anticipated benefit will be entirely in the Shipper market. Development costs will be shared amongst all portfolio Shippers based on their market share of Supply Points on the date on implementation. Any ongoing costs will be shared between portfolio Shippers each year based on their market share of Supply Points on 1 st October in that year.
Proposed charge(s) for application of Users Pays charges to Shippers
Development costs are estimated to be in the region of £26 to 39K.
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> • None.
Operational Processes	<ul style="list-style-type: none"> • Minor
User Pays implications	<ul style="list-style-type: none"> • ROM produced

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> • None.
Development, capital and operating costs	<ul style="list-style-type: none"> • ROM produced
Contractual risks	<ul style="list-style-type: none"> • None.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • None.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> • None.
Development, capital and operating costs	<ul style="list-style-type: none"> • None.
Recovery of costs	<ul style="list-style-type: none"> • None.
Price regulation	<ul style="list-style-type: none"> • None.
Contractual risks	<ul style="list-style-type: none"> • None.
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> • None.
Standards of service	<ul style="list-style-type: none"> • None.

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> • None.
UNC Committees	<ul style="list-style-type: none"> • None.
General administration	<ul style="list-style-type: none"> • None.



Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification

0565 Transco Proposal for Revision of Network Code Standards of Service at the

following location:

<http://www.gasgovernance.co.uk/sites/default/files/0565.zip>

Impact on Code	
Code section	Potential impact

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

This modification should be implemented as soon as possible after a decision to authorise it.

Development time is estimated to be 22 to 36 weeks.

EDF Energy note that Xoserve has indicated a 22-37 week implementation lead time for this modification. They would therefore support a 1st July 2013 implementation date.

7 The Case for Change

In addition any noted above, the following have been identified:

Advantages

1. Provides greater transparency over Shipper behaviour during the AQ appeal process, deterring any non-compliance and ensuring that any non-compliance can be identified and addressed.

Disadvantages

None identified.

8 Legal Text

Legal Text has been provided by National Grid Distribution.

Uniform Network Code – Transportation Principal Document Section G

Amend TPD Sections G 1.6.18 - 1.6.20 (inclusive) as follows:

- 1.6.18 The Transporters shall publish, by the dates specified in paragraph 1.6.20, a report on applications 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 split by KWh movement bands;
 - (iii) the number of Speculative Calculation enquiries made by the User during the preceding Gas Year;
 - (iv) 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);
 - (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 and 1.6.26:
- (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;
 - (c) **"User AQ Appeal Period"** is the period detailed in paragraphs 1.6.13(a) and (b) during which the User may appeal the Annual Quantity notified by the Transporter in respect of a Supply Meter Point.
- 1.6.20 The dates for the publication of the information to be contained in the report in accordance with paragraph 1.6.18 and 1.6.26 shall be in the case of:
- (a) paragraph 1.6.18(a) and (b), by no later than:
 - (i) 1 July in the relevant Gas Year, in respect of Smaller Supply Meter Points on an interim basis;
 - (ii) 1 August in the relevant Gas Year, in respect of Larger Supply Meter Points on an interim basis; and
 - (iii) 1 November in the Gas Year immediately following the relevant Gas Year, in respect of all Supply Meter Points on a final basis;
 - (b) paragraph 1.6.18(c) and 1.6.26, by no later than 1 November in the Gas Year immediately following the relevant Gas Year, in respect of all Supply Meter Points on a final basis.

Insert new TPD Section G 1.6.26 as follows:

- 1.6.26 The Transporters shall publish, by the date specified in paragraph 1.6.20(b), a report on appeals 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 appeals made by the User during the User AQ Appeal Period (in accordance with paragraph 1.6.13) for an increase in the Annual Quantity and for a decrease in the Annual Quantity;
 - (ii) the number of such successful appeals made by the User during the User AQ Appeal Period (in

accordance with paragraph 1.6.14) that resulted in a revised Annual Quantity shown by the resulting increase and decrease split by kWh movement bands;

(iii) 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 appeals referred to in (a)(ii) (provided that where a User has submitted a Supply Point Confirmation in the period since the AQ was notified under 1.6.12, the change to the aggregate AQ for a Supply Point shall be based on the difference between the AQ specified in the Supply Point Offer to which that Supply Point Confirmation relates and the AQ that applies from the Supply Point Registration Date in respect of the Supply Point Reconfirmation submitted by the User 1.6.14(a));

(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 appeals 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 appeals referred to in (a)(ii) ;

(iii) the number of Supply Meter Points that have moved from one End User Category to another End User Category as result of the successful appeals referred to in (a)(ii);

(c) by each LDZ:

(i) the number of Supply Meter Points where the Annual Quantity has increased or decreased as a result of the successful appeals referred to in (a)(ii) shown as a percentage of the total number of Supply Meter Points in that LDZ;

(ii) the number of Supply Meter Points that have moved from one End User Category to another End User Category as result of the successful appeals referred to in (a)(ii);

Part IIC – Transitional Rules, insertion of new paragraph 1.7.9 as follows:

1.7.9 In relation to the report to be published by Transporters for Gas Year 2011/2012 pursuant to TPD Section G1.6.18, TPD Section G1.6.18 to 1.6.20 (inclusive) shall apply as follows:

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(a) TPD Section G1.6.18

The Transporters shall publish, by the dates specified in TPD Section G1.6.20, a report containing the following information in respect of each User (on a non attributable basis):

(i) in aggregate across all End User Categories:

- (1) the number of applications made by the User during the User AQ Review Period (in accordance with TPD Section G1.6.4) for an increase in the Provisional Annual Quantity and for a decrease in the Provisional Annual Quantity;
- (2) the number of such successful applications made by the User during the User AQ Review Period (in accordance with TPD Section G1.6.7) that resulted in a User Provisional Annual Quantity shown by the resulting increase and decrease in comparison to the Provisional Annual Quantity;
- (3) the number of Speculative Calculation enquiries made by the User during the preceding Gas Year;

(ii) by each End User Category:

- (1) the number of Supply Meter Points where the Annual Quantity has increased or decreased as a result of the successful applications referred to in TPD Section G1.6.18(i)(2) shown as a percentage of the total number of Supply Meter Points in that End User Category;
- (2) 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 TPD Section G1.6.18(i)(2);
- (3) 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 TPD Section G1.6.18(i)(2);

(iii) by each LDZ, the number of such successful applications made by the User during the User AQ Review Period (in accordance with TPD Section G1.6.7) that resulted in a User Provisional Annual Quantity shown by the resulting increase and decrease in comparison to the Provisional Annual Quantity.

(b) TPD Section G1.6.19:

For the purposes of TPD Section G 1.6.18:

- (i) "**User AQ Review Period**" is the period during which the User may apply for a User Provisional Annual Quantity in accordance with TPD Section G1.6.4(a), commencing on the AQ Review Date and ending on the 13 August in the preceding Gas Year;

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(ii) **"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.

(c) TPD Section G1.6.20:

The dates for the publication of the information to be contained in the report in accordance with TPD Section G 1.6.18 shall be in the case of:

(i) TPD Section G1.6.18(a) and (b), by no later than:

(1) 1 July, in respect of Smaller Supply Meter Points on an interim basis;

(2) 1 August, in respect of Larger Supply Meter Points on an interim basis; and

(3) 1 November in respect of all Supply Meter Points on a final basis;

in each case in the relevant Gas Year.

(ii) TPD Section G1.6.18(iii), by no later than 1 November in the relevant Gas Year, in respect of all Supply Meter Points on a final basis.

(d) Reporting by Transporters pursuant to TPD Section G1.2.26 shall not commence until Gas Year 2012/2013.

9 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
British Gas	Support
Corona Energy	Not in Support
EDF Energy	Support
E.ON UK	Neutral
National Grid Distribution	Qualified Support
RWE npower	Support
Scotia Gas Networks	Support
Scottish Power	Qualified Support
SSE	Support
Wales & West Utilities	Neutral

Of the 10 representations received 5 supported implementation, 2 offered qualified support, 2 were neutral and 1 was not in support.

Summary Comments

British Gas considers that currently, and despite the material scale of costs it assigns, there is no scrutiny of Shipper behaviour in the AQ appeal process and it is merely assumed that Shippers are compliant. They consider that this is an unacceptable risk to the accuracy of cost allocation in the gas market and liable to lead to significant distortions in Shippers' ability to compete if left unresolved.

British Gas believe that in providing transparency in this mechanism, Suppliers will be dissuaded from misusing the AQ appeals process, and undesirable behaviours such as selectively submitting reads may be prevented. This in turn will improve the accuracy of AQ values and therefore the accuracy with which costs are allocated. Extending the existing MOD81 reports so they include data on Shipper behaviour during the AQ appeal process is the easiest and most cost effective way of achieving this transparency.

British Gas are aware that some have argued that transparency of data may lead to incorrect conclusions being made about Shipper behaviour, but given transparency in itself merely allows the right questions to be asked rather than impose summary judgments, they reject this view. Instead, British Gas consider that facilitating the ability of the industry to ask questions when required, providing a self-governance mechanism, is an important benefit. This modification will actually enable different parts of the market to highlight the legitimate reasons that lead to differentiated

performance where they exist, and cast a light on Shippers where they misuse the industry process for commercial gain.

Corona Energy considers that the additional information that is to be provided (being a high level summary of Shipper activities with no surrounding context), will not provide sufficient clarity to achieve the proposer's purpose, which is to demonstrate that Shippers are abiding with the provisions of the UNC. This modification will therefore add cost and complexity to the industry for no appreciable gain and may lead to unfounded accusations being levied regarding Shipper activity, which may be perfectly appropriate.

EDF Energy note that this, and an associated suite of modifications, has been raised in response to British Gas' concerns regarding the performance of some Shippers in the 2009 AQ Review. However, they are dubious as to whether publication of this information would address these concerns or not. In particular, the performance of Shippers in the AQ Review and Appeals process could be consistent with the UNC requirements to take a consistent approach to AQ Amendments, but be outside of the average set by the industry. This could be caused by numerous business activities such as data cleansing, improved internal processes or system design that results in results that are not aligned with the rest of the industry.

E.ON UK does not oppose the publication of AQ Appeal information. However, they cannot identify how it can meaningfully improve the process, as there are many other variables to be considered. They have some concerns that conclusions may be drawn erroneously, which may outweigh any perceived benefits.

National Grid Distribution agrees that this modification would give an element of further transparency in the Annual Quantity review process with respect to AQ appeals and in principle are in favour of such. That said the proposer states "it is not possible to establish from the data in the MOD81 report whether any particular Shippers actions have or have not been compliant with the provision under Code". National Grid Distribution is uncertain whether provision of the additional requested data would rectify that situation.

National Grid Distribution acknowledge that this modification proposal would provide greater transparency regarding shippers' use of the AQ appeals process, they would challenge whether the new report suite would provide sufficient evidence of non-compliance or misuse of the existing code obligations.

National Grid Distribution advise that if Modification 0387 were to be implemented prior to this modification proposal then the legal text that has been provided would require amendment.

RWE npower considers that a robust method of control is needed around the AQ Review process to ensure that all Shippers fulfill their responsibilities to the market. A range of compliance measures should be considered to introduce an element of Performance Assurance for high value market processes. This modification will assist in identifying where anomalies occur and encourage shippers to address them.

Scotia Gas Networks are in support of the modification as it will give greater transparency over Shipper activity following the AQ review process. The current

process does not provide any data on AQ appeals and as such there is no audit trail of appeals and subsequent changes that may have been applied to AQs they therefore feel that this modification adds value to the AQ review process.

Scotia Gas Networks are however aware of the number of modifications raised in this area due to shipper concerns regarding AQ Review performance and do feel that a sustainable solution to address the root cause should be considered to provide the shipper community with the confidence that they require.

Scottish Power supports the principle of the modification but feels that it misses a real opportunity to give greater transparency to the AQ Review process. The modification proposes to introduce reports showing the aggregate movement during the Review period, the number of increases and decreases during the Review period, and the AQ appeals submitted outwith the Review period. It does not propose to record the full range of AQ amendments. For instance the modification as drafted will not provide a view per Shipper at the T04 stage that shows the percentage of AQs going up and down prior to the amendment phase starting. This would have shown what meter readings that are submitted during the year are doing to influence AQs and increase confidence in the process further. Also by focusing on AQ appeals the new reports will, in this regard, highlight changes to LSPs only.

Scotia Gas Networks advise that the modification as drafted will not provide reports on the entire possible range of AQ updates. Therefore it does not meet the proposer's intention of providing full transparency and or give the industry absolute confidence that Shippers are acting appropriately through the AQ process (during the Gas Year, amendment and appeal phases).

SSE agrees that the existing AQ reports do not provide sufficient transparency to ensure that all market participants are operating in a fair and correct manner. These new reports would provide substantially more information on activity in the appeals process and would highlight any abnormal behaviour.

Wales & West Utilities advise that throughout discussions on this modification they have been unable to identify the clear benefit of implementation and in particular how implementation will facilitate the relevant objectives.

10 Panel Discussions

The Panel Chair summarised that this modification seeks to increase the amount of data provided about the AQ Review process, with the increased transparency supporting scrutiny of the process.

Members recognised that providing greater transparency could help to demonstrate the degree to which Shippers are compliant with existing Code obligations, and this could be regarded as facilitating efficiency in the implementation and administration of the Code. There were, however, some concerns about the potential for different interpretations of the results that would act against this.

Members also recognised that publication of additional information is generally expected to support a well-informed and functioning market, such that implementation could be expected to facilitate the securing of effective competition. However, some Members were unclear that the information would have any market value and hence implementation may not facilitate the securing of effective competition. Other Members felt the publication of additional information would provide assurance that the AQ review process is operating as intended. This could deter potential misuse of the process, and support the industry in identifying and resolving any issues. This may be expected, in turn, to ensure that cost allocation in the gas market will be as accurate as possible thus facilitating effective competition between Shippers. Members recognised, however, that any benefit would only accrue if misuse would occur in the absence of the modification but not following its implementation. Ofgem is able to scrutinise the AQ process and has access to the proposed information but, to date, has not suggested that any misuse has been identified. In the absence of any evidence that there would be any change in behaviour, some Members felt it was difficult to conclude that there would be any impact on the Relevant Objectives as a result of implementation.

Members commented that the impact on the relevant objectives is finely balanced, but then voted and, with 7 votes in favour and 3 against, determined to recommend that Modification 0378 be implemented.

11 Recommendations

Panel Recommendation

Having considered Modification Report 0378, the Panel recommends:

- that proposed Modification 0378 should be made.

Appendix One – Overview of New Reports

Appendix One – OVERVIEW OF NEW REPORTS

AQ Appeal reporting (As in addition to existing MOD 81 reporting – This is the Publication of Statistical Information for AQ Appeals).

Release: Reports to be released on 1st of November (At the same time as the final MOD081 report) covering AQ Appeal activity during the period ending 30th September (of the year the report is released) for the previous gas year starting on the previous 1st October. This report would cover the same categories of supplies as the MOD 081 report (e.g. Live NDMs).

AQ Appeal: AQ Appeal activity would be defined as any confirmation resulting from a nomination using an AQ Appeal reference, where the confirmation effective date falls within the reporting period (the reporting period being 1st October to 30th September).

RSU: Registered System User at the time of the confirmation effective date of the AQ Appeal.

State: The Registered System User at the time of the confirmation effective date of the AQ Appeal.

Report 1 AQ APPEAL TRENDS REPORT – Total number of confirmed AQ Appeals by LDZ, count and energy

The report is split by LDZ, RSU and shows the number of confirmed AQ Appeals between the specified date parameters of the report. The report also captures how the energy values are affected, pre and post the confirmed AQ Appeals. Included will be any MP that has had a change in AQ resulting from and AQ Appeal. In the case of aggregated supply points, it is intended that only the MPs that had a change in AQ would be included (this applies to all reports).

LDZ	State	CountOfAppealedMPs	SumOfPrevious AQ	SumOfNew AQ
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Report 2 CONFIRMED AQ APPEALS – Increasing or Decreasing AQ (kWh) by Shipper

The report captures the total number of confirmed AQ Appeals for each RSU and shows the affect of the appeals on the previous AQ values (kWh). It also indicates how the industry is / has undertaken AQ Appeals in regard to a balanced approach being applied.

State	CountOfAppealedMPs	SumOfDecreasing AQs	SumOfIncreasing AQs
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Report 5 EUC BAND CHANGES – Decreasing AQs Energy for confirmed AQ Appeals

The report reflects the DECREASING energy values for each EUC Band and tracks how this energy is dispersed between other EUC Bands following the confirmed AQ Appeals. This report also captures in which EUC Zone the energy was allocated and then captures where the energy has moved zones as a result of the confirmed AQ Appeal.

State	LDZ	Previous EUC	01	02	03	04	05	06	07	08	09	Total Of
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	Identifier	Band											NEW AQ
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Report 6 EUC BAND CHANGES – Decreasing AQs by Meter Point for confirmed AQ Appeals

The report shows the same data as Report 5, although this report reflects the count of Meter Points and Report 5 shows the data in kWh following the confirmed AQ Appeals.

State	LDZ Identifier	Previous EUC Band	01	02	03	04	05	06	07	08	09	Total Of MPs
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Report 7 EUC BAND CHANGES – Increasing AQs Energy for confirmed AQ Appeals

The report reflects the INCREASING energy values for each EUC Band and tracks how this energy is dispersed between other EUC Bands following the confirmed AQ Appeals. This report also captures in which EUC Zone the energy was allocated and then captures where the energy has moved zones as a result of the confirmed AQ Appeal.

State	LDZ Identifier	Previous EUC Band	01	02	03	04	05	06	07	08	09	Total Of NEW AQ
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Report 8 EUC BAND CHANGES – Increasing AQs by Meter Point for confirmed AQ Appeals

The report shows the same data as Report 7 although this report reflects the count of Meter Points and Report 7 shows the data in kWh following the confirmed AQ Appeals.

State	LDZ Identifier	Previous EUC Band	01	02	03	04	05	06	07	08	09	Total Of MPs
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Report 9 EUC BAND CHANGES – Pre / Post confirmed AQ Appeal Movement

The report captures all of the movement between EUC codes following successful confirmed AQ Appeals. It shows the original starting point of the EUC Band (i.e. at the start of the report period) prior to the confirmed AQ Appeal and then shows the finishing point of the EUC Band (i.e. at the end of the report period). The final column is a count that captures the gains and losses, the movement of Meter Points within that EUC code. This report would not include acquired brown field and previously shipperless supplies.

State	LDZ Identifier	Previous EUC Band		Pre Appeal MPs	Post Appeal MPs	Difference
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