Stage 02: Workgroup 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.

The Workgroup recommends that this modification should now proceed to Consultation

Medium Impact:
Shippers

Low Impact:
Network Owners

Joint Office of Gas Transporters

Contents

1 Summary 3
2 Why Change? 5
3 Solution 6
4 Relevant Objectives 7
5 Impacts and Costs 8
6 Implementation 12
7 The Case for Change 12
8 Legal Text 13
9 Recommendation 16
10 APPENDIX ONE – OVERVIEW OF NEW REPORTS 17

About this document:

The purpose of this report is make a recommendation to the Panel, to be held on 20 October 2011, on whether Modification 0378 is sufficiently developed to proceed to consultation and to submit any further recommendations in respect of the definition and assessment of this modification.

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 be 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 & Costs

This Proposal 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 Proposal.

Implementation

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

The Case for Change

The Proposer consider 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. In addition, this Proposal 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

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.

facilitating efficiency in the implementation and administration of the Code. This Proposal will therefore facilitate Relevant Objectives (d) and (f).

Recommendations

The Workgroup considers that the modification is sufficiently developed and should now proceed to consultation.

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 than 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 ~£6.5m[1].

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 which 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 considers 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 is expected to better facilitate the achievement of **Relevant Objectives d and f.**

Proposer's view of 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.

The Workgroup considers 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 members consider 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. That 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 members disagreed that the modification is likely 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 considers this Proposal 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.

5 Impacts and Costs

Consideration of Wider Industry Impacts

None identified.

Impacts

This Proposal 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 Proposal, 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 1st 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	• None.
Operational Processes	• Minor
User Pays implications	• ROM produced

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	• None.
Development, capital and operating costs	• ROM produced
Contractual risks	• None.
Legislative, regulatory and contractual obligations and relationships	• None.

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	• None.
Development, capital and operating costs	• None.
Recovery of costs	• None.
Price regulation	• None.
Contractual risks	• None.
Legislative, regulatory and contractual obligations and relationships	• None.
Standards of service	• None.

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	• None.
UNC Committees	• None.
General administration	• None.

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

Development time is estimated to be 22 to 36 weeks.

7 The Case for Change

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

Draft Legal Text

Provided by National Grid Distribution.

Uniform Network Code – Transportation Principal Document Section G, paragraph 1.6

Amend paragraph 1.6 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 aggregate User Provisional Annual Quantity (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)(i)(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)(i)(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)(i)(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 01.6.18:

(a) **"User AQ Review Period"** is the period during which the User may apply for a User Provisional Annual Quantity in accordance with 1.6.18(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;

(b)(c) **"User AQ Appeal Period"** is the period during which the User may appeal the Annual Quantity notified by the Transporter in respect of a Supply Meter Point in accordance with paragraph 1.6.13(a), commencing on the date that the Annual Quantity is notified by the Transporter in accordance with paragraph 1.6.12 and ending on 31 July of the relevant Gas Year to which the Annual Quantity relates..

1.6.20 The dates for the publication of the information to be contained in the reports in accordance with paragraph 1.6.18 and 1.6.26 shall be in the case of:

(a) paragraph 1.1.1(a)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) and 1.6.26, by no later than 1 November in the relevant Gas Year, in respect of all Supply Meter Points on a final basis.

1.6.21 Upon a request by any User received no later than 1 April in the preceding Gas Year, the Transporter shall as soon as reasonably practicable after commencement of the following User AQ Review Period but not later than one month before the end of the User AQ Review Period provide the User with the details specified in paragraph 1.6.23 in respect of each Supply Point (other than an NTS Supply Point) for which the User is the Registered User (**"relevant"** Supply Point) at the date on which the Transporter is in receipt of the User's request (**"relevant date"**).

1.6.22 For the purposes of paragraph 1.6.23 the **"relevant period"** is the period of three (3) years ending on the relevant date.

1.6.23 Without prejudice to paragraph 1.6.24, the Transporter will provide to the User, in respect of any Supply Meter at a Supply Meter Point comprised in a relevant Supply Point during the relevant period, the following details:

(a) each Meter Reading held by the Transporter and the date of the Meter Reading, including:

(i) in respect of each meter or convertor exchange at the Supply Meter Point during the relevant period, the date of the meter or convertor exchange, the closing meter reading for the old

Supply Meter and the first meter reading for the new Supply Meter or convertor;

(ii) in respect of each Supply Point Registration in relation to the Supply Meter Point during the relevant period, the Opening Meter Reading provided to the Transporter (pursuant to TPD Section M3.8.2) or estimated Reading (determined pursuant to TPD Section M3.8.5) and any Meter Readings provided to the Transporter under TPD Section M3.3 and the date of such Meter Reading;

(iii) in respect of Opening Meter Readings, where installed, the converted and unconverted reading of the convertor;

(iv) whether the Meter Reading triggered a User Suppressed Reconciliation Value or a Suppressed Reconciliation Value; and

(b) in relation to the Supply Meter:

(i) the model name;

(ii) meter serial number, dials and digits;

(iii) metric/imperial indicator;

(iv) the convertor number of dials;

(v) the applicable conversion factor; and

(vi) the meter/convertor round the clock count.

1.6.24 The Transporter shall only be required to provide details in relation to a relevant Supply Point to the extent such details have not been provided to the User in response to an earlier request from the User under paragraph 1.6.21.

1.6.25 Provision of the details in accordance with paragraph 1.6.23 will be performed as a User Pays Service and the User shall pay (in accordance with Section S) a User Pays Charge to the Transporter.

1.6.26 The Transporters shall publish, by the dates specified in paragraph 1.6.20, a report on appeals containing the following information in respect of each User:

(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;

(iii) the change to the aggregate Annual Quantity (expressed in KWh) that has occurred due to the increases or decreases as a result of the successful appeals 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 appeals

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

(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)(i)(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)(i)(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)(i)(a)(ii);

(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)(i)(a)(ii);

9 Recommendation

The Workgroup invites the Panel to:

- AGREE that Modification 0378 be submitted for consultation.

10 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

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

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 Identifier	PreviousEUC Band	01	02	03	04	05	06	07	08	09	TotalOf NEW AQ

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	PreviousEUC Band	01	02	03	04	05	06	07	08	09	TotalOf MPs

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	PreviousEUC Band	01	02	03	04	05	06	07	08	09	TotalOf NEW AQ

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	PreviousEUC Band	01	02	03	04	05	06	07	08	09	TotalOf MPs

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