



# 0421:


## Improve AQ Performance

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

This modification will introduce a requirement for Shippers to have AQ performance levels to result in at least 85% of their AQs (SSP and LSP portfolios individually) updating during the Review process. Following the completion of the AQ Review a report will be produced advising of individual Shipper AQ Performance. If 85% AQ Performance level is not achieved in the following AQ Review, Shipper Charges will be applied.

 The Panel did not recommend implementation

 High Impact: Shippers

 Low Impact: Network owners

## Contents

- 1 Summary
- 2 Why Change?
- 3 Solution
- 4 Relevant Objectives
- 5 Impacts and Costs
- 6 Implementation
- 7 The Case for Change
- 8 Legal Text
- 9 Consultation Responses
- 10 Panel Discussions
- 11 Recommendation
- 12 Appendices

## About this document:

This Final Modification Report will be presented to the Panel on 20 December 2012.

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



### 3 Any questions?

#### 6 Contact:

Joint Office

12  [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

17 [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

20  0121 623 2115

26  0121 623 2115

#### Proposer:

26 Marie Clark  
ScottishPower

27  [marie.clark@scottishpower.com](mailto:marie.clark@scottishpower.com)

33 [marie.clark@scottishpower.com](mailto:marie.clark@scottishpower.com)

38 [marie.clark@scottishpower.com](mailto:marie.clark@scottishpower.com)

39  0141 568 3266

40  0141 568 3266

#### Xoserve:



[commercial.enquiries@xoserve.com](mailto:commercial.enquiries@xoserve.com)

0421

Final Modification Report

20 December 2012

Version 2.0

Page 2 of 42

© 2012 all rights reserved

# 1 Summary

## Is this a Self-Governance Modification?

The Panel has determined that this modification does not meet the self-governance criteria.

## Why Change?

The AQ Review process 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 a customer's bills. The current controls on a Shipper's use of the AQ Review process are not proportionate to the potential damage that could be done to competition were the process to be misused. The Workgroup considers that there should be more robust controls around the AQ Review process and not just the amendment phase.

More specifically, issues have been identified with AQ Performance, Data Quality and reporting, and these are explored in more detail in the body of this report and modification.

## Solution

This proposal will introduce a requirement for Shippers to have AQ Review performance levels to result in at least 85% of their AQs (SSP and LSP portfolios individually) updating during the Review process. At the commencement of the AQ Review Process, Xoserve issue files to the relevant Shipper with details of their Meter Point Portfolio and the "Transporter Provisional AQ Quantity" to apply within the forthcoming Gas Year. These files are commonly known as the T04 files. Mod 421 proposes that a Shippers AQ Review performance would include those sites, which have an updated AQ value at the 'Notification of Revision to Meter Point AQ stage' (T04), have been subject to successful AQ Appeal activity, and meter points where the Shipper has proposed a successful AQ amendment and that these meter points would count towards the update performance (in relation to 85%). For the avoidance of doubt the performance would take into account all meter points registered in the Shipper portfolio including dead (DE) and extinct (EX), which is explained later (Section 3, "Solution").

If a Shipper does not achieve an 85% or more performance level on their SSP and LSP portfolios individually, the Transporters would notify the individual Shipper(s) of their performance level. The initial AQ performance measure will be calculated based on an individual Shipper AQ performance following completion of the AQ Review process for 2012. This report can be used by Shippers as a benchmark against achieving the required 85% measure. For the avoidance of doubt no Shipper charges will be applied following the AQ Review 2012.

If implementation of this Modification is delayed, AQ Review performance reporting and Shipper Charges will commence on completion of the AQ Review 2013.

### Shipper Charges

Shipper Charges will not be applied against the AQ Review Performance measure following the AQ Review 2012. Irrespective of when Ofgem's decision is given, Shipper Charges will commence from completion of the AQ Review 2013. If the Shippers



**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 TPD Section G, from paragraph 1.6 onwards. Link [here](#).

0421

Final Modification Report

20 December 2012

Version 2.0

Page 3 of 42

© 2012 all rights reserved

performance is below the 85% level, then the Transporter would apply "Shipper Charges". The level of "Shipper Charges" would be applied in accordance with the values contained within the Business Rules 10 (Section 3, "Solution"). Shipper Charges displayed below have been calculated using data available within the current Mod 81 Report 10. Mod 81 Reports are produced on an anonymous basis following completion of the AQ Review:

Table 1

EUC Band	AQ Banding	Count of MPRNs	Sum of AQ	Average AQ Column 4 / Column 3	Assumed Error Column 5 * 5%	Shipper Charge (£) Column 6 *2.65p/kWh	Market Sector
1	1 - 73,200	21,271,089	323,598,194,446	15,213	761	20	SSP
2	73,201 - 293,000	205,805	25,413,305,411	123,482	6,174	164	
3	293,001 - 732,000	54,685	19,758,981,228	361,324	18,066	479	LSP
4	732,001 - above	31,736	23,541,533,369	741,793	37,090	983	

Notes: Data of EUC Band 5 – 9 excluded from calculations

Total Value of Data Excluded

- Sum of Meter Points - 15,108
- Sum of Current NDM AQ - 42,379,837,075
- SSC - Dallas (Transco A/c) – Count of MPRNs 196 Sum of Current NDM AQ 7,750,240,082

Charges would be applied per meter point, where the Shipper update of AQ has been below 85%, for all meter points where the AQ has not been updated (including those with a meter point status of dead and extinct) e.g. a Shipper who achieves 84% performance in the SSP sector would pay charges based on 16% of their NDM meter point count. It is not proposed that the Supplier charges are updated annually, as continuing with the existing methodology for establishing the charge would see the requirement to wait for the publication of the Xoserve MOD81 Report 10 (which is released in November each year). This would obviously bring uncertainty to the costs that Suppliers would face in the form of the charge. The Proposer considered the risk of this uncertainty against not including a facility for changing the charge and believed that it was more beneficial to keep the charge static. That said if any Party to the UNC believes that the charge needs to be updated to be more reflective of market conditions and the risk involved, then a modification proposal will be able to be raised and considered on its merits. Indeed a modification proposal could also be raised once the scheme is underway to determine the continued appropriateness of a static charge.

#### Re-distribution of Shipper Charges

Those NDM SSP Shippers who have met the 85% performance level will receive the re-distribution of the Shipper Charges, based on their market share.

An example of how Shipper charges will be calculated and re-distributed is provided later in the Modification Proposal (Section 3, "Solution").

## Impacts and Costs

This modification would place a requirement on the Transporter to calculate AQ update performance by a Shipper's ID, which would be provided to the Industry on an anonymous basis as per current Modification 0081 publication rules. A report would be issued with the published Modification 0081 reports with a Shipper's progressive

0421

Final Modification Report

20 December 2012

Version 2.0

Page 4 of 42

© 2012 all rights reserved

performance levels. The final Modification 0081 report would include a Shipper's final position in achievement of the AQ performance target.

The Transporter shall be required to administer the collection and redistribution of 'Shipper Charges'. Administration of this service will incur a cost, which shall be borne by Shippers who fail to meet the performance level. The charges collected by Transporters shall be wholly redistributed to those NDM SSP Shippers that met the relevant performance target.

Costs (ie 'Shipper Charges') would be placed on those Shippers whose performance is below 85% in each AQ Review.

## Implementation

No implementation timescales are proposed, however implementation to allow the initial AQ Performance measure to be applied to the results of the 2012 AQ Review and therefore drive immediate improvements in data quality and allocation is considered desirable.

## The Case for Change

Concerns were raised that the rules currently contained within the UNC around the AQ Review process do nothing to promote the update of AQ values on an annual basis, nor incentivise data quality. An incentive is needed to assure the accurate allocation of gas and transportation costs, given the significant consequences of not updating the AQs, both in respect of accurate allocation of costs and the implications of poor decisions on network investment.

In 2009 Scotia Gas Networks applied to Ofgem for a £28.4m re-opener for its Price Control for four areas, as it had insufficient capacity to meet new demand. In the determination Ofgem disallowed two areas and £5m, as it considered that Scotia Gas Networks could gain/negotiate more accurate SHQs from customers to obviate the need for the investment. Obviously accuracy of AQs and SHQs has a significant implication in such scenarios.

Given the 79% AQ performance in the LSP market it is unclear whether LSP sites are using readings to reallocate costs in time before the close out settlement period (when reallocation of costs will be lost).

Meter Reading performance suggests that meter readings are being submitted and accepted by Xoserve on behalf of Gas Transporters, however due to data anomalies the AQ value is not updating Tables 9 and 10. This results in an unquantifiable cost exposure and uncertainty for SSP Shippers and their customers.

The potential benefits of implementing this modification are set out in the Solution and Appendices and these exceed the Xoserve ROM costs of £240k to £460k.

The Proposer has prepared a detailed benefits case in support of this modification. Information relating to the benefits case can be found in the modification and supporting documents published on the Joint Office website.

## 2 Why Change?

The AQ Review process 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 customer's bills. The current controls on Shipper's use of the AQ Review process are not proportionate to the potential damage that would be done to competition were the process to be misused. There should be more robust controls around the AQ Review process, not just the amendment phase, but also the process overall.

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 determined by taking the amount of gas offtaken from the network and estimating the usage by the Daily Metered (DM) Large Supply Points and assigning the rest of the volume usage to the NDM LSP and SSP meter points based on their AQs. Once a meter reading for an LSP site (DM and NDM) is received the allocation is re-evaluated and any credits and debits are applied to the SSP NDM market.

The estimate referred to above is known as the Annual Quantity (AQ) value, and it is derived from historic consumption at a Meter Point. As with any other estimate based on historic information, the AQ will never absolutely reflect future usage, which in the case of energy is influenced by consumer behaviour (including reaction to price of fuel), regional variations, and weather and temperature effects.

Under the AQ Review rules, as set out in TPD Section G of the UNC (G1.6.3), the Transporter will notify the Shipper of the proposed AQ values for each site, based on the meter reading information sent to the Transporter throughout the year. The Shipper then has the right to amend the AQ, where in the case of a Smaller Supply Point it considers that the Provisional Annual Quantity should be greater or lesser than the Provisional AQ notified by the Transporter by not less than 5%. In respect of any Large Supply Point there is no such tolerance (ref UNC TPD G1.6.4 (a)).

There are conditions as to when a Shipper is permitted to submit an amendment. These are outlined in UNC TPD G1.6.4 (b), which states that the Shipper must reasonably consider that the Transporter's calculation of the Provision AQ is derived from either Meter Readings that are incorrect or were taken prior to Meter Readings available to the Shipper or where there are materially incorrect details used for the relevant Supply Meter Point.

In addition there is a requirement for the Shipper to have a consistent approach to submitting amendments to the Transporter.

The resultant AQs, which are established during the AQ Review process, are used to allocate gas and transportation costs across the industry for the next twelve months from October each year. It is therefore imperative that the AQs are accurate, in particular as any inaccuracy factors costs to the SSP market through Reconciliation by Difference (RbD). Adequate controls are required to be in place to ensure that there is no "gaming" of the process for commercial advantage.

There is equal ability to manipulate AQs via the AQ appeal process throughout the year. For this reason this modification is all encompassing and considers the AQ

Review overall and incentivises performance across all meter points in both market sectors.

The main issues seen with the AQ Review Process are set out in Section 1 "Summary" (above), however more detail of the issues is set out below:

### 1. Issues with AQ Performance

Over the past four years AQ Review performance by SSP and LSP Shippers has been reported by Xoserve<sup>1</sup> as follows:

AQ Review Performance Figures (Table 2)

1	2	3	4	5	6	7	8	9
AQ Performance Year	Total Population	No. Of Meter Points Calculated	% of AQs Updated	No. Of Meter Points not calculating (LSP Warnings Report)	Total Population	No. Of Meter Points	Total Calculated	No. Of Meter Points not calculating (SSP Warnings Report)
LSP				SSP				
2008	505,113	328,746	65%	176,367	22,283,934	18,088,731	81%	4,195,203
2009	478,170	322,609	67%	155,561	22,404,699	18,373,665	82%	4,031,034
2010	453,310	302,493	67%	150,817	22,664,240	18,748,122	83%	3,916,118
2011	419,936	280,185	67%	139,751	22,631,034	19,183,868	85%	3,447,166
2011	419,936	280,185	79%	139,751	22,631,034	19,183,868	88%	3,447,166

Meter Reading Performance Levels under the UNC require that for Monthly Read Sites, 90% of meter readings should be provided within 1 month and for all Meter Points once every 4 months. For Annual Read Meter Points, 70% of readings are required within 12 months and 90% within 2 years. In addition to the above must read obligations exist within UNC and meter inspection obligations within the Supply Licence.

AQ Review Performance levels, outlined in the above table, have been static over the last 4 AQ Review periods. Inaccuracy of the AQ values for the sites that are not updating factor straight into Reconciliation by Difference (RbD) volumes and has financial implications for SSP Shippers and their customers. In addition inaccurate AQs impact a Transporter's ability to accurately assess its network investment needs, can lead to flawed assumptions on network usage and subsequently could have an impact on security of supply (Transporters assuming lower network capacity requirements based on understated AQs or Transporters seeking additional investment to upgrade the networks due to overstated AQs). Some Workgroup participants therefore believe that the exposures of this issue need to be addressed through an incentive to improve AQ update performance.

### 2. Issues with Data Quality

Columns 5 and Column 9 of the above Table 2 "AQ Review Performance Figures" represent the number of Meter Points which have been reported within the Xoserve AQ Warnings Report for each AQ Review year. These Meter Points have **not re-calculated** an AQ value during the AQ Review process. As with the AQ Review performance figures, more detailed information is provided to the Industry following completion of the AQ Review process, of Meter Points that have **failed to re-calculate** an AQ value in the period that the AQ review applies. See Appendix 1, Datasets 1A (LSP), 2A (SSP) for more detailed information of Meter Points by market sector which appear on the AQ Review Warnings Report 2011. The AQ Warning Reports have been further split by those Meter Points with a **Registered Shipper User (RSU)** (Appendix 1, Dataset 1B, 1C (SSP), Dataset 2B, 2C (LSP) which failed to re-calculate an AQ value during the AQ Review process for 2011. Meter Points with a RSU may incur Transportation and energy charges depending on the current Meter Point Status/meter status and whether a UNC Isolation

<sup>1</sup> As per Xoserve Operational Forum Presentations following completion of AQ Review

status has been applied. Xoserve produces reports split by SSP and LSP market sectors under a description of failure reason codes.

Following completion of the AQ Review for 2011, a summary of the number of Meter Points with a **Registered Shipper User (RSU)** appearing within the AQ Warning Reports was as follows:

**Table 3**

AQ Review 2011 - AQ Warnings Report (RSU)		
Market Sector	Count of MPRNs	Sum of AQ
LSP	53,592	49,520,537,014
SSP	2,134,516	29,105,666,063

Note: Excludes Warning Category "Meter Point is owned by Transco"

**Table 4**

In addition to the above the No. Of "DE" and "EX" with a RSU are:

Market Sector	DE	EX
LSP	861	13
SSP	10,084	71

When examining Re-occurring AQ Warnings (consistently appearing for minimum of 3 years, ie 2009, 2010, 2011) with RSU the following information is reported:

**Table 5**

AQ Review 2011 - Re-occurring AQ Warnings Rep		
Market Sector	Count of MPRN	Sum of AQ
LSP	2,822	1,744,131,248
SSP	327,839	4,221,659,127

Note: Re-Occurring Warnings are a subset of totals reported within Tables 3 and 4

When an AQ value remains non-calculating, the SSP market sector bears the risk of any inaccurate AQ values and it is assumed that Transporters are using inaccurate figures to determine capacity requirements and make investment decisions.

When calculating the benefits for this modification, the Proposer has attempted to establish if non-calculating AQs are under/overstated. For SSP AQs, the Ofgem average domestic consumption values have been used for price comparison purposes. For each of the Ofgem AQ values, ie 11,000kWh, 16,500kWh and 23,000kWh, the under/overstated value has been calculated to identify the energy variance against the average AQ for each warning category, multiplied by the number of Meter Points within each category. As not all consumers will reside within a single AQ boundary, an estimate has been used to identify the probable portfolio mix. The findings reported that AQs within the SSP Warnings Report are understated by an average 13%. Using the AUGE SAP of 2.65p/kWh this equates to £101m, or £4.74 per SSP customer.

As a confidence check against Method 1, a further 2 scenarios were run, ie:

- **Method 2 using Data Set 1C** – Comparison against AQ Review 2011 SSP Average AQ calculated against Xoserve's Mod 0081, Report 10, EUC Banding



1B (Appendix 1, Method 2) (Basically the outturn values of the AQ Review by EUC Band including the AQ Warning Report Meter Points)

Findings - Probable error – SSP Warnings Report AQ values are approximately 11.5% understated = 3.366TWh

Value of misallocation between SSP Shippers of approximately £89.2m = £4.19 per SSP Customer.

- **Method 3 using Data Set 1C** – Comparison to AQ Review 2011 SSP Average AQ calculated against Xoserve's Mod 0081, Report 10, EUC Banding 1B, excluding the SSP AQ Warnings (Appendix 1, Method 3)

Findings - Probable error – SSP Warnings Report AQ values are approximately 12.85% understated = 3.742TWh

Value of misallocation between SSP Shippers of approximately £99.2m = £4.66 per SSP Customer.

Due to the nature and diversity of the LSP market sector, there are no Industry average consumption values available. Therefore it has been attempted to calculate the potential over/understatement of AQ values by using the following methods:

- **Method 4 using Data Set 2C** – LSP Using same methodology as SSP Method 1, ie applying a 13% understatement (Appendix 1, Method 4)

Findings - Under deeming to LSP Shippers, with over deeming to SSP Shippers

Probable understatement of energy – 1.721TWh

Value of under-allocation LSP Shippers of approx. £45.6m = £2.14 per SSP Customer.

- **Method 5 using Data set 2C** – Applying % under/overstatement (Appendix 1, Method 5)

Findings - Demonstrates the potential sensitivity to the SSP market from inaccuracies in the LSP site AQs.

Taking a prudent approach a +/- 5% adjustment in energy assigned against the LSP AQ Warnings Report translates to an under/overstatement of approximately 662GWh, £17.5m or £0.82 per SSP customer. However it is impossible to accurately state whether AQ movements will be positive or negative. However, it is more probable that Shippers will have proactively targeted Meter Points with over-estimated AQ values in order to mitigate financial exposure and risk. The current gas settlements process does not audit billing volumes versus settlement data.

**It is estimated that the potential benefit of this modification could be £118.5m.**

For LSP Meter Points when a valid meter reading is accepted and processed by Xoserve reconciliation will take place and the appropriate energy adjustment made. However, SSP Shippers through RbD allocation bear the financial risk of misallocation until such times as such reconciliations take place. Modification 0395/0398 analysis provided by Xoserve demonstrated that 3.39% of energy remained un-reconciled in 2010, (Source Mod 0395 Diagram). These reconciliations could result in a credit or debit being applied against the LSP Shipper whose Meter Point is subject to the reconciliation. Xoserve reports that the large majority of reconciliations result in a credit to LSP Shippers. From a commercial perspective, a Shipper is more likely to pursue the speedy resolution through reconciliation when it is of financial benefit to them, with other

0421

Final Modification Report

20 December 2012

Version 2.0

Page 9 of 42

© 2012 all rights reserved

outstanding reconciliations receiving less priority and with some being permitted to timeout with the closure of the Settlement Window (currently 4-5 year model).

For SSP misallocation no such reconciliation of energy and charges occurs.

**This potential benefit more than outweighs the implementation costs of £240k-£460k outlined within the Xoserve Rough Order of Magnitude for this modification.**

Meter Reading performance suggests that meter readings are indeed being submitted and accepted by Xoserve on behalf of Gas Transporters, however due to data anomalies which are not being addressed by Shippers the AQ value is not updating. This results in an unquantifiable cost exposure and uncertainty for SSP Shippers and their customers.

Analysis of the SSP AQ Warnings Report indicates that 2,052,983 Meter Points failed to recalculate an AQ due to problems with Meter Asset/Meter Readings data. This equates to 27.96TWh (£96.3m).

Table 6

Summary - Key Contributors - SSP Warnings Report	Count of MPRN	Sum of AQ	Cost per SSP Cust	Total SSP Cost (£m)
Note 1: Missing Meter Reads	674,592	9,528,103,158	£1.06	£22,609,
Note 2: New MPRNs or period between reading i.e. 6 months and 1 day not achieved	1,135,985	14,078,028,291	£4.24	£90,196,
Note 4: Calculated AQ value derived by Xoserve is less than the minimum AQ value of 1	242,406	4,353,034,883	-£0.78	-£16,500,
Totals	<b>2,052,983</b>	<b>27,959,166,332</b>	<b>£4.53</b>	<b>£96,306,</b>

Table 7

Summary - Key Contributors - LSP Warnings Report	Count of MPRN	Sum of AQ	Cost per SSP Cust	Total SSP Cost (£m)
Note 1: Missing Meter Reads	12,326	2,751,144,005	£0.45	£9,477,691
Note 2: New MPRNs or period between reading i.e. 6 months and 1 day not achieved	15,074	4,507,876,399	£0.73	£15,529,634
Note 4: There is not enough readings/consumption after the AQ/WC backstop date for AQ to be revised. It is a DM meter point, AQ is not calculated if AQ_WC_BACKSTOP date falls after the earliest possible start meter read date. If its an NDM Meter Point, AQ is not calculated if AQ_WC_BACKSTOP date falls within 6 months before processing date.	664	35,066,805,561	£5.68	£120,805,145
	<b>28,064</b>	<b>42,325,825,965</b>	<b>£6.85</b>	<b>£145,812,470.45</b>

## Implications of Industry Settlement

### Modification 0640 – End of Year Reconciliation

The need to introduce an appropriate AQ performance target is further substantiated by information presented at the Xoserve Customer Operations Forum (06 March 2012) on Modification 0640 End of Year Reconciliations (SSP to LSP movements).

Modification 0640 was implemented on 28 June 2004 to promote the prompt and timely appeal of AQ values, ie a Meter Point AQ indicates it is no longer an SSP Meter Point, but should be an LSP Meter Point. There are 2 scenarios related to Modification 0640:

- Scenario 1 - If a Shipper proactively submits an AQ appeal prior notification of the Xoserve Provisional AQ value, no reconciliation charges will be incurred.

0421

Final Modification Report

20 December 2012

Version 2.0

Page 10 of 42

© 2012 all rights reserved

- Scenario 2 – If a Shipper reacts to the Xoserve Provisional AQ and submits a valid AQ Appeal, which will take effect after the notification of the Xoserve Provisional AQ value Modification 0640 End of Year Reconciliation charges will be applied.

The undernoted table sets out the value of Modification 0640 End of Year Reconciliations applied over the last 3 Gas Years:

**Table 8** Modification 0640 End of Year Reconciliation

1	2	3	4	5	6	7	8	9	10
Period	Billed	No of Sites	Transportation	GRE Charge	Total	Energy Volume	Avg Vol per site kWh	Avg cost per site	Total SSP customer subsidy
2009/10	March 2010	20,482	£377,404	£16,676,317	£17,053,722	1046,227,623	51080	£833	£0.96
2010/11	March 2011	15,448	£328,098	£10,027,422	£10,355,519	861,100,251	56,846	£684	£0.58
2011/12	March 2012	23,310	£567,710	£29,304,836	£29,872,545	1537,340,220	65,952	£1282	£1.68
Columns 1-7 Figures taken from Xoserve's MOD640 annual reports Column 8 = Column 7 divided by Column 3 Column 9 = Column 6 divided by Column 3 Column 10 = Column 6 divided 17.8m									Divided by 17.8m (based on Xoserve AQ Operational Stats for SSP trial calc from 2011)

It was reported that invoice reconciliations of circa £30m (1,537GWh) were applied in March 2012 (period from 1/10/10 – 1/10/11) (above Table, line 3)). This value has increased from £10.3m (862GWh) in 2010. It has been reported that the number of Supply Points crossing the threshold (73,200kWh) has increased substantially (approximately 42%) within the last Modification 0640 reconciliation period compared to the previous year. It is therefore evident that failure to submit meter readings that will permit the AQ value to re-calculate presents a substantial risk to RbD Shippers. While a reconciliation of energy charges (invoice code GRE) and transportation charges (invoice code TRE) are applied back to the date that the previous AQ value became effective the application of LDZ Capacity Charges are not considered. Capacity Charges are calculated based on the Site Offtake Quantity (SOQ), ie will have been set in accordance with the previously calculated AQ. No retrospective capacity adjustment is performed to account for the increased offtake quantity as calculated under the Modification 0640 methodology.

Therefore the SSP market sector and their customers retain a proportion of cost in relation to delays where the Shipper has not proactively managed and adjusted AQ values. It should be noted that for the period that Meter Point AQ values remain non-calculating or unreconciled, the SSP market sector, through RbD allocation, retains the burden and risk of energy and cost misallocation.

In addition, the application of the Settlement Close date (current maximum period 5 years) will impact the re-adjustment of energy between SSP and LSP market sectors – where any period beyond this time that should have been reconciled will be lost (ie where the AQ has not been updated to reflect current usage within the last 5 years). Proposals to reduce the settlement close out period are being considered under Modifications 0395/0398.

0421

Final Modification Report

20 December 2012

Version 2.0

Page 11 of 42

© 2012 all rights reserved

### 3 Solution

This proposal will introduce a requirement for Shippers to have AQ performance levels to result in at least 85% of their AQs (SSP and LSP portfolios individually) updating during the Review process. At the commencement of the AQ Review Process, Xoserve issue files to the relevant Shipper with details of their Meter Point Portfolio and the "Transporter Provisional AQ Quantity" to apply within the forthcoming Gas Year. These files are commonly known as the T04 files. Mod421 proposes that a Shippers AQ Review performance would include those sites which have an updated AQ value at the Notification of Revision to the Meter Point AQ stage (T04 stage), have been subject to successful AQ Appeal activity, and those meter points where the Shipper has proposed a successful AQ amendment and that these meter points would count towards the update performance (in relation to 85%). For the avoidance of doubt the performance would take into account all sites in the Shipper portfolio including dead (DE) and extinct (EX).

#### Definition of Dead and Extinct as provided by National Grid on 2/7/12

EX – Extinct - This applies to Meter Point Reference Numbers (MPRN's) which have never had a corresponding physical service laid. This is used when an MPRN has been created for a service which was subsequently cancelled and never installed. It is also used for duplicate MPRNs. The duplicate (therefore the service) never actually existed in reality.  
DE – Dead - This is applied to Meter Point References which correspond to a physical service pipe which has been disconnected.

#### Justification for including Dead and Extinct

We have included Meter Points with a Dead and Extinct status within the AQ Performance calculation where the Meter Point remains registered within a Shipper portfolio. Meter Points with a Registered Shipper User (RSU) can be managed by the responsible Shipper via an update to the Meter Point /Meter Asset status. (An industry process exists to deal with DE and EX meter points. Assets details need to be removed and a withdrawal required. A new meter point requires to be created, registered and assets attached).

Current UNC Metering Reading performance obligations (UNC, Section M 3.4 & 3.5) require that for Monthly Read sites a meter reading must be submitted not less frequently than once every 4 calendar months. For Annual Read sites meter reading performance should not be less than 70% within 12 months and 100% within 24 months. While the AQ performance target has been set initially at 85%, we believe that the cumulative effect of meter reading submissions should have permitted a build up of meter reading history and therefore should not prevent individual Shipper from performing to this AQ target level.

If a Shipper does not achieve an 85% or more performance level for their SSP and LSP portfolios separately, the Transporter would notify the individual Shipper(s) of their performance level. The initial AQ performance measure will be calculated based on an individual Shipper AQ performance following completion of the AQ Review process for 2012. This report can be used by Shippers as a benchmark against achieving the required 85% measure. For the avoidance of doubt, Shipper Charges will not be applied following completion of the AQ Review 2012.

AQ Review performance reporting and application of Shipper Charges will commence on completion of the AQ Review 2013.

Shipper Charges will not be applied against the AQ Review Performance measure following the AQ Review 2012. Shipper Charges will commence from completion of the AQ Review 2013. If the Shippers performance was still below the 85% level, then the

0421

Final Modification Report

20 December 2012

Version 2.0

Page 12 of 42

© 2012 all rights reserved

Transporter would apply "Shipper Charges". The level of "Shipper Charges" would be applied in accordance with the values contained within the Business Rules. Charges would be applied per meter point, where the Shipper's update of AQ has been below 85%, for all meter points where the AQ has not been updated. E.g. a Shipper who achieves 84% performance in the SSP sector would pay charges based on 16% of their NDM meter point count.

### Re-distribution of Shipper Charges

NDM SSP Shippers who have met the 85% performance level will receive the re-distribution of the Shipper Charges, based on their market share and performance. Although the re-distribution of these charges will not fully compensate for the loss experienced by SSP Shippers through the burden of incorrect allocation costs, they will go some way to mitigate it. For the avoidance of doubt the cost faced by the Transporter for running the scheme and creating monitoring reports would be met by those Shippers who have failed the AQ performance target (ROM – Operational Costs). Such costs will be apportioned to those Shippers based on the number of portfolio meter points failing the 85% AQ performance level. Should no Shippers fail the 85% performance level, Transporter costs will be smeared across the industry based on the number of meter points registered by a Shipper as at 1<sup>st</sup> 1/10/YY.

Table 9A

SSP	Shipper Charge EUC 1B		20						
1	2	3	4	5	6	7	8	9	
Shipper	Count Of MPR	No. Of New Connection	No. Of MPRN Gains and Losses (Net position)	No. Of Eligible MPRNs (Count of MPRN Column (2)) – (New Connections Column (3)+ Count of Gains and Losses Column (4))	Count Of Eligible MPRN Updated	No. Of Eligible MPRN AQ Carried Forward	Performance % of eligible MPRNs calculated (i.e. Columns (6)/(5)*100	Shipper Charge (i.e. Column 7*E20)	
		MPRNs (AQ not updated)				(i.e. Columns (5)-(6))			
A	1000000	800	400	998800	880000	118800	88.11%	Pass	
B	150000	100	80	149820	135000	14820	90.11%	Pass	
C	650000	350	150	649500	535000	114500	82.37%	2,290,000	
D	45000	50	20	44930	42000	2930	93.48%	Pass	
Total SSP Shipper Charge									2,290,000

Table 9B

AQ Value	Shipper charge											
73,201- 293,000	£164											
293,001- 732,000	£479											
732,001- 2,196,000	£983											
1	2	3	4	5	6	7	8	9	10	11	12	
Shipper	Count Of MPR	No. Of New Connection	No. Of MPRN Gains and Losses (Net position)	No. Of Eligible MPRNs (Count of MPRN Column (2)) – (New Connections	Count Of Eligible MPRN Updated	No. Of Eligible MPRN AQ Carried Forward	Performance % of eligible MPRNs calculated (i.e. Columns (6)/(5)*100	Shipper Charge EUC Banding 2	Shipper Charge EUC Banding 3	Shipper Charge EUC Banding 4	Shipper Charge (Sum Columns 9, 10, 11)	
		MPRNs (AQ not updated)				(i.e. Columns (5)-(6))						
E	30000	800	400	28800	24000	4800	85.59%	Nil	Nil	Nil	Pass	
F	25000	100	80	24820	19400	5420	78.16%	£834,433	£143,626	£19,658	997,716	
G	14000	350	150	13500	11500	2000	81.65%	£310,867	£35,907	£24,572	371,345	
H	0	0	0	0	0	0	0.00%	Nil	Nil	0421	N/A	
Total LSP Shipper Charge									£1,145,300	£179,533	£44,229	1,369,062

Shipper F - EUC B and 2 - 5100 Meter P oints, EUC B and 3 - 300 Meter P oints, EUC band 3 - 20 Meter P oints

Shipper G - EUC B and 2 - 1900 Meter P oints, EUC B and 3 - 75 Meter P oints, EUC band 3 - 25 Meter P oints

Final Modification Report

20 December 2012

Table 10

Version 2.0

Page 13 of 42

© 2012 all rights reserved

Shipper Costs Re-Distributed to SSP only		
Total Value of Shipper Costs	SSP	2,290,000
	LSP	1,369,062
	Total	3,659,062

Shipper (1)	Count of MPR (2)	Market Share (3)	Cost Re-Distribution (4)
	Total no. of MPRNs >=85% Report 7, Column 5	Count of Eligible MPRN / Total no. of Eligible MPRNs across all Users meeting performance target =Column (2)/(Sum of Column(2))*100	Shipper Costs Re-Distributed to SSP only
A	880,000	83.25%	3,046,333.36
B	135,000	12.77%	467,335.23
D	42,000	3.97%	145,393.18
Total	1,057,000	100.00%	3,659,061.77

Xoserve has arranged an AQ Workshop scheduled for 3<sup>rd</sup> October 2012 to discuss the 2012 AQ Review and to discuss improvement in reporting and progression of AQ Warnings issues. This workshop will consider the Warnings issues and should allow Shippers a greater insight into the issues that result in Warnings and how to address them.

**Business Rules –** Within these rules references have been made to date ranges to assist Xoserve in the production of the ROM, reporting requirements and mechanism for the re-distribution of Shipper Charges. (this takes the form DD/MM/YY)

1. The calculation of AQ update performance will, subject to Business Rules 2 to 5, include all meter points in a Shipper's portfolio including those with a meter point status of Dead or Extinct, as held by the Transporter. Xoserve shall extract portfolio data as at 30/9/YY to identify Meter Points whose AQ updating during the Review Process in that year (YY). This would include those meter points, which update by the T04 stage, have been subject to successful AQ Appeal activity, and those meter points where the Shipper has proposed a successful AQ amendment. Meter Points that have been subject to any AQ Appeal activity (between 1/10/YY-1 and end of performance year YY), and as a consequence, have been successfully appealed (i.e. confirmation of AQ Appeal has been accepted) in the current Gas Year will be included within the 85% target.
2. New Connection sites established in the Gas Year in which the AQ Review is performed will be excluded from the 85% target if they fail to re-calculate. For the avoidance of doubt, if a new connection established within the Gas Year in which the AQ Review is performed does calculate it will be included in the calculation of the AQ update performance.
3. Threshold Crossers activity between 1/10/YY and the end of the performance year 30/9/YY. Threshold Crossers include AQ movements from LSP to SSP and vice versa) AQ activity will be included in the performance reports and will contribute to the market sector in which the AQ value was initially determined e.g. LSP to SSP AQ movement, will contribute to LSP performance measure. Meter points that have been gained and lost from a given shipper's portfolio following portfolio extract on 01/04/YY shall be excluded from the AQ performance calculation. i.e. Those meter points that are not common in the extract as at 01/04/YY and 30/09/YY will be excluded from the performance calculation.
4. The performance by Shipper would be calculated on a per Shipper ID on individual SSP and LSP portfolios basis and not by Licenced entity<sup>2</sup> and is the same level, irrespective of market segment.

0421

Final Modification Report

20 December 2012

Version 2.0

Page 14 of 42

© 2012 all rights reserved

<sup>2</sup> This mirrors the BSC electricity process around performance assurance.

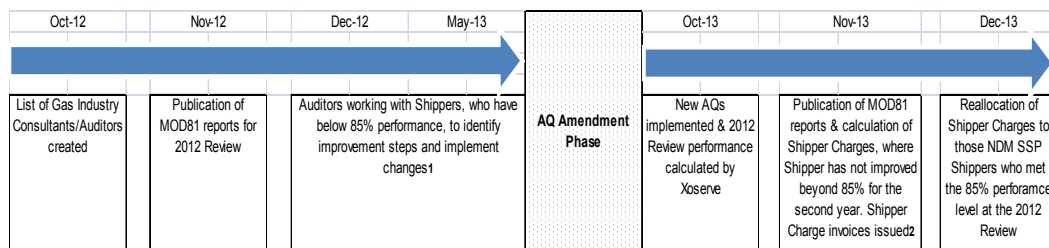
5. For the avoidance of doubt the assessment of Shipper performance at the end of the Review period should not be impacted by the Xoserve 5 year review of WAALP or any such similar initiatives or UNC business as usual process.
6. The initial AQ performance measure will be calculated based on an individual Shipper AQ performance following completion of the AQ Review process for 2012. This report can be used by Shippers as a benchmark against achieving the required 85% measure. AQ Review performance reporting and application of Shipper Charges will commence on completion of the AQ Review 2013.
7. New market entrants will not be subject to the scheme until after at least 12 months from the point of registering sites, as during that time the majority of their sites will be gains and they will have no meter reading history. New entrants will therefore be excluded from paying and receiving any charges in at least their first year nor shall their performance be shown in the anonymised reports provided to the industry. Once a shipper has a Live Confirmation prior to 01/10/YY-1 they shall be included in the year YY performance review. If 85% performance is achieved by the new entrant in year one, then they will be included within the re-distribution of charges together with all other Shippers who have met the target.
8. The Transporter will provide, on an anonymous basis but using the same pseudonyms as used in the Mod 81 reports, interim AQ performance reports at the same time as the issue of the published Mod 81 reports (1<sup>st</sup> July and 1<sup>st</sup> Aug) to inform Shippers of their progressive AQ amendment activity. For the avoidance of doubt Xoserve shall not be required to provide individual reports to each Shipper.
9. The Transporter would identify Shipper performance and indicate the number of Shippers where performance was below the 85% minimum standard and by how much (across their separate SSP and LSP portfolios). This report would be provided to industry on an anonymous basis, using the same pseudonyms as used in the Mod 81 reports, at the same time as the published MOD081 final report showing industry performance and would include all shippers. For the avoidance of doubt Xoserve shall not be required to provide individual reports to each Shipper.
10. "Shipper Charges" will be levied on the basis of an appropriate incentive charge in accordance with the undernoted

<b>EUC Band</b>	<b>AQ Banding</b>	<b>Shipper Charge (£) Column 6 *2.65p/kWh</b>
1	1 - 73,200	£20
2	73,201 - 293,000	£164
3	293,001 - 732,000	£479
4	732,001 - above	£983

11. The level of Shipper Charges will be kept under review. However any UNC Party will be entitled to raise a Modification to revise the Shipper Charges at anytime. Where a Shipper's performance is below the 85% AQ update level The "Shipper Charge" will be calculated separately by SSP and/or LSP portfolio taking into consideration the requirements of Business Rules 1-5. The charges to those Shippers who have failed to meet the performance criteria will be issued on an ad-hoc invoice as a one off charge in the next available invoice.
12. There will be a re-distribution of the "Shipper Charges" to all of those NDM SSP Shippers who have had achieved 85% and above performance. The total value of charges will be distributed to Shippers on the basis of SSP market share at the final portfolio extract at [30/09/YY] (based on number of eligible MPRN's), relative to all those other Shippers who have met or exceeded the 85% performance level. The SSP portfolio will be determined based upon the prevailing AQ at the start of the AQ performance year.

13. The re-distribution will take place in the next available invoice following receipt of payment of Shipper Charges.
14. Costs incurred by Transporters for administering the AQ performance scheme will be met by those Shippers who have failed the AQ performance target. The costs apportioned to failing Shippers are charged to each failing Shipper based upon each failing Shippers individual proportion of the total number of failing Shippers in each market sector as measured on 30<sup>th</sup> September after the relevant AQ review. These costs are separate to the 'Shipper Charges' i.e. the charges collected by Transporters shall be wholly redistributed to those Shippers that met the relevant performance target.
15. Where there are no Shippers who meet the 85% performance level, or all Shippers meet the 85% level, any costs incurred by the Transporter will be apportioned to Shippers based upon each Shipper's individual proportion of total number of non-daily metered supply points. This proportion is to be measured as at the 30th September after the relevant AQ review. For the avoidance of doubt in the first year of the scheme, where only monitoring takes places, any costs incurred by the Transporter will be apportioned in the same manner – i.e. to Shippers based upon each Shipper's individual proportion of total number of non-daily metered supply points. This proportion is to be measured as at the 30th September after the relevant AQ review.
16. For the avoidance of doubt Daily Metered and Unique Sites will be excluded from this process.

The process is demonstrated in the chart on the following page.





## 4 Relevant Objectives

Impact of the modification on the <b>Relevant Objectives:</b>	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Positive
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.	Positive
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.	Positive
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.	None
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.	None

### **a) Efficient and economic operation of the pipe-line system.**

By driving more accurate AQs through incentivising update performance, Transporters will have a more accurate picture of customer demand. This in turn will be able to be factored into decisions on system capacity planning and investment.

### **c) Efficient discharge of the licensee's obligations.**

This modification will support all licensees in meeting their obligations to maximise the accuracy of data supporting the AQ review process and associated performance by incentivising parties to update data for sites in a timely manner to ensure the costs are accurately reflected.

**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.**

At the present time there is a potential misallocation of significant sums of money in the application of transportation costs and through reconciliation by difference and it is not apparent that this is uniform across all Shippers in each market sector. This modification will address these issues, through promoting the timely update of AQ values and placing incentives on performance of AQ update. In addition Shippers will address data anomalies, which stop sites with adequate meter readings from updating AQs and will encourage Shippers who are not providing sufficient meter readings to do so. This will have positive implications for customer billing and should help reduce the potential for Shippers to game the AQ Review process to their commercial advantage.

This solution also has the potential to reduce the number of sites appearing on the AQ Warning Report and may leading to more accurate billing and less issues with sites when they transfer Supplier.

Some Workgroup participants were concerned that Shippers may be highlighted as failing to meet UNC requirements, which may damage their reputation due to the publication of data which some consider commercially sensitive.

A Workgroup participant was concerned that the modification places a focus on the timely submission of meter reads but there is no guarantee that this will lead to more accurate AQs as a result of parties performing their meter read obligations, as the meter read may not be accurate and therefore does not reduce risk in this area.

Some Workgroup participants consider there are a number of reasons why an AQ may not be accurate and more frequent reads should reduce this risk, therefore more timely submissions of meter reads should give industry participants more confidence that the AQ is accurate.

The submission of more frequent meter reading may not lead to the recalculation of AQs, as these may already be accurate. Therefore it may not be possible to gain the full benefits stated in the modification.

Should the provision of more frequent meter readings lead to more accurate AQs, this would allow Transporters to more accurately calculate and levy cost reflective transportation charges to the correct market sectors.

British Gas does not agree that this proposal facilitates any of the UNC relevant objectives.

Both Corona Energy and First Utility were concerned that this modification will not further Relevant Objective d) as it could potentially adversely affect competition given the impact on relevant Shippers.

EDF Energy was not convinced that the modification incentivises Shippers more than the current regime in place to ensure that meter readings are sent in a frequent and timely manner to Xoserve to be utilised in the AQ calculation, and therefore implementation does not further the relevant objectives.

While National Grid Distribution agrees that "there is a potential misallocation of significant sums of money in the application of transportation costs and through

reconciliation by difference and it is not apparent that this is uniform across all Shippers in each market sector. This modification will address these issues, through promoting the timely update of AQ values and placing incentives on performance of AQ update”, National Grid Distribution is unclear whether the level of the proposed incentive through the ‘Shipper Charges’ would be sufficient to discourage inactivity or inappropriate behaviours.

National Grid Distribution and Scotia Gas Networks challenge the comment “Should the provision of more frequent meter readings lead to more accurate AQs, this would allow Transporters to more accurately calculate and levy cost reflective transportation charges to the correct market sectors”. Transporters always seek accuracy and cost reflectivity of charges and they do this based on the prevailing contractual regime and data made available.

With regard to objective a), Scotia Gas Networks notes that AQ values have very little influence on how it assesses capacity requirements on its network.

ScottishPower considers that the UNC does not stipulate a minimum AQ Review Performance measure and therefore lacks appropriate incentives for Shippers to manage AQ and data updates in a timely and accurate manner. Introducing a minimum standard of 85% within the UNC creates the correct incentive for Shippers to pro-actively manage their portfolio updates to Xoserve in a timely manner to permit AQ values to recalculate. Increased frequency of AQ updates and improved data quality will allow Transporters to allocate costs to the correct Shipper and market sector.

ScottishPower considers the increased accuracy in cost allocation between market sectors and between individual Shippers will have a positive effect on competition and could encourage new entrants – new entrants will have increased confidence that they will not be allocated energy volumes and costs that do not directly relate to their customers.

## 5 Impacts and Costs

### Consideration of Wider Industry Impacts

This modification is unlikely to have wider industry impacts.

### Impacts

This modification will impact both Shippers and Network Owners. Network Owners will need to procure or provide the audit service and Shippers will bear the costs associated with that.

### Costs

Both National Grid Distribution and Scotia Gas Networks consider the significance of AQ accuracy purely in terms of systems planning and investment is low. By far the greater role and function of the AQ is in the allocation and reconciliation of energy between Users having NDM Supply Points. Consequently, they support a User Pays arrangement based on a "100% User/0% Transporter" split of charges and note that a proposed ACS change has been submitted based on this.

#### Indicative industry costs – User Pays

##### Classification of the modification as User Pays or not and justification for classification

This modification is classified as User Pays, since the Transporter Agency will face additional costs.

##### Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

### Set-up costs

Shippers and Transporters will share the cost of the set up of the requirements for the modification, eg establishing reporting capability, and providing a mechanism to recover and redistribute 'Shipper Charges', the costs of which will be split between the Transporters and Shippers on a 50:50 basis. This is because it is equally in the Transporters' interests to have accurate AQs for systems planning and efficient network investment, as it is for the Shippers to ensure fair apportionment of costs.

The data analysis presented demonstrates that data quality is a fundamental reason why AQ values may not be re-calculating. Transporters have a responsibility under the UNC and Licence to ensure accuracy of cost allocation between Shippers.

The costs apportioned to Shippers are to be charged to each Shipper based upon each Shipper's individual proportion of total number of non-daily metered supply points (based on the market sector at the period). This proportion is to be measured as at the date of implementation. Note this excludes Daily Metered and Unique Sites.

### Operational Costs

The operational cost of the modification will however be met by those Shippers who fail to achieve the performance level of 85%. Costs incurred by Transporters for administering the AQ Performance scheme will be met by those Shippers who have failed the AQ performance target. Such costs will be apportioned to those Shippers based on the number of portfolio meter points failing the 85% AQ performance level.

Where there are no Shippers who meet the 85% performance level, or all Shippers meet the 85% level, any costs incurred by the Transporter will be smeared across the industry based upon the proportion of meter points within that Shipper's portfolio as at 30/09/YY in relation to the total industry meter point portfolio. For the avoidance of doubt in the first year of the scheme, where monitoring takes places, any costs incurred by the Transporter will also be smeared to each Shipper based upon the proportion of meter points within that Shipper's portfolio as at 30/09/YY in relation to the total industry meter point portfolio.

Xoserve has indicated that development costs would be in the region of £240k to £460k. On going costs would be in the region of £25k to £55k.

Draft ACS Service Lines are shown below.

Proposed charge(s) for application of Users Pays charges to Shippers

To be advised.

Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

18 Establishment of the arrangements to facilitate the AQ Audit – Modification 421 refers	Set up service	Code Service	Shippers under the UNC		The charging basis to Shippers is:  The costs apportioned to Shippers are to be charged to each Shipper based upon each Shipper's individual proportion of total number of non-daily metered supply points. This proportion is to be measured as at the date of implementation.  Note Excludes Daily Metered and Unique Sites.	Tbc
---	----------------	--------------	------------------------	--	--	-----

<p>19 Provision of the services to facilitate the AQ Audit – Modification 421 refers. One or more shipper fail the performance standard</p>	<p>Analysis of shipper AQ review performance.</p> <p>Note: in any one year only one of service line 19 or 20 will apply, not both.</p>	<p>Code Service</p>	<p>Shippers under the UNC who fail the performance standard</p>	<p>The detailed analysis of each shippers AQ review performance for each shippers smaller supply point and larger supply point portfolio, measured against the performance standard.</p> <p>The provision of reports to the industry and individual shippers. For shippers failing the performance standard, notification of this failure.</p> <p>The reasonable provision of data to Ofgem</p>	<p>The charging basis to failing Shippers is:</p> <p>For Smaller Supply Point Portfolios:</p> <p>The costs apportioned to failing Shippers are charged to each failing Shipper based upon each failing Shippers individual proportion of the total number of failing Shippers smaller supply point meter points as measured on 30th September after the relevant AQ review.</p> <p>For Larger Supply Point Portfolios:</p> <p>The costs apportioned to failing Shippers are charged to each failing Shipper based upon each failing Shippers individual proportion of the total number of failing Shippers larger supply point meter points as measured on 30th September after the relevant AQ review.</p> <p>Note Excludes Daily Metered and Unique Sites.</p>	<p>Tbc</p>
<p>20 Provision of the services to facilitate the AQ Audit – Modification 421 refers. No shipper achieves performance target or all shipper performance above target</p>	<p>Analysis of shipper AQ review performance.</p> <p>Note: in any one year only one of service line 19 or 20 will apply, not both.</p>	<p>Code Service</p>	<p>Shippers under the UNC</p>	<p>The detailed analysis of each shippers AQ review performance for each shippers smaller supply point and larger supply point portfolio, measured against the performance standard.</p> <p>The provision of reports to the industry and individual shippers.</p>	<p>The charging basis to Shippers is:</p> <p>The costs apportioned to Shippers are to be charged to each Shipper based upon each Shipper's individual proportion of total number of non-daily metered supply points. This proportion is to be measured as at the 30th September after the relevant AQ review.</p> <p>Note: excludes Daily Metered and Unique Sites</p>	<p>Tbc</p>

## Impacts

### Impact on Transporters' Systems and Process

Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> <li>System impacts identified</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>Impacts identified.</li> </ul>

### Impact on Users

Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Users	
Development, capital and operating costs	<ul style="list-style-type: none"> <li>Those Shippers who failed to meet the performance level may have increased operating costs, but these would be in line with the costs of those Shippers who are currently meeting the performance level and therefore will only serve to put the Shippers on an equal footing. There may be a capital investment required, but again this will be to address the Shipper's shortcomings.</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>None</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> <li>None identified.</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>This modification should help to ensure that the network is only sized to meet the consumer demand and therefore should be beneficial in the efficient use of capital.</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>This modification may ensure that recovery of costs are made at the correct level from each party, as the AQRs will be more accurate and costs targeted at those Users who have greater throughput on the networks.</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>None</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>None</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>None</li> </ul>
Standards of service	<ul style="list-style-type: none"> <li>None</li> </ul>

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

Impact on Code	
Code section	Potential impact
General	GTC - Interpretation
TPD	Section G – Supply Points

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

No implementation timescales are proposed, however implementation to allow the initial AQ Performance measure to be applied to the results of the 2012 AQ Review and therefore drive immediate improvements in data quality and allocation, is considered desirable.

### *Summary*

Initial AQ Review Reporting following completion of AQ Review 2012. AQ Review Reporting and Shipper Charges to apply following completion of AQ Review 2013.

The application of Shipper Charges would not kick in until the AQ Performance measure calculated following the AQ Review in 2013.

ScottishPower considers that as this modification has been in development for 20 months it should be implemented with initial AQ Performance reporting calculated based on an individual Shipper AQ Review performance for 2012. This report can be used by Shippers as a benchmark against achieving the required 85% measure. AQ Review performance reporting and application of Shipper Charges should commence on completion of the AQ Review in 2013.

SSE considers that this modification should not be implemented until after the results for the AQ Review of 2013 have been published and these results should not be subject to these targets. The T04 files sent out by Xoserve start calculating using reads taken from April in the previous year and so to implement this modification for the performance statistics for 2013 would have an element of retrospectivity as the T04 files produced for April 2013 would start using end reads received from April 2012, and any Shipper not meeting these targets since last April would only have a few months to catch up to a target of 85%.

Given that the AQ review process takes end readings received from April in the previous year it could be argued that if any Shippers need to change their systems and processes to achieve an 85% target, then as the receipt of readings for T04 files starts in April, the performance of AQ Review 2014 effectively starts in April 2013 (readings taken after this date and used for amendments during the summer may fall foul of the +5%, -5% tolerance rule) and so the first set of reports that should be subject to these targets would be those published after the AQ review of 2015.

## 7 The Case for Change

None in addition to those identified above.

## 8 Legal Text

The Workgroup has considered the Legal Text contained within the Workgroup Report and provided comments on the content and formatting of the text.

The following text has been provided by Wales & West Utilities in response to comments received on the Draft Modification Report.

### UNC General Terms – Section C

***Insert the following new definition after the definition of "Back Stop Reconciliation Month"***

**"Code Administrator"** has the meaning ascribed to that term in paragraph 2.1 of the Modification Rules;

### UNC Transportation Principal Document – Section G

***Amend paragraph 1.6.18 a, b and c and insert the following new paragraph 1.6.18 d and e:***

- 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 respect of each User 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) in respect of each User 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) in respect of each User, 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
- (d) in respect of each AQ Review User (in respect of the relevant AQ Review Year), the percentage (to two decimal points) of Smaller Supply Meter Points within that AQ Review User's Smaller Supply Meter Point AQ Review Portfolio of which:
  - (i) the Provisional Annual Quantity, or
  - (ii) where paragraph 1.6.7 applies in relation to that Smaller Supply Meter Point, the User Provisional Annual Quantity, differs from the Annual Quantity of that Smaller Supply Meter Point for that AQ Review Year;
- (e) in respect of each AQ Review User (in respect of the relevant AQ Review Year), the percentage (to two decimal points) of Larger Supply Meter Points within that AQ Review Incentivized User's Larger Supply Meter Point AQ Review Portfolio of which:
  - (i) the Provisional Annual Quantity or
  - (ii) where paragraph 1.6.7 applies with respect to that Larger Supply Meter Point, the User Provisional Annual Quantity, differs from the Annual Quantity of that Larger Supply Meter Point for that AQ Review Year.

***Insert the following new paragraph 1.6.20 c and d:***

"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;

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;

(c) paragraph 1.6.18(d), by no later than:

- (i) 1 July in the relevant AQ Review Year on an interim basis; and
- (ii) 1 November in the next following Gas Year on a final basis; and

(d) paragraph 1.6.18(e), by no later than:

- (i) 1 August in the relevant AQ Review Year, on an interim basis; and
- (ii) 1 November in the next following Gas Year, on a final basis,

***Insert the following new paragraph 1.6.26:***

“1.6.26 Preparation and publication of the reports pursuant to paragraphs 1.6.18(d) and (e) and 1.6.20(c) and (d) will be performed as a User Pays Service.”

***Insert the following new paragraphs 1.21***

**1.21 AQ Review Performance Incentive**

1.21.1 For the purposes of the Code, in relation to any User and a Gas Year (an “AQ Review Year”):

- (a) the AQ Review Portfolio is all of the User’s Registered Supply Meter Points on the last day of that ‘AQ Review Year’, but excluding;
- any DM Supply Meter Point;
- any New Supply Meter Point first entered into the Supply Point Register in the AQ Review Year the Annual Quantity of which does not change on commencement of the next following Gas Year;
- any Supply Meter Point in relation to which that User became the Registered User after 31 March in that Gas Year;
- any Specified Exit Point;
- (b) the “Larger Supply Meter Point AQ Review Portfolio” is the totality of
- (i) all of the Larger Supply Meter Points within the User’s AQ Review Portfolio in relation to that AQ Review Year excluding Trans-threshold Larger Supply Meter Points; and
- (ii) all of the Trans-threshold Smaller Supply Meter Points within that User’s AQ Review Portfolio in relation to that AQ Review Year;
- (c) the “Smaller Supply Meter Point AQ Review Portfolio” is the totality of the Smaller Supply Meter Points within the User’s AQ Review Portfolio in relation to that AQ Review Year;
- (i) all of the Smaller Supply Meter Points within the User’s AQ Review Portfolio in relation to that AQ Review Year excluding Trans-threshold Smaller Supply Meter Points; and
- (ii) all of the Trans-threshold Larger Supply Meter Points within that User’s AQ Review Portfolio in relation to that AQ Review Year;
- (d) a “Trans-threshold Larger Supply Meter Point” is a Larger Supply Meter Point on the last day of the AQ Review Year

which was a Smaller Supply Meter Point on the first day of the AQ Review Year;

- (e) a “**Trans-threshold Smaller Supply Meter Point**” is a Smaller Supply Meter Point on the last day of the AQ Review Year which was a Larger Supply Meter Point on the first day of the AQ Review Year;
- (f) the “**Inactive Larger Supply Meter Point AQ Review Number**” is the total number of Supply Meter Points within the User’s Larger Supply Meter Point AQ Review Portfolio in relation to that AQ Review Year, the Annual Quantity of which does not change on commencement of the Gas Year next following the AQ Review Year; and
- (g) the “**Inactive Smaller Supply Meter Point AQ Review Number**” is the total number of Supply Meter Points within the User’s Smaller Supply Meter Point AQ Review Portfolio in relation to that AQ Review Year, the Annual Quantity of which does not change on commencement of the Gas Year next following the AQ Review Year.

1.21.2 For the purposes of the Code, in relation to an AQ Review Year:

- (a) the “**AQ Review Incentive Aggregate Payment**” is the aggregate of the payments received by the Transporters in a month in respect of Larger Supply Meter Point AQ Review Incentive Charges and Smaller Supply Meter Point AQ Review Incentive Charges in respect of that AQ Review Year;
- (b) an “**AQ Review User**” is a User which acceded to the Code prior to the commencement of that AQ Review Year.

1.21.3 Where an AQ Review User’s Inactive Larger Supply Meter Point AQ Review Number in relation to an AQ Review Year is more than 15% (to two decimal points) of the number of Supply Meter Points in that User’s Larger Supply Meter Point AQ Review Portfolio, the Transporters shall notify that User accordingly and the User shall (in accordance with Section S) pay the Transporters (allocated between them in such proportion as the Transporters shall determine):

- (a) a “**Larger Supply Meter Point AQ Review Incentive Charge**” will be calculated as follows:

$$I = N * \text{relevant AQ banding charge in (b)}$$

Where:

I is the Larger Supply Meter Point AQ Review Incentive Charge

and

N is the User’s Inactive Larger Supply Meter Point AQ Review Number in relation to that AQ Review Year; and

(b)

<u>AQ banding</u>	<u>Shipper ID Charge £</u>
<u>1-73,200</u>	<u>20</u>
<u>73,201 – 293,000</u>	<u>164</u>
<u>293,301 – 732,000</u>	<u>479</u>
<u>732,001 and above</u>	<u>983</u>

(c) a User Pays Charge in respect of the User Pays Service pursuant to paragraphs 1.6.18(e) and 1.6.20(d).

1.21.4 Where an AQ Review User’s Inactive Smaller Supply Meter Point AQ Review Number in relation to an AQ Review Year is more than 15% (to two decimal points) of the number of Supply Meter Points in that User’s Smaller Supply Meter Point AQ Review Portfolio, the Transporters shall notify that User accordingly and the User shall (in accordance with Section S) pay the Transporters (allocated between them in such proportion as the Transporters shall determine):

(a) a “Smaller Supply Meter Point AQ Review Incentive Charge” calculated as follows:

$$I = N * £20$$

Where:

I is the Smaller Supply Meter Point AQ Review Incentive Charge

and

N is the User’s Inactive Smaller Supply Meter Point AQ Review Number in relation to that AQ Review Year; and

(b) a User Pays Charge in respect of the User Pays Service pursuant to paragraphs 1.6.18(d) and 1.6.20(c).

1.21.5 Where in relation to an AQ Review Year, there is no AQ Review User whose Inactive Larger Supply Meter Point AQ Review Number in relation to that AQ Review Year is more than 15% (to two decimal points) of the number of Supply Meter Points in that User’s Larger Supply Meter Point AQ Review Portfolio, each AQ Review User shall (in accordance with Section S) pay each of the Transporters a User Pays Charge in respect of the User Pays Service pursuant to paragraphs 1.6.18(e) and 1.6.20(d) in respect of that AQ Review Year.

1.21.6 Where in relation to an AQ Review Year, there is no AQ Review User whose Inactive Smaller Supply Meter Point AQ Review Number in relation to that AQ Review Year is more than 15% (to two decimal points) of the number of Supply Meter Points in that User’s Smaller Supply Meter Point AQ Review Portfolio, each AQ Review User shall (in accordance with Section S) pay each of the Transporters a User Pays Charge in respect of the User Pays Service pursuant to paragraphs 1.6.18(d) and 1.6.20(c) in respect of that AQ Review Year.

1.21.7 Where a User's Inactive Smaller Supply Meter Point AQ Review Number in relation to an AQ Review Year is 15% (to two decimal points) or less than the number of Supply Meter Points in that User's Smaller Supply Meter Point AQ Review Portfolio, each Transporter shall in respect of each month in which the AQ Review Incentive Aggregate Payment in respect of the relevant AQ Review Year is greater than zero, pay that User an "AQ Review Incentive Aggregate Distribution Payment" determined as follows:

$$D = R * (UC/TC)$$

Where:

D is the AQ Review Incentive Aggregate Distribution Payment to the User

R is the aggregate of the payments received by the Transporter in respect of Larger Supply Meter Point AQ Review Incentive Charges and Smaller Supply Meter Point AQ Review Incentive Charges in that month in relation to the relevant AQ Review Year

UC is that User's Smaller Supply Meter Point AQ Review Portfolio for the relevant AQ Review Year

TC is the aggregate number of Supply Meter Points in the Smaller Supply Meter Point AQ Review Portfolios for the relevant AQ Review Year of each User (a "qualifying User") whose Inactive Smaller Supply Meter Point AQ Review Number in relation to that AQ Review Year is 15% (to two decimal points) or less than the number of Supply Meter Points in that qualifying User's Smaller Supply Meter Point AQ Review Portfolio.



## 9 Consultation Responses

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?
British Gas	Not in support
Corona Energy	Not in support
EDF Energy	Not in support
First Utility	Not in support
GDF SUEZ	Comments
National Grid Distribution	Support
RWE npower	Support
Scotia Gas Networks	Comments
ScottishPower	Support
SSE	Not in support
Winchester Gas	Not in support

Of the 11 representations received 3 supported implementation, 2 provided comments and 6 were not in support.

### Summary Comments

British Gas considers the benefits case remains unproven, as no evidence has been provided that AQs that do not recalculate remain too low; adding that Scottish Power has provided many calculations, but it does not consider these prove the assumptions are correct as it is entirely plausible that the opposite is in fact the case: non-calculating AQs are likely to decrease when calculated, in line with the average decline in gas consumption and AQ reduction.

British Gas considers there are specific reasons why non-calculating AQs might reduce when recalculated. Non-calculating AQs are generally associated with a lack of reads and new properties. New properties should have a lower than average AQ due to smaller property sizes and better energy efficiency. This would account for part of the difference between the quoted 13,000 kWh and 15,000 kWh figures.

Corona Energy considers this proposal could lead to substantial additional costs for LSP market participants, and additional redistribution benefits restricted to SSP Shippers. This is not a fair or proportionate approach given the commercial drivers for Annual Quantity (AQ) accuracy that already exists in the LSP market coupled with the provision of accurate metering data for the majority of LSP sites.

Corona Energy is concerned that implementing a regime where AQ performance is measured via meter AQ change throughput and then penalises Shippers for lack of throughput could lead to deterioration in quality and accuracy of AQs across the

0421

Final Modification Report

20 December 2012

Version 2.0

Page 33 of 42

© 2012 all rights reserved

industry.

EDF Energy does not agree this modification is the best way to achieve the desired ambition of encouraging Shippers to submit frequent meter reads. However, it would support the concept of a Performance Assurance Board as currently operating in the power market to provide a more holistic set of audit points, which are monitored and used to incentivise industry players.

EDF Energy feels the development costs could be better spent elsewhere and do not represent value for money.

GDF Suez considers the modification is likely to promote better AQ and data management, which will lead to fairer transportation capacity charging across the industry and more accurate customer invoicing.

National Grid Distribution considers the measures identified within this modification identify a pragmatic and proportionate solution to an enduring issue within the gas industry being that of ensuring AQs are regularly recalculated.

RWE npower is satisfied that this modification represents an improvement to the current process, may increase transparency and is beneficial to industry settlement and cost allocation. Further to this it should act as an interim measure foregoing a wider industry Performance Assurance Framework. However, it is concerned that this modification drives Shipper behaviour in a quantitative manner, does not increase accuracy, and therefore prescribing a target may have the unfortunate effect of decreasing the accuracy of industry data.

RWE npower considers the appointment of an independent auditor as a potentially wasteful and complex process, allowing for possible reputational damage, accusations around true independence, and other issues. The structure for ensuring correct behaviour and achieving transparency within the market place should be provided by effective governance including a Performance Assurance Framework, and an independent board included *de rigueur* within the governance structure.

ScottishPower considers that the implementation of this modification will provide the following benefits in addition to those above:

- Reduces or obviates the need for Transporters to undertake network reinforcement in areas of constrained capacity – thus ensuring that their networks are run both economically and efficiently.
- Assists the Transporter in meeting their domestic supply security obligations. If AQs are not updating and are inaccurate, the Transporter has a false picture of demand needs of domestic customers in a '1-in-20' scenario and could therefore have a false expectation of gas requirements to meet the Licence requirement.
- Improvements in quality and accuracy of data held on the "Supply Point Register" which should aid the supply point transfer process.
- Provides incentives on Shippers to address data anomalies, as set out within the Warnings Categories within the AQ Warning Reports.
- Brings increased consistency between the electricity and gas markets in relation to Representation.

ScottishPower advises that Xoserve has reported via the recent AQ Performance meeting on 28 November 2012, that the undernoted AQ performance levels for 2012

are significantly higher than those reported in previous years – this is because previous reporting did not include Shipper AQ amendments and appeals. The AQ Performance figures for 2012 include AQ appeals, Xoserve calculated and Shipper amendments:

LSP – 89.88%, SSP - 92.03%.

Given the aggregate performance levels experienced, it would seem wholly acceptable that all Shippers have the ability to meet the 85% target; indeed on average the figure is already being met as detailed above. Xoserve reported that, for the 2012 AQ Review, 17 SSP Shippers and 9 LSP Shippers failed to reach an 85% performance level.

SSE notes that this year's AQ review showed that 92% of all SSP AQs were either recalculated by Xoserve or amended during the AQ review. Based on these numbers any Shippers that fail these targets are likely to be Shippers with small portfolios, the overall effects of which if they did improve their performance to 85% would be a very small impact on the overall market. It is also possible that this modification may discriminate against these smaller Shippers.

Winchester Gas supports any change that can aid AQ performance. However, it feels that the application of Shipper Charges, especially for small Shippers, could be potentially damaging and affect competition in the market place. It would consider supporting this modification if the Shipper Charges were applied to the percentage of supplies that the target was missed by, ie a performance of 84% would result in a charge of 1% rather than 16% that the modification is currently proposing.

## Additional Issues identified in Responses

British Gas felt the 85% performance figure conflicts with existing standards set out in UNC TPD Section M paragraphs 3.4 and 3.5 which specify meter reading expectations for monthly and annually read meters.

For example, TPD Section M paragraph 3.5 states that each annually read meter should be read at least once every 24 months, and 70% of annually read sites should be read in any 12 month period. The proposal will effectively mean that each Shipper has to provide a new meter reading, in order to facilitate AQ calculation, for 85% of their annually read sites in any 12 month period. This conflict must be addressed before the proposal can progress.

British Gas has concerns about the incentive charges proposed at a fixed amount, 5% of the average AQ in one of 4 AQ bands, as no analysis has been presented to show why the proposed charges are appropriate. No provision is made to revise these charges once set.

The proposal could therefore introduce an arbitrary unjustified penalty charge, with no method to change it. The risk is, that if the incentive charge is set at an incorrect level if it is too low it will present Shippers with a perverse incentive to leave AQs un-amended and pay the charges; if it is too high it will become punitive.

Corona Energy considers the introduction of Shipper Charges in connection with AQ performance could lead to Shippers lodging inaccurate AQs in order to meet an AQ performance level causing deterioration in the accuracy of AQs.

Corona Energy considers the current proposed changes in Project Nexus will enable Shippers to correct reads more efficiently and drive more dynamic accurate AQs. It is anticipated the introduction of these changes will create more flexible and efficient processes that will facilitate improved review and updating of AQs, removing some of the constraints that exist in the current processes. This should enhance AQ review

capability for Shippers and naturally facilitate more dynamic updating of accurate AQs without the need for an AQ performance charging regime.

The potential introduction of this rolling AQ capability will enhance a Shipper's capacity to make accurate AQ changes and render the changes proposed in this modification redundant.

Corona Energy notes the impact of this modification could result in a single or a small number of Shippers paying the full administration costs of running the service.

EDF Energy does not agree that this modification resolves the underlying reason for less LSP AQs recalculating. The recent economic climate has not helped access rates at business sites, with a number of businesses folding and premises remaining empty with long term inability to gain meter reads.

First Utility does not agree that the benefit deriving from implementation of this modification would outweigh the negative impact on competition, particularly as any benefit is likely to be short-lived given that Rolling AQ is likely to be introduced within the next several years. It is also possible that implementation could potentially result in one Shipper paying the total administration costs of the service, which could then lead to serious unintended consequences for both that Shipper and competition as a whole.

National Grid Distribution considers that there has been little or no industry discussion and development concerning whether the arrangements proposed within Modification 0421 are required or would be suitable for incorporation within a periodic AQ calculation framework and it urges that this matter be addressed as soon as possible should a decision be made to implement this modification.

National Grid Distribution feels that given the significance and innovative nature of this modification, that if implemented, it suggests and expects that a thorough review of the outcome of the 2013 AQ Review be initiated at the appropriate time. This could include consideration of the level and appropriateness of the 'Shipper Charges'. Also, success could be evaluated in the context of an AQ Performance Assurance framework, although it does not consider such an arrangement could or should be developed until the potential benefit could be determined under a periodic AQ calculation regime as proposed under Modification Proposal 0432.

National Grid Distribution has noted a minor typographic error as follows: 1.6.18

"(e) in respect of each AQ Review User (in respect of the relevant AQ Review Year), the percentage (to two decimal points) of Larger Supply Meter Points within that AQ Review **Incentivized** User's Larger Supply Meter Point AQ Review Portfolio of which: ..."

RWE npower considers it is worth noting that inaccurate meter reads contribute to inaccurate AQs. Meter read services are controlled by commercial contracts and driven by SPAA governance. Meter read agents are not required to accede to the UNC however this modification could indirectly impact these arrangements.

ScottishPower considers its benefits case demonstrates the potential sensitivity to the SSP market from inaccuracies in the LSP site AQs. Using Method 5 using Data set 2C (Applying % under/overstatement (Appendix 1, Method 5)) and taking a prudent approach i.e. +/- 5% adjustment in energy assigned against the LSP AQ Warnings Report 2011 translates to a under/overstatement of approximately 662GWh, £17.5m or £0.82 per SSP customer. However it is impossible to accurately state whether AQ movements will be positive or negative, but it is more probable that Shippers will have

proactively targeted Meter Points with over-estimated AQ values in order to mitigate financial exposure and risk.

ScottisPower notes that within the electricity industry, Suppliers are required under the Balancing and Settlement Code to perform to a minimum 97% standard. Suppliers are audited against the achievement of a series of performance targets with financial penalties being applied for failure to reach the required standards.

ScottishPower has presented within its benefits case, information published by Xoserve on the numbers of non-calculating Meter Points and the energy associated. While this information may be fluid in that LSP Shippers have the ability to appeal AQ values throughout the Gas Year, it is clear from the data on recurring AQ Warnings that many AQs fail to recalculate year on year. Shippers do not have direct access to the information held within Xoserve systems, however Transporters do and Ofgem can request it. ScottishPower therefore considers that Ofgem and the Transporters will have a greater insight into the benefits of this modification, which may not be apparent to the rest of the industry at present.

SSE is concerned that a Shipper could fail the 85% target due to a number of AQs being unable to be recalculated during the AQ review due to the +5%, -5% tolerance rule that is in existence.

SSE feels that with the potential implementation of rolling AQ review under Project Nexus, it would seem more reasonable to develop a different performance rationale which is more suited to a rolling AQ/smart meter regime.

Winchester Gas queries the worth of implementing this modification with the possibility of a rolling AQ being introduced within Project Nexus which would render this modification redundant within a couple of years of it being introduced.

## 10 Panel Discussion

The Panel Chair summarised that this modification seeks to introduce charges that would be applied to Shippers if less than 85% of the AQs of either their LSP or SSP portfolio were recalculated during an AQ Review. The income from these charges would be redistributed to the remaining SSP Shippers. In addition, those below the 85% standard would bear the Transporter administrative costs associated with the scheme.

Panel Members recognised that the intention of the modification is to improve the accuracy of AQs and consequently the accuracy of cost allocations to the extent that these are based on AQs. This would be achieved by incentivising the submission of additional meter reads, such that additional AQs recalculate. Any improvement in the accuracy of cost allocations between Shippers would be consistent with facilitating the development of effective competition between Shippers since this is a fundamental underpinning of competitive markets, thereby avoiding inappropriate cross-subsidies.

Some Panel Members believed that the modification would lead to increased read submissions, and consequently to more AQs being recalculated, and that – being based on additional information - these AQs would be expected to be more reflective of true consumption than if the modification were not implemented. They therefore believed that implementation would deliver more accurate cost allocations and hence facilitate the securing of effective competition between Shippers.

Other Panel Members were concerned that both the 85% target and the proposed charge rate are arbitrary. It was argued there might be good reasons why the AQ recalculation rate varies between portfolios, including as a result of portfolio size. Consequently unduly penal charges may be applied to some Shippers, such that the impact of the change in cost allocations could be detrimental rather than beneficial. Equally some Panel Members were concerned that the incentive created would be to submit meter reads rather than to submit accurate reads, and potentially to focus on smaller loads rather than the loads that have the biggest impact. If the reliability of reads submitted deteriorated, this would also be likely to be detrimental to the accuracy of cost allocations.

Some Panel Members were concerned that the proposed approach was predicated on the basis of the existing process whereby AQs are recalculated annually. As part of Project Nexus, a move to rolling AQs is anticipated and it is unclear how the Modification 0421 regime would operate under this scenario, if at all. As a result, some Members were concerned that implementation may increase market costs but the benefits could be limited due to the potentially short period of operation. It was argued that implementing a modification when there was a prospect of the benefits not exceeding the costs would be inconsistent with facilitating effective competition.

Members then voted and with four votes in favour of recommending implementation, failed to determine to recommend implementation of Modification 0421.

## 11 Recommendation

### Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0421 should not be made.

# 12 Appendices

## Appendix 1

### Total SSP Warnings 2011 (Dataset 1A)

Actual Calc 2011 SSP AQ Warnings Report	SSP Calculations	
	Actual Calc	
Warnings Reason	Count Of MPRN	Sum Of AQ
AQ not calculated due to the absence of reads since the previous AQ calculation	677,387	9,564,344,571
AQ not calculated due to the application of backstop date	2	678
Calculated annual quantity is negative	242,780	4,358,574,470
Consumption gap. AQ calculated based on reduced metered period	88	1,006,474
Consumption gap. AQ not calculated	780	8,856,628
Consumption overlap. AQ calculated based on reduced metered period	103	1,618,994
Consumption overlap. AQ not calculated	5,411	83,834,605
Consumption starts more than three years before Target Opening Date	5,780	81,551,421
Insufficient Consumption Data to Calculate AQ	1,140,637	14,134,899,235
LDZ Calorific Value does not Exist	29	388,142
Meter Point is not a part of Live Confirmation. AQ not calculated	1,300,158	54,868,257,776
Meter Point is owned by Transco. AQ not calculated	153	2,471,034
Meter read request does not exist	2,061	49,530,415
Meter Reading Frequency does not exist	3	56,600
Reconnection does not exist	1	1
Reconnection Effective date is in the relevant metered period. AQ not calculated	56,362	697,481,492
Supply Point does not exist	11	176,847
Supply Point History not contiguous over whole of relevant metered period	15,420	278,998,098
	<b>3,447,166</b>	<b>84,132,047,481</b>

### Total LSP Warnings 2011 - Dataset 2A

Actual Calc 2011 LSP AQ Warnings Report	LSP Calculations	
	Actual Calc	
Warnings Reason	Count Of MPRN	Sum Of AQ
AQ not calculated due to the absence of reads since the previous AQ calculation	12,621	2,821,666,842
AQ not calculated due to the application of backstop date	667	35,280,840,300
Consumption gap. AQ calculated based on reduced metered period	8,831	1,207,020,634
Consumption gap. AQ not calculated	5,496	981,775,771
Consumption overlap. AQ calculated based on reduced metered period	35	59,896,160
Consumption overlap. AQ not calculated	61	22,493,836
Consumption starts before earliest possible start meter read date	4,017	825,388,419
Consumption starts more than three years before Target Opening Date	33	3,706,903
Consumptions for Meter Point are not contiguous	8	530,136,901
Insufficient Consumption Data to Calculate AQ	15,174	4,544,463,251
Meter Point is not a part of Live Confirmation. AQ not calculated	85,189	97,700,759,398
Meter Point is owned by Xoserve. AQ not calculated	79	22,260,204,993
Meter Point not DM for whole of DM AQ Calculation Period. AQ not Calculated	6	711,666,507
Negative consumption during metered period. AQ not calculated	5,057	2,240,269,317
Reconnection Effective date is in the relevant metered period. AQ not calculated	2,330	693,070,958
Supply Point History not contiguous over whole of relevant metered period	147	42,525,407
	<b>139,751</b>	<b>169,925,885,597</b>

### SSP Warnings 2011 with Exclusions (RSU) – Dataset 1B

0421

Final Modification Report

20 December 2012

Version 2.0

Page 40 of 42

© 2012 all rights reserved



Exclusions	Meter Point Count	Sum of AQ
Duplicate Meter Points	234	2,941,340
Meter Points with MP Status of 'DE'	661,292	16,685,948,671
Meter Points with MP Status of 'EX'	229,608	12,252,922,885
Shipperless/Unregistered Meter Points	419,476	26,059,176,818
Meter Points with MP Status of 'RE'	1,945	23,896,430
<b>TOTAL EXCLUSIONS</b>	<b>1,312,555</b>	<b>55,024,886,144</b>

\*Please note the Warning Exclusions have been removed in the order above\*

\*10,084 & 71 Meter Points removed due to having an MP status of 'DE' or 'EX' respectively are live with a registered Shipper\*

AQ2011 SSP Warnings		
Warnings Reason	CountOfMPRN	SumOfAQ
AQ not calculated due to the absence of reads since the previous AQ calculation	674,592	9,528,103,158
AQ not calculated due to the application of backstop date	2	678
Calculated annual quantity is negative	242,406	4,353,034,883
Consumption gap. AQ calculated based on reduced metered period	25	412,924
Consumption gap. AQ not calculated	769	8,758,317
Consumption overlap. AQ calculated based on reduced metered period	49	741,874
Consumption overlap. AQ not calculated	5,402	83,697,923
Consumption starts more than three years before Target Opening Date	5,773	81,482,875
Insufficient Consumption Data to Calculate AQ	1,135,985	14,078,028,291
LDZ Calorific Value does not Exist	29	388,142
Meter Point is owned by Transco. AQ not calculated	95	1,495,274
Meter read request does not exist	2,058	49,496,694
Reconnection does not exist	1	1
Reconnection Effective date is in the relevant metered period. AQ not calculated	51,996	642,382,167
Supply Point does not exist	11	176,847
Supply Point History not contiguous over whole of relevant metered period	15,418	278,961,289
	<b>2,134,611</b>	<b>29,107,161,337</b>

## LSP Warnings 2011 with Exclusions (RSU) - Dataset 2B

Exclusions	Meter Point Count	Sum of AQ
Duplicate Meter Points	0	0
Meter Points with MP Status of 'DE'	57,006	60,098,759,669
Meter Points with MP Status of 'EX'	9,936	22,316,040,962
Shipperless/Unregistered Meter Points	19,134	17,091,208,122
Meter Points with MP Status of 'RE'	15	1,800,553
<b>TOTAL EXCLUSIONS</b>	<b>86,091</b>	<b>99,507,809,306</b>

\*Please note the Warning Exclusions have been removed in the order above\*

\*861 & 13 Meter Points removed due to having an MP status of 'DE' or 'EX' respectively are live with a registered Shipper\*

AQ2011 LSP Warnings		
Warnings Reason	CountOfMPRN	SumOfAQ
AQ not calculated due to the absence of reads since the previous AQ calculation	12,326	2,751,144,005
AQ not calculated due to the application of backstop date	664	35,066,805,561
Consumption gap. AQ calculated based on reduced metered period	8,826	1,205,763,181
Consumption gap. AQ not calculated	5,488	980,364,376
Consumption overlap. AQ calculated based on reduced metered period	35	59,896,160
Consumption overlap. AQ not calculated	60	22,070,693
Consumption starts before earliest possible start meter read date	3,968	809,874,830
Consumption starts more than three years before Target Opening Date	33	3,706,903
Consumptions for Meter Point are not contiguous	8	530,136,901
Insufficient Consumption Data to Calculate AQ	15,074	4,507,876,399
Meter Point is owned by Transco. AQ not calculated	68	20,897,539,277
Meter Point not DM for whole of DM AQ Calculation Period. AQ not Calculated	6	711,666,507
Negative consumption during metered period. AQ not calculated	5,042	2,238,176,258
Reconnection Effective date is in the relevant metered period. AQ not calculated	1,915	590,529,833
Supply Point History not contiguous over whole of relevant metered period	147	42,525,407
	<b>53,660</b>	<b>70,418,076,291</b>

**SSP Warnings 2011 (RSU) with Exclusion of Warning Category "Meter Point is owned by Transco. AQ not calculated – Dataset 1C**

AQ Warning Category	Count of MPRNs	Sum of AQ
AQ not calculated due to the absence of reads since previous AQ calculation	674,592	9,528,103,158
AQ not calculated due to the application of backstop date	2	678
Calculated annual quantity is negative	242,406	4,353,034,883
Consumption gap. AQ calculated bases on reduced metered period	25	412,924
Consumption Gap AQ not calculated	769	8,758,317
Consumption overlap. AQ not calculated based on reduced metered period	49	741,874
Consumption overlap. AQ not calculated	5,402	83,697,923
Consumption starts more than three years before Targte Opening Date	5,773	81,482,875
Insufficient Consumption Data to Calculate AQ	1,135,985	14,078,028,291
LDZ Calorific Valaue does not exist	29	388,142
Meter read request does not exist	2,058	49,496,694
Reconnection does not exist	1	1
Reconnection effective date is in the relevent metered period. AQ not calculated	51,996	642,382,167
Supply Point does not exist	11	176,847
Supply Point History not contiguous over whole of relevent metered period	15,418	278,961,289
<b>Total</b>	<b>2,134,516</b>	<b>29,105,666,063</b>

**LSP Warnings 2011 (RSU) with Exclusion of Warning Category "Meter Point is owned by Transco. AQ not calculated – Dataset 2C**

AQ Warning Category	Count of MPRNs	Sum of AQ
AQ not calculated due to the absence of reads since the previous AQ calculation	12,326	2,751,144,005
AQ not calculated due to the application of backstop date	14	126,483,764
Consumption gap. AQ calculated based on reduced metered period	8,826	1,205,763,181
Consumption gap. AQ not calculated	5,488	980,364,376
Consumption overlap. AQ calculated based on reduced metered period	35	59,896,160
Consumption overlap. AQ not calculated	60	22,070,693
Consumption starts before earliest possible start meter read date.	3,968	809,874,830
Consumption starts more than three years before Target Opening Date	33	3,706,903
Insufficient consumption data to calculate AQ	15,073	4,506,961,704
Negative consumption during metered period. AQ not calculated.	5,042	2,238,176,258
Reconnection Effective date is in the relevant metered period. AQ not calculated.	1,911	493,377,194
Supply Point History not contiguous over whole of relevant metered period.	147	42,525,407
	<b>52,923</b>	<b>13,240,344,475</b>