Costs and benefits Information Request Response

Project Nexus: Potential UNC Modification

Information Request close out date: dd month 2012

Respond to: enquiries@gasgovernance.co.uk

Organisation:

Representative:

Date of Response: dd month 2012

National Grid Distribution has [indicated that it intends to raise/raised] a modification that seeks to implement a range of changes that have been developed within the Project Nexus Workgroup. The purpose of this information request is to invite parties to provide detail on the costs and benefits that would be seen if this modification were implemented. Information is being sought on the merits of changing the UNC to incorporate the suggested changes, as outlined in the Appendix below and fully documented in the Business Requirements Documents published at www.gasgovernance.co.uk/nexus/brd[and in Modification XXXX]. As such, the base case is that the UNC will remain unchanged such that Xoserve's systems will be replaced and updated as necessary to continue supporting all of the services currently set out in the UNC. In addition, it should be assumed that smart metering will be rolled out and implemented as planned irrespective of whether or not the UNC changes set out in the appendix are implemented. The issue is the incremental costs and benefits you anticipate if, in addition to Xoserve's system replacement programme and the introduction of smart metering, the changes described in the appendix were to be implemented.

For the purpose of this information request, and in order to ensure a common basis for responses, please assume that the suggested UNC changes will be implemented with effect from 01 April 2015.

Xoserve has conducted some initial analysis that provides background information regarding the proposed changes. In terms of implementation costs, Xoserve has estimated that implementing the changes set out in the appendix might reasonably be expected to cost £20m over and above the cost of simply replacing systems to replicate the existing UNC requirements.

To help provide an indication of the potential level of benefits in terms of increasing the accuracy of settlement, Xoserve has modelled …..

This shows that …

Views on the modelling work undertaken by Xoserve would be welcome. It is also hoped that the indication of scale may help Shippers to provide quantified estimates of the level of benefits that might be expected were more accurate allocations to be seen as a result of the changes that have been developed within the Project Nexus Workgroup. Views on how to quantify this benefit would be especially welcome.

Costs and Benefits:

What change in analysis, development and ongoing costs (increases and/or reductions) would you expect to face if the changes set out in the appendix were implemented? Please explain the basis for the estimates you provide, setting out the costs and benefits that you envisage arising and the range of products you anticipate using. If you are unable to quantify the impacts, please provide a qualitative description of both the costs and benefits you anticipate would arise.

1. Shipper Proforma

Net Costs	Scenario 1 High Cost	Scenario 2 Best estimate	Scenario 3 Low Cost
One-off changes Internal processes Internal systems Other			
Operating cost change Administration Other			

While net changes are sought, please confirm if prospective costs savings have not been taken into account. If you wish to provide costs and benefits separately, please do so.

2. Transporter/Agency Proforma

Net Costs	Scenario 1 High Cost	Scenario 2 Best estimate	Scenario 3 Low Cost
One-off changes Internal processes Internal systems Other			
Operating cost change Administration Other			

Appendix

Why Change?

As part of the outcome of the last price control review, it was agreed that funding should be available to support a major IT systems investment programme by Xoserve. This major systems investment (Nexus) provides an opportunity to consider whether the existing UNC requirements remain appropriate. Rather than asking Xoserve to procure replacement systems that deliver the existing functionality, there is an expectation that introducing different requirements at this stage would be the most economic time to implement any such change. This is particularly opportune since it is coincident with the development of smart metering, such that requirements can be specified that recognise changes to metering arrangements rather than any changes to accommodate smart metering being retrofitted in due course.

Solution

The Modification Panel established a Workgroup to support the development of potential UNC modifications that may be beneficial at the time of systems replacement. Building on responses to an Xoserve consultation exercise, the Project Nexus Workgroup has considered a range of potential changes, and the output from these considerations have been published as a suite of Business Requirement Documents (BRDs) (see www.gasgovernance.co.uk/nexus/brd). The six elements regarding which information is sought are:

1. "Settlement" (Submission of Meter Readings and Use in Daily Allocation)

- *Shippers continue to be responsible for obtaining, validating and submitting meter readings*
- *Gas Transporters' agent performs validations on the read against data held on the GTs' supply point register*
- *Choice of four future services for attribution/allocation of daily gas off-taken*
- *Shippers will have access to a daily settlement service for all meter points – if desired*
- *Introduction of an industry-wide "smear" for Unidentified Gas and any other gas not accounted for through initial measurements or allocations*

2. Reconciliation

- *Meter point reconciliation for all MPRs*
- *Removal of RbD and replacement with an industry-wide scaling adjustment*
- *No change to reconciliation principles and calculations, just to the range of meter points to which they apply*
- *Introduction of the concept of Resynchronisation for NDM meter points where meter readings are derived using certain types of automated reading equipment*

3. Annual Quantity (AQ)

- *Monthly re-calculation of AQ, if a new meter reading has been received in the last month*
- *If reads have previously passed validation against data held on the GT register they are deemed suitable for all processes, including AQ*
- *Removal of amendment and appeals phases of AQ process*
- *2 SOQs – one for Allocation and another 'fixed SOQ' which applies for 6 or 12 months for transportation charging purposes*

Benefits

The benefits identified by the Project Nexus Workgroup and recorded within each BRD are:

Settlement:

- Improved accuracy of energy allocation
- More appropriate way for allocating energy in a 'smart' world
- Utilises reads from remotely read meters
- Industry will have a better understanding of the value of unallocated energy
- Utilises up-to-date information
- More reflective of actual consumption
- Improved accuracy of meter reads loaded and used for downstream processes

Reconciliation

- Help ensure that the energy is charged to the right sector
- Reconcile energy at Meter Point level using actual meter readings rather than aggregated
- Complement the Meter Reading and Settlement processes
- Helps to provide an incentive to submit accurate and timely readings for the SSP sector
- Provides greater clarity of the volume of un-allocated gas
- Better link between GT transportation charges and customer charges billed to end consumers by Suppliers
- Recognises drift on sites (that derive reads) which are currently not picked up in the NDM market
- Improves transparency by removing RbD
- Reduces the impact of the NDM allocation processes by introducing meter point reconciliation for SSPs.

Annual Quantity (AQ)

- Site AQ will more accurately reflect site consumption
- Utilises reads received from remotely read meters
- More accurate allocations
- Simplified Shipper and GT processes
- Reduction in manual intervention due to systematised approach
- Spreads out workload
- Incentivises more frequent read submission
- Greater User confidence in the AQ calculation regime

Retrospective Updates

- Accurate data held on the Supply Point Register
- Shippers would receive correct Supply Point data to provide end consumers with accurate quotes

- Accurate data submitted to Shippers on transfer of ownership
- Accurate energy allocation and transportation charges

Supply Point Register

- Check Reads
  - Check Read requirement will be monitored for those Meter Points where metering equipment is fitted that transmits a meter read that is derived from pulses from the meter.
  - Any drift as a result of a Check Read visit will be reconciled.

- Gas Supply Meter Points
  - All gas meter points will be held and maintained on one central register
  - Easier reporting
  - Access and ability to view all gas meter points

- Single Meter Point Supply Points
  - Removes system complexity
  - Simplifies future system build under Nexus
  - Aligns with smart metering / electricity arrangements
  - Treatment in Emergency arrangements (e.g. load shedding)
  - Supply Point data at Meter Point level (e.g. Market Sector Code)
  - More cost reflective charging
    - Aggregated SOQ for Capacity Charges result in “band shift”
    - Use of flat rates for Customer Charges

- Provision of Consumption Data
  - To provide a potential proposing Shipper with additional information so they can be as equally informed as the existing Shipper
  - Encourage competition
  - Improve the efficiency of the current market by allowing Shippers to provide consumers with accurate quotes based on historical consumption

- Market Sector Flag
  - Ability in the future to further classify premises

- Consumer Classification
  - To provide a central register of vulnerable customers and ‘Priority Consumers’.
  - Notification on transfer of ownership if a Supply Point is currently classified as ‘Priority Consumer’ or ‘Vulnerable Customer’

Invoicing

- All supporting documentation issued via electronic transfer enables easier uploading of the data to Shippers' systems.
- Uniform standards set for all large GT invoices enables ease of understanding of the invoice.
- The ability for Shippers to segment their invoices will aid their internal business processes for analysing the data.
- Easier validation of charges
- Easier reporting

Non-Functional Requirements

- Not specified

Securing of effective competition between relevant shippers

Implementation of the proposed changes is expected to facilitate the securing of effective competition between Shippers. Accurate cost allocations are a fundamental underpinning for effective competition and the changes are expected to lead to more accurate allocation of costs between Users. This results from making use of an increased number of meter reads, such that information is more accurate and up to date; increasing the number of meter points that are reconciled individually rather than in aggregate, which should not only increase the accuracy of costs allocated to those allocated on a daily basis but also the remaining meter points since the total allocated to those meter points would be expected to be more accurate.

Implementation of the proposed changes would also be expected to increase the predictability of cost allocations for individual Users. This would result from the use of more accurate and up to date consumption data, such that costs allocated to a given portfolio would more accurately reflect actual consumption that the User would expect to be aware of. Increased predictability would reduce the risk and uncertainty faced by Users, and consequently could be expected to reduce risk premiums that may be reflected in tariffs and/or prices. This would therefore facilitate the securing of effective competition among existing Users.

In addition to facilitating competition for existing Users, the reduction in risk and uncertainty would reduce barriers to entry. Entrants could come to the market with greater confidence that they could align their costs and revenues, and greater confidence that any changes they bring to the market through innovative approaches would be reflected in the costs allocated to themselves – for example, if consumption reducing initiatives are brought to the market, the reduced consumption would result in reduced costs more quickly than if the existing approach were to be retained. This has the potential to facilitate competition by reducing a barrier to entry for those seeking to come to the market with innovative ideas, but would also remove a barrier to existing Users developing new offerings and encouraging customers to switch to their products.

Increased predictability and certainty of allocations would be expected to allow Users to purchase energy that more closely matches true requirements. This will reduce costs for Users and support he development of effective competition.