

Project Nexus (Costs and Benefits) Minutes

Friday 17 August 2012

at ENA, Horseferry Road, London SW1P 2AF

Attendees

| | | |
|-------------------|-------|----------------------------|
| Tim Davis (Chair) | (TD) | Joint Office |
| Andrew Wallace | (AW) | Ofgem |
| Andy Miller | (AM) | Xoserve |
| Anne Jackson | (AJ) | SSE |
| Bob Fletcher* | (BF) | Joint Office |
| Cesar Coelho | (CC) | Ofgem |
| Chris Warner | (CW) | National Grid Distribution |
| Elaine Carr* | (EC) | ScottishPower |
| Gareth Evans | (GE) | WatersWye |
| Naomi Anderson | (NA) | EDF Energy |
| Richard Street | (RS) | Corona Energy |
| Sean McGoldrick | (SMc) | National Grid NTS |
| Steve Mulinganie | (SM) | Gazprom |
| Tabish Khan | (TK) | British Gas |
| Wyn Hodgkiss* | (WH) | DONG Energy |

* via teleconference link

1. Introduction

TD welcomed all to the meeting and provided an overview of previous discussions.

2. Development of “Strawman” Costs and Benefits

TD presented a strawman based on previous discussions and review of the P272 documents provided by Ofgem. This was discussed and amended on screen to reflect the agreements reached. It was agreed that the scenarios would be changed from pre and post 2020 to a single post implementation group of scenarios.

SM raised concerns about the complexity of the analysis required to demonstrate that the industry was willing to spend £20m on systems that would utilise information driven by smart metering – he thought the business case was already proven as part of smart? TD clarified that the £20m quoted excluded any associated costs for changes to Shipper systems and hence a much larger figure may need to be justified.

CC was not convinced that sufficient analysis had been undertaken for the Project Nexus system requirements and argued that smart metering and Nexus requirements are independent of each other - therefore the business case for each was separate. AW agreed with this view: Ofgem expect to see the case for change being made if they are to approve any modifications that seek to implement the Nexus business requirements.

RS was concerned at the potential time and cost tied up with analysis that was too detailed at this stage – it is unlikely parties will want to invest in such analysis at this stage. TD suggested the level of analysis would be similar to that adopted by Xoserve to produce a ROM – its more a case of a desk study to gauge the anticipated magnitude rather than driving down to process details.

AM agreed with this view. Xoserve used the ROM process to provide information to the industry on the likely range of costs for a change and then to understand likely take up. This saved the time and costs associated with the production of DCAs (detailed cost assessments) but still provided information in sufficient detail for parties to understand whether they would anticipate a net benefit from the change – a similar approach could be adopted for Project Nexus.

AW was concerned that the range of error given in a ROM would be too wide for Project Nexus. AM agreed to review the models used to see if it is possible to refine the degree of error to a more acceptable level.

There was general agreement that it would be desirable to reduce the complexity of the analysis required. AM asked if Ofgem would be willing to specify the questions they would like to see answered by the industry.

RS remained unconvinced that benefits was the issue at this stage and suggested the aim should be to understand the high level costs and impacts of change, which would then lead to understanding the benefits.

AW asked the granularity of cost reporting and whether GE (ICoSS) would be able to provide a breakdown of cost items. GE agreed to seek to provide the cost headings that had been used to respond about smart metering implementation costs. ICoSS had provided implementation cost estimates based on these headings, which had been put forward by Ofgem. Attendees then considered what were thought to be appropriate headings and these were captured in the revised strawman.

AM explained the analysis that Xoserve have commenced to look at the potential change in allocation “error”. It was agreed that this could be a significant sum and that benefits might be derived based on this aggregate figure. CC cautioned that distributional effects should be avoided since allocation was merely a redistribution and, as such, a zero sum game with winners and losers. It was recognised that the real benefits would arise from increased certainty and more accurate gas purchasing strategies. RS offered to ask his trading team to put a value on this once the aggregate figure is known.

It was agreed that an update and revised strawman should be provided at the next Project Nexus Workgroup meeting and that a specific costs and benefits meeting would not be needed until the actions below were progressed.

Action – NEX 08/01 Xoserve to review the ROM model and advise if it can be refined to reduce the level of cost error for Project Nexus requirements.

Action – NEX 08/02 Ofgem to consider the additional information required to support evidence for costs and define appropriate questions for circulation.

Action – NEX 08/03 Review the questions raised by Ofgem and provide comments and clarify if more specific questions should be asked.

Action – NEX 08/04 ICoSS to provide details of cost headings used to respond to Ofgem regarding smart metering implementation costs.

Action – NEX 08/05 Xoserve to provide estimate of potential change in settlement error for subsequent pricing by RS

3. Any Other Business

AM asked if the high-level project plan provided by Xoserve was to be discussed. TD indicated this had been published to allow others to comment but was a matter for the full Project Nexus Workgroup rather than a costs and benefits issue.

AM advised that Xoserve had also provided for comment a possible consultation on incorporating iGT services within Project Nexus. He was aware that this is in advance of any associated modifications but wanted to ensure the industry had view of the proposals as early as possible and had an opportunity to express any concerns or reservations – or indeed support. This item is to be discussed at the next Project Nexus Workgroup meeting.

4. Diary Planning

The following meetings are scheduled to take place:

| Title | Date | Location |
|-------------------------|------------|-----------------------------------------------------------------|
| Project Nexus Workgroup | 04/09/2012 | National Grid, 31 Homer Road, Solihull, West Midlands. B91 3LT. |

Action Table

| Action Ref | Meeting Date | Minute Ref | Action | Owner | Status Update |
|------------|--------------|------------|---------------------------------------------------------------------------------------------------------------------------------------|----------------------------|---------------|
| NEX08/01 | 17/08/12 | 2.0 | Review the ROM model and advise if it can be refined to reduce the level of cost error for Project Nexus requirements. | Xoserve (AM) | Pending |
| NEX08/02 | 17/08/12 | 2.0 | Ofgem to consider the additional information required to support evidence for costs and define appropriate questions for circulation. | Ofgem (AW) | Pending |
| NEX08/03 | 17/08/12 | 2.0 | Review the questions raised by Ofgem and provide comments and clarify if more specific questions should be asked | All | Pending |
| NEX08/04 | 17/08/12 | 2.0 | ICoSS to provide details of cost headings used to respond to Ofgem regarding smart metering implementation costs. | ICoSS (GE) | Pending |
| NEX08/05 | 17/08/12 | 2.0 | Xoserve to provide estimate of potential change in settlement error for subsequent pricing by RS | Xoserve (AM) ICoSS (RS) | Pending |