

Modification 434 Project Nexus Retrospective Updates, benefits case consultation report

A report provided to the Modification 434 Workgroup May 2013

Draft version 29th April for PN UNC Workgroup 7th May 2013

Executive summary

Still to be written.

Benefits identified:

Costs identified

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Appendix 1 The original consultation document for reference

1. Introduction

This report has been prepared during the development of the modification to support the draft modification report expected to be presented to the June 2103 Modification Panel meeting.

The purpose of the report is to document the responses to the cost benefit consultation

The consultation document is shown in Appendix 1.

2. Overview of the Modification 434

<http://www.gasgovernance.co.uk/0434>

3. Consultation approach and response summary

The consultation document was prepared with the industry at the PN UNC meetings.

The following organisations provided a written response to the consultation:

Shipper organisations:

British Gas

Corona Energy

Npower

Scottish and Southern Energy

Scottish Power

Utilita

Gas Transporters

National Grid Transmission

[In addition, a draft of the report was presented to the May PN UNC and Modification 434 workgroups [include link to JO website for minutes]

4. Consultation questions and responses

The following are the comments received from industry participants in response to the Modification 434 Project Nexus Retrospective Updates consultation document.

All references to the Shipper identity have been removed from the response comments. The responses are structured in the same way as the consultation document. More than one Shipper referenced themselves in their responses, all the references have been replaced with the single code of XXX.

4.1 Allows retrospective updates relating to the asset for the correct effective date e.g. prior to any current meter readings.

4.1.1 Files containing asset updates to be applied to the supply point register will be accepted (subject to validation). Adjustment activities are automated.

4.1.1.1 Supportive comments

Creates an efficient process that benefits both the Shipper and customer that will resolve issues quicker.

This affords the shipper the ability to update accurate information to the Transporters agent to ensure the accuracy of the data to be used for charging purposes.

Given that gas shipping is a relatively low-margin business, accurate industry records, balancing and reconciliation activity is very important to the business.

The increased accuracy and faster reconciliation will have positive impacts on our cashflow. It will also enable us to ensure that customers are billed in a more timely and accurate manner.

All of the above creates increased certainty for the business.

The proposals in the modification would remove a number of constraints in industry systems that currently are quite detrimental to the business.

There will also be a significant reduction in the resource that has to be dedicated to the manual processing of queries seeking to correct industry data.

Automation of adjustment activities would save on current FTE allocated to the process.

4.1.1.2 Concerns

We have a concern around the ‘Gentlemen’s agreement’ that will be required for the current shipper to process the update for a previous shipper. While in principle this would appear fine, it has not worked in ICOP in the past.

There is a potential for the focus on updating information across all updates types in a timely manner to become less of a priority for shippers, as the information can be amended at a later date.

We strongly believe that controls and reporting are required around this and should be covered under a Performance Assurance Framework.

4.1.2 Benefits comments

Difficult to quantify as the current levels may not be representative of future levels due to the accelerated smart meter rollout programme. Potentially significant benefits up to 2021 but once all new meters are installed it will have less benefit.

XXX does not see any difference between the benefit shippers and customers will enjoy immediately at the time this Mod is to go live (which we presume is what is meant by “one-off” benefit) and on an ongoing basis.

4.2 Allows previous reads to be replaced.

4.2.1 Adjustment activities are automated. Validation on the read would apply.

4.2.1.1 Supportive comments

This creates an opportunity for a shipper to adjust and align settlement and billing processes efficiently.

This process would allow increased accuracy across the SSP market in the first instance, as these sites are currently unable to reconcile to actual meter readings and there is no read replacement functionality.

The current process allows for the continuance of error with no means of redress.

This process will provide the opportunity to ensure accurate consumption data across the whole market, and more accurate AQ calculations and charging. As a result there would be clear benefit to the industry although the financial extent is difficult to quantify, due to a lack of data to demonstrate the precise correlation to this defect.

Key area for impact is Shipper Agreed Reads and subsequent ISD's. Saving on current FTE would be relatively small however if this functionality was not available then the cost for managing ISD's across entire customer base could be very high. In addition the ability to replace previous reads at change of supplier would enable quicker and easier correction of charges which would, in turn benefit customers going through the SWITCH process. Easier switching facilitates competition in the market. Our analysis shows that we are currently losing income each year due to timing issues with ISD's in the LSP market. Retrospective reconciliation would avoid this cost.

Removes some risk of incorrect customer billing.

4.2.1.2 Concerns

Retrospective Update is an area where we believe it is imperative that there are controls and reporting, and although there is reference to the shipper retaining evidence, we do not believe that this is sufficient control, and a Performance Assurance Framework is essential to address this risk

4.2.2 Benefits responses

Estimated annual benefit will be in the region of £2M per annum. We see this as an ongoing benefit especially as almost all meter readings will be used for reconciliation purposes.

4.3 Allows updates to Supply & Meter Point data.

4.3.1 Adjustment activities are automated. Validation on the update would apply.

4.3.1.1 Supportive comments

This should improve the accuracy of data on the supply point register therefore decrease the level of adjustments required in the long term.

Ability for data to be updated on the Supply Point Register allowing accurate information to flow. Again this is advantageous to the shipper, as it allows for previously incorrect data to be updated (particularly beneficial on a Change of Supplier where the previous supplier has failed to update the data, or there has been a timing issue with an update occurring at the point of transfer (and the incorrect data being sent on the conformation).

Errors do occur from time to time and an automated methodology to correct should be available.

4.3.1.2 Concerns

As detailed in the above response on asset details, we have real concerns surrounding the 'Gentlemen's agreement' aspect of reliance on another shipper to update information (although in principle agree with the requirement that the incumbent shipper should be responsible for updating of data).

We feel that reporting is a key requirement as there is an associated risk involved in systems holding incorrect data.

We believe that all controls and reports should be covered under a Performance Assurance Framework.

If all shippers were signatories to the SPAA then reports could be proposed as a schedule in the SPAA arrangements

4.3.2 Benefits comments

We believe that the incidence of these types of updates on our portfolio are at a level that there is no real quantifiable cost benefit that can be attributed in relation to current processes, any benefit would be covered in the asset and read updated above, via RGMA flows, as the updates we provide seek to resolve all known issues with the data at the point of submission.

As for the asset updates, this is likely to be a much bigger benefit during the smart meter rollout when all meters are being changed.

4.4 Allows retrospective fix to meter installations.

4.4.1 Adjustment activities are automated. Validation on the update would apply.

Whilst we agree with the principle that only the current supplier can adjust data items we hold some concern that anything identified by the new supplier may need the losing supplier to open historic accounts for a customer they are no longer in contract with. If agreement is not reached does this require a disputes process?

4.4.2 Benefits comments

Unable to quantify, as much of the detail is covered in the above responses.

The levels that fall into this category are anticipated to be small, in line with current meter exchange data. We are unable to quantify what this might mean in a Smart world, as there is the possibility that as rollout ramps up across the industry previously unknown errors may be uncovered.

As for the asset and supply & meter point updates, this is likely to be a much bigger benefit during the smart meter rollout when all meters are being changed.

4.5 Other Comments

One of the big benefits to XXX of the retrospective adjustment functionality is the effect of it acting as an ‘insurance policy’ against a manifest data error affecting many thousands of meter points or readings and compromising the Settlements process for all shippers. This is especially relevant due to the smart meter rollout and the volumes of data items that will be being populated by new or amended shipper systems.

Against the 4 areas above it is very difficult to put a value figure on each of these as with new systems, improved data quality, etc., it is very likely that the errors that we experience at present will not bear any relation to future volumes in each of these categories. We do, however, place a high value on the ability to amend meter readings, including opening and closing readings, especially in a world of ‘rolling AQ’ where any errors will have to be turned around very quickly. At the moment the current AQ process allows any incorrect meter readings to be amended during the AQ amendment process which in the future will not exist.

The next ten years will see a significant meter exchange programme as we progress with SMART installations. Meter exchange is known to be a root cause of incorrect data and read issues, therefore it is felt that the historical view of benefits in this area, is not necessarily representative of what costs would occur if Retrospective Reconciliation was not put in place.

If 434 is not developed and implemented now alongside Nexus, costs to introduce at a later date as we move through the SMART exchange programme and experience inevitable issues, will be significantly increased.

Due to the majority of our portfolio being SSP’s in the current regime where we are unable to raise queries to amend metering dates and supplies are settled under RbD it is very difficult to try and quantify the value of being able to make retrospective adjustments based on this. Obviously under the new Nexus regime and individual meter point reconciliation the importance of having correct asset installation dates and all reads being valid is dramatically increased for the SSP market. As such I believe that automatic retrospective amendments would be an important asset to have especially since some of the queries that need to be made currently for LSP’s, such as the RFA, can take a number of months to resolve.

Specific Questions

4.6 Question 1 - What resources (internal and external) do you have supporting your current query process with regards to historic asset and read updates

We have approximately 11 people in our I&C area but are currently unable to provide details for our residential team. This is however a resource intensive and manual process. Any efficiency improvements are welcome. It is worth nothing that any increase or decrease in this activity may have an impact on gas MAMs workload/planning

XXX currently dedicates at least 1-2 man days per week to these query processes.

4.7 Question 2 To what extent does this disrupt any other aspect of your business e.g. relationship with the consumer?

This proposal reduces the risk of a customer receiving an incorrect bill and gives the Shipper the opportunity to correct settlement quicker thus aligning the Settlement and billing processes. This assists in understanding a customers true cost and can help to minimize the potential for revenue leakage. Taking these issues into account it has the potential to improve customer relationships by resolving issues that impact billing faster and has the potential to improve pricing.

The currently manual nature of retrospective updates, and the limitations placed on these processes by the current UK-Link system has a range of knock-on implications for other areas of the business. The need to process queries manually means that often there are delays in financial flows owing to XXX as a result of reconciliation activity. This has implications for our cashflow as the need to manually process queries introduces a delay in becoming properly financially adjusted.

The status quo also means that a number of asset and financial details are inaccurate on industry systems. This situation is not desirable as it means that there is not the certainty for XXX that XXX's position is accurately reflected on industry systems.

4.8 Question 3 - PN UNC has described a scenario whereby in the future it becomes known that an attribute of a meter is incorrect and several thousand of these meter records require updating. The ability to do this via file submissions without the need to manipulate the data to enable it to be accepted is required. If this process were not available, to what extent would this disrupt your business?

It seems a sensible precaution to have this functionality available if to mitigate the potential customer impact of such a large scale issue. We cannot see any negative impacts to this.

XXX would be significantly disrupted if this service was not available. The need to manually manipulate the data would be time consuming and lead to the possibility of error.

4.9 Question 4 Would this functionality lead to a degradation of timely asset updates as Shippers know that the position can always be corrected at any point in time? Would this impact consumers in any way?

The timeliness of these corrections is currently governed under the SPAA which all suppliers are not currently signatories. Consideration should be given as whether a performance assurance measure is applied to drive correct utilization rather than attempt to predict the behaviour of market participants.

It is always in Shippers' interests to ensure that industry data is up to date in order that there is full accuracy and transparency around the Shipper's financial position.

There has to be awareness that in an industry that relies on the accuracy of many different mechanical instruments (meters) and the timely and accurate communication of developments by a range of industry players (notably the various MAMs that we deal with), there will be both errors and delays. In most instances such delays and errors are beyond the control of XXX. It is imperative that once we are provided with the correct information we are able to rectify errors in a timely and efficient manner through the functionality proposed in Mod 434.

4.10 National Grid Transmission response in full.

Modification 0434 Project Nexus – Retrospective Adjustment - Cost Benefit Assessment

Thank you for your invitation to participate in the Cost Benefit Assessment for the above Modification Proposal. National Grid NTS is committed to supporting the industry with its aims of improving the efficiency and competitiveness of the Non-Daily Metered market via Gas Settlement Reform and of progressing the replacement of the UK-Link suite of IS systems.

As requested in your covering letter for the Cost Benefit Assessment of 13th February 2013, this response will summarise National Grid NTS' views on benefits, costs and concerns related to Modification Proposal 0434.

1 Benefits

1.1 National Grid NTS expects that it will not receive any material benefit from this Modification and but do recognise the view that benefits associated with this Modification Proposal will be realised in the Shipper and Gas Distribution Network communities.

1.2 From engaging in industry debate, National Grid NTS understands that the proposed changes have the potential to deliver a range of benefits to Shippers in respect of;

- Providing more timely adjustment of charges relating to revised meter readings or meter asset information.
- The avoidance of risk associated with potential error in large numbers of meter exchanges anticipated to facilitate the introduction of smart metering, and the associated adjustment timescales.

1.3 National Grid NTS understands that the value of benefits realised is dependent on the Shippers' behaviour and initiative. We note that no indication has been provided by the Shipper community, so far, as to the level

of risk associated with the anticipated increase in meter exchanges to facilitate smart metering.

2 Costs

- 2.1 National Grid NTS has concerns regarding the estimated costs provided to the industry which are under consideration in this Cost Benefit Assessment, including a lack of clarity regarding the level of Gemini system intervention, and uncertainty with how this will be funded.
- 2.2 The aspiration of the modification as written is for no limits or system constraints on the daily volume of reads or asset information that could be submitted. Xoserve estimated costs have not detailed the assumed level of potential volumes. National Grid NTS is concerned that a more accurate view of anticipated usage by the Shippers is required to provide accurate system design costs.
- 2.3 Without such information there is an acute risk that any system functionality built would either under estimate the customers' requirement leading to customer frustration and dissatisfaction or to claims of "gold-plating". Neither situation is desirable and both would lead to the creation of avoidable costs.

3.0 Concerns

- 3.1 National Grid NTS remains committed to supporting the industry in the economic and efficient delivery of Retrospective Adjustment. We therefore believe that the following additional areas of concern should be fully considered during this Cost Benefit Assessment.
- 3.2 In order to ensure this Cost Benefit Assessment is completed with the appropriate level of rigor, full and detailed accounts of all costs associated with the implementation of Retrospective Adjustment should be provided to the industry.
- 3.3 The timely provision of an explicit statement from Ofgem on the funding of Retrospective Adjustment is required to provide clarity and transparency to the industry during its consideration of this Modification Proposal.
- 3.4 National Grid NTS is concerned that full account must be taken of the potential impact of Ofgem's Funding, Governance and Ownership (FGO) review of Xoserve. The FGO review may well result in a root and branch restructuring of arrangements for Xoserve. A decision on the revised FGO arrangements is not expected until Q3 2013. This review has significant potential to cause delay and confusion in the delivery and funding of the changes required to implement Retrospective Adjustment.
- 3.5 National Grid NTS wishes to highlight that current planning intends to implement Retrospective Adjustment in conjunction with the new system modifications introduced in the delivery of Gas Settlement Reform functionality.
- 3.6 A number of risks to the delivery of Gas Settlement Reform have been highlighted in National Grid NTS' Cost Benefit Assessment for Modification 0432. Therefore all the risks associated to 0432 also stand for 0434.

National Grid NTS is happy for all parts of this response to be put in the public domain.

We look forward to receiving Xoserve's Consultation Report summarising the points raised in this and the other industry participants' responses. Please let me know if you require any further information to enable preparation of the Retrospective Adjustment Cost Benefit Consultation report.

Draft PNUNC 7 May 2013