

Representation

Draft Modification Report

0432: Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform &

0434: Project Nexus – Retrospective Adjustment

Consultation close out date: 06 January 2014
Respond to: enquiries@gasgovernance.co.uk
Organisation: Corona Energy
Representative: Peter Olsen
Date of Representation: 06 January 2014

Do you support or oppose implementation?

Qualified Support (UNC Modification 0432)

Qualified Support (UNC Modification 0434)

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

In principle the changes proposed should allow shippers to take advantage of the next generation of remote meters. We have examined each of the major changes proposed by the modifications in more detail below:-

Settlement Changes

In principle there would appear to be benefits in allowing greater use of the daily read information that the AMR and SMART metering rollout program affords. This should in theory improve the accuracy of initial allocation and settlement which in turn should provide benefits for shippers and transporters.

Whilst we can see theoretical benefits of changing the settlement process, we are concerned that without more detailed analysis it is difficult to assess whether the benefits to the consumers justify the time and cost.

This view is partly confirmed by the recent request by Ofgem to provide funding to analyse the post-NEXUS settlement process under the Performance Assurance Framework. If this work proceeds it seems to us that we should wait for it to be finalised before we can make any informed judgement on these modifications.

The replacement of the RbD process (and the Unidentified Gas corrective invoice framework) with a uniform allocation mechanism for Unidentified Gas may simplify the process (depending on how changes are implemented), but we have concerns over how this residual gas will be apportioned. In particular we note Ofgem's concerns expressed during development that a uniform smear is less accurate than the current process utilised by the industry, and so seems to be a

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retrograde step out of keeping with the general principle in Project NEXUS of improving accuracy of cost apportionment. We see the continuation of a target process to be crucial.

Rolling AQ

Determining a more current AQ will bring some marginal benefits to the industry, though the move to universal individual meter point reconciliation means that any errors in gas allocation due to outdated AQs will only be temporary.

Data Provision

We strongly support the ability for customers to provide prospective suppliers (via their shippers) with meter read information from the central systems. The current process, where the potential supplier may obtain the AQ and SOQ of a site is sufficient for sites settled periodically. The move to daily settlement for more sites means that such limited information will be insufficient. It is not realistic that the customer will maintain records of each submitted meter read for periods potentially going back years and so to ensure that the incumbent supplier does not have an unfair advantage such data must be made available to all possible suppliers. We believe that the requirement for the supplier to obtain permission to access the data provides proportionate protection and is an enhancement of current processes.

Invoice Improvements

We support the proposed improvements to the invoice process, in particular the drive to reduce ad-hoc invoicing and the provision of electronic backing data, as this will simplify the current process and reduce costs to the industry.

Industry activity

To date we have provided significant resources to NEXUS, AMR and numerous information requests. We are also concerned that the proposed go-live for the DCC scheduled for September 2015 is only 1 month apart from the current proposed NEXUS go-live date.

With all this activity we are concerned that small suppliers particularly will not be able to dedicate sufficient resources to all the different projects and activities. In the last 2 years particularly we have had to prioritise where we allocate resources. Given the magnitude of NEXUS and SMART metering roll-out it seems to us that being able to achieve everything in the current timescales puts all projects at risk.

We believe therefore that a wider analysis needs to be undertaken to ensure that the supposed benefits from these projects are not lost due to compressed timescales. Given that the benefits from NEXUS and SMART are interlinked it is highly likely that a failure to implement one of the projects appropriately will have a detrimental impact on other projects.

Retrospective Updates

Gas Suppliers are faced with a challenging target to replace the dumb meter population by the end of 2020. This accelerated replacement programme will be on top of current market activities (as referred to above).

We therefore expect substantial pressure on supplier processes during this time, in particular those that ensure asset data is

accurately maintained. The ability to retrospectively update system information is essential if the integrity of market data is not to deteriorate.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

There should be clarity that the industry is looking to develop a process via UNC Modification 0473 that will keep the current process for apportioning gas to each market sector (such as Domestic, Microbusiness, SME, larger I&C etc) and that nothing in the implementation of UNC Modifications 0432 & 0434 will jeopardise this. As previously stated we believe the current proposals would be a retrograde step and therefore we believe UNC Modification 0473 is crucial to delivering the full benefits of NEXUS.

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

As we have stated above; UNC Modifications 0432 and 0434 in theory should help improve allocation between parties by taking advantage of increased levels of meter read information in the market, and therefore giving shippers greater flexibility on how they manage and utilise such information. However, we do have concerns and these are listed in this document.

Impacts and Costs:

What analysis, development and ongoing costs would you face if this modification were implemented?

This modification will require significant changes in our business and IT operations. The removal of the RbD process and the replacement of a universal smear will require us to develop a mechanism for passing through such costs as they are incurred by the consumer, replacing the current post allocation adjustment process for Unidentified Gas. In addition the rolling AQ process will mean substantial adjustments to our wholesale purchasing and management activities. We also expect that the number of meter reads which will be required to obtain and submit will substantially increase. The removal of certain processes (such as Mod 0640 processes and the AQ review) will mean some reduction in workload (but our IT solutions have been designed around these processes and so any change will inevitably lead to higher costs). Overall we expect our operational resource needs to increase. If there are benefits to be gained from settlement accuracy this MAY offset some of the costs set out above. However it is very difficult to be sure of this without more detailed analysis about the impact of the changes proposed by these two modifications.

Implementation:

What lead-time would you wish to see prior to this modification being implemented, and why?

Project NEXUS has been in development since 2008 and we understand the desire by the industry to ensure that the changes identified are delivered in a timely manner. It is however imperative that the implementation is successful and results in a stable and robust operating environment, otherwise the industry (and ultimately the customer) will incur costs due to a loss in efficiency. We do note that the commencement of the mass rollout

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of smart meters is expected to commence in mid-2015, and so we also have concerns over two significant market changing programmes commencing at the same time.

To ensure that both Project NEXUS implementation and the commencement of Smart Meter mass rollout will be successful, we would therefore prefer to see the current implementation date of 1 October 2015 for NEXUS delayed to at least October 2016 or beyond.

Legal Text:

Are you satisfied that the legal text will deliver the intent of the modification?

We have not reviewed the legal text.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No