

Representation

Draft Modification Report

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

Consultation close out date: 06 January 2014
Respond to: enquiries@gasgovernance.co.uk
Organisation: EDF Energy
Representative: James Hill
Date of Representation: 03 January 2014

Do you support or oppose implementation?

Support

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

EDF Energy fully supports the principles of Project Nexus to deliver gas settlement reform. Although there is a cost to industry of this change programme we believe it is of benefit to the whole industry due to enhanced visibility and transparency of gas costs, improved allocations and reducing the risk premium for domestic customers by improving cost reflective charging which in turn results in increased competition and customer choice. We believe that implementation of settlement reform in both gas and electricity is fundamental to helping realise the energy saving benefits of smart meters. Without settlement reform any reduction in energy usage as a result of smart metering or green deals/ECO incentives will not feed into energy allocation until up to 18 months after they have been incurred and so lead to shippers paying unreflective costs.

The proposed settlement reform and individual meter point reconciliation will give choice and flexibility to shippers over which products to use. However, we remain concerned that there is a risk that numerous options will be developed at a cost to consumers, and some of these may not be utilised as witnessed with the development of the alternate DM Voluntary proposal. We believe it would be appropriate to develop cost reflective charges for these services so that product 4 is the core service and all other products attract a discrete charge and associated financial commitment from would be service users. This will ensure that only those services that are of value to shippers are developed and that the costs to customers are minimised.

Individual meter point settlement will also introduce consistency of process regardless of size and consumption, provide greater clarity on unallocated gas, align gas with the electricity market, eliminate the problematic RbD mechanism and give shippers better visibility of data to ensure consistency between settlement and billing for all

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sites. This will also lead to efficient use of meter readings which helps with meeting our supplier licence condition to bill customers based on meter readings knowing that our costs will reflect these readings.

Introduction of a rolling AQ mechanism and provision of historical information will ensure that the AQ used in demand estimation will always be reflective of actual consumption which will be of benefit to the whole industry. It will enable suppliers to offer customers the most appropriate services and resolve customer queries more efficiently.

The above changes will also help reduce ongoing costs such as the AQ review and appeals process. The cessation of Transco Network Code Mod 640 invoices, which retrospectively charge shippers for supply points moving between supply point classification during the AQ review, will stabilise cash flow.

EDF Energy agree that it is important to have a robust methodology for calculating unidentified gas and support the proposed demand estimation formula alongside the commitment to review this formula as the potential for improvements become apparent.

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

None

Relevant Objectives:

How would implementation of this modification impact the relevant objectives?

EDF Energy agree with the points made in the modification report. We believe that UNC Mod 432 will on balance better facilitate Relevant Objective (d) by introducing a level playing field for all sites regardless of size or consumption, creating better predictability of costs, better quality data and reducing ongoing costs. However, we believe that the proposed approach for the allocation of unidentified gas to removing the role of the AUGER and moving to a simple allocation methodology does not necessarily better facilitate this Relevant Objective.

In addition, we also believe that UNC Mod 432 will also support Relevant Objective (c) as it will lead to better and more efficient use of meter readings, further ensuring that suppliers meet Licence obligations to bill customers based on meter readings that reflect customer's consumption.

Impacts and Costs:

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

We anticipate that there will be a number of changes required to our internal settlement and billing systems which are difficult to quantify at this stage without further system design detail from Xoserve.

EDF Energy welcome the changes despite the costs based on the benefits as detailed above. It is important that the industry is able to contribute to the development of suitable, cost-effective system solutions to deliver Project Nexus in a timely manner alongside Xoserve. We would expect that Xoserve manages the project plan with appropriate milestones and be fully engaged with the industry participants

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throughout. By ensuring industry engagement and involvement throughout the systems development window it will mean that the industry will be able to manage in parallel its own internal systems and processes more effectively and efficiently.

Implementation:

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

The target implementation date for Project Nexus is 1 October 2015 if the Authority reaches a decision by 31 March 2014 or 1 April 2016 if the Authority reaches a decision by 30 September 2014. Delivering these changes in an increasingly congested systems development programme is challenging especially in light of the number of other system developments that are taking place across the industry. In particular we note that delivery and integration of systems with the Smart Data Communication Company (DCC) is also scheduled for 30 September 2015. It would not be efficient to implement two significant system changes on subsequent days. Therefore if the Authority approves this modification proposal, we would expect that these project plans will recognise and reflect the interactions and pressures of the various system developments.

There is a high level of interdependency between UNC Mod 432, 434 and 440 and potentially other future modifications (eg 467 and 473) and the full benefits of these modifications will be realised if they are implemented simultaneously. It is important that these links are recognised in a coordinated systems implementation programme. Then these modifications, if approved, will minimise the cost to the industry and ultimately the end customer.

Legal Text:

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

The legal text has not been reviewed by EDF Energy.

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.

We believe that it is important to emphasise again the potential conflict of timings of industry change deliverables that are being proposed to be delivered on or around the 1st October 2015, including;

- UNC Mod 461 - Changing the UNC Gas Day to Align with the Gas Day in EU Network Codes
- DCC go-live for smart metering
- Change of Supplier reform
- Other changes due to other European network codes

We expect Xoserve to ensure that it manages efficiently and professionally the interactions of the delivery of numerous systems changes at once.

We also wish to highlight that Xoserve need to take into account the impacts of quicker switching initiatives and change of supplier

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process changes that are scheduled to be delivered between now and October 2015.

EDF Energy would like it to be noted that in all design of systems following Project Nexus that Xoserve must have an element of flexibility built into its systems to ensure that future changes to the gas settlements regime can be accommodated promptly and efficiently and with minimal cost.

We share Ofgem's unease on completely removing the role of the AUGE and moving to a simple allocation methodology. Whilst we support the principle that unidentified gas and any other gas not accounted for through initial measurements or allocations should be spread across the industry; it should be undertaken based upon an agreed methodology to determine the most accurate allocation between different end consumers. We support the initiative to look at the AUGE role and framework requirements through a separate specific Project Nexus UNC modification proposal (473).