

Settlement Reform cost benefit assessment

This is an information gathering exercise for Modification 432 Project Nexus Gas Settlement Reform.

Industry participants are requested to provide responses to any of:

Xoserve at commercial.enquiries@xoserve.com

Ofgem at smartermarkets@ofgem.gov.uk

Modification 432 workgroup discussions

Responses are required by 15th February 2013

In order to support the Project Nexus Settlement Reform Modification <http://www.gasgovernance.co.uk/0432> this document has been prepared to enable industry participants to provide information in a common format to enable this to be aggregated for inclusion in the modification report.

Industry participants may have further areas of cost and benefits not covered in this document and these can be provided during the development of the modification report.

The table below outlines the benefit areas for the industry requirements of Settlement Reform, developed at the Project Nexus UNC workgroup.

Some of the benefits may only be achievable from the use of reads from Smart and AMR meters. It should also be noted that the increased read frequency provided by Smart and AMR meters may have less benefit for the “wholesale” market without the associated Settlement Reform products.

Questions to consider:

1. Do you consider that more frequent AQ calculations will lead to better targeted allocation of energy on the Day? If so can you identify and quantify the benefits this may achieve for your business.
2. Do you consider that the creation of the four settlement products will improve the granularity of transportation and energy charges? If so can you identify and quantify the benefits this may achieve for your business.
3. Do you consider the four settlement products will enable the supplier business to offer improved services to end consumers? If so can you identify and quantify the benefits this may achieve for your business.
4. Do you consider the periodic AQ process will enable organisations to operate a more efficient (flatter) resource profile over the year? If so can you identify and quantify the benefits this may achieve for your business.
5. Do you believe that proposed Allocation Scaling Adjustment and Reconciliation Scaling Adjustment provide a more appropriate and transparent means of accounting for unidentified gas? If so could you identify and quantify the benefits of this for your business.

Respondents may consider two types of benefit:

- benefits that don't depend upon user behaviour e.g. periodic AQ calculation.
- benefits that are an enabler to usage of the settlement products and so do depend upon User behaviour / initiative.

The business requirements documents prepared at the Project Nexus UNC workgroup can be found at:

<http://www.gasgovernance.co.uk/nexus/2012>

Settlement Reform functionality	Impact	“Wholesale” market opportunity	“Retail” market opportunity	One-off benefit	Annual benefit
General	<p>Provides a framework whereby Shippers would be able to better understand ‘site specific’ costs through increased data granularity</p> <p>Provides an opportunity to maximise the benefits of SMART/AMR technology through the ability to submit more frequent and accurate data to Transporters</p> <p>Facilitates full availability of choice as to which type of product Shippers wish to use. Any Supply Point can be DM or NDM (subject to UNC rules for ‘mandatory’ DM)</p> <p>Systematises activities which are currently manually administered e.g Unique sites leading to less ‘off line’ interaction with Shippers</p>	<p>More efficient administration for all parties</p>	<p>Ability for Suppliers to accurately calculate and understand Supply Point specific costs particularly in the Smaller Supply Point market</p> <p>Enables new marketing opportunities to be identified together with ability to differentiate these</p> <p>Enables Suppliers to meet their customers precise requirements across all market sectors</p>		

Settlement Reform functionality	Impact	“Wholesale” market opportunity	“Retail” market opportunity	One-off benefit	Annual benefit
	Supply Point Register – availability or consumption data for period prior to ownership				
Periodic AQ calculation	Improved allocation leading to reduced reconciliation variance*	Improved data to inform short and long term gas purchasing			
	Improved read validation process leading to the ability to use services with no exception processes required. E.g. the current AQ process has an AQ amendment process, the proposed AQ process (because of the greater frequency of AQ calculation and expected better read quality) does not require thus	Streamlined processes with minimal exception management processes.			
	Facilitates greater level of Shipper confidence in the integrity and accuracy of the AQ arrangements through				

Settlement Reform functionality	Impact	“Wholesale” market opportunity	“Retail” market opportunity	One-off benefit	Annual benefit
	minimising opportunities for manual intervention				
Product 1	Daily nomination, daily balancing		New products for consumers		
	Facilitates ability for reading arrangements for ‘mandatory’ daily read sites to be ‘unbundled’ at a future point	Opportunities for Shippers to identify new products for large end users			
Product 2	Daily nomination, daily balancing		New products for consumers		
	Enables any Supply Point to be subjected to Daily Read arrangements				
Product 3	Daily reconciliation		New products for consumers		
Product 4	Meter point reconciliation		Greater granularity of costs.		
	All Supply Meter Points would be individually reconciled enabling full transparency of energy allocation				

Settlement Reform functionality	Impact	“Wholesale” market opportunity	“Retail” market opportunity	One-off benefit	Annual benefit
All products	<p>The volume of unidentified gas will be more visible, likely to result in greater initiatives to resolve this.</p> <p>Removes the need for intervention in the allocation of unidentified gas through an AUGE</p>	<p>Over time will reduce the costs of unidentified gas. In the 2011/12 AUGS the total volume of unidentified gas was provided as 6033 GWh**</p> <p>Reduction in costs</p>	<p>Reduced unidentified gas costs to be passed through.</p>		
Allocation	<p>Opportunity for improved demand estimation methodologies leading to more accurate allocation of energy</p>				
Settlement	<p>Greater capacity for significantly more Meter Readings to be passed to the Transporter leading to optimisation of Annual Quantity calculation</p> <p>Up front validation of Meter Readings eliminates USRVs</p>				

Settlement Reform functionality	Impact	“Wholesale” market opportunity	“Retail” market opportunity	One-off benefit	Annual benefit
	and SRVs thereby facilitating certainty of outcome at an early stage in the process				
Reconciliation	Removes uncertainties arising from aggregate reconciliation in the Smaller Supply Point market. Enables ‘genuine’ reconciliation values to be identified				
	Eliminates need for RbD audit and verification processes				
Future services	The replacement of UK Link will result in a new system with a greater flexibility and capacity for future change	Potential for new products and services.	Potential for new products and services.		

* Xoserve is working on the provision of information for each shipper detailing their reconciliation variance for LSP sites. This will enable Shippers to assess what benefit may be achievable to them.

** <http://www.gasgovernance.co.uk/sites/default/files/AUGS%202011%20Version%204.pdf> page 65

Cost areas

Industry participants are requested to provide an assessment of the costs of implementing the Project Nexus Gas Settlement Reform functionality.

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