

## Modification 434 Project Nexus Retrospective Updates, benefits case consultation report

A report provided to the Modification 434 Workgroup ~~May 2013~~for inclusion in the Modification Report

Draft version 29<sup>th</sup> April for PN UNC Workgroup 7<sup>th</sup> May 2013  
~~2<sup>nd</sup> draft version 28<sup>th</sup> October for PNUNC workgroup 30<sup>th</sup> October 2013~~

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### ~~Executive summary~~

~~Still to be written.~~

~~Benefits identified:~~

~~Costs identified~~

## Contents

1. Introduction
2. Overview of Modification 434
3. Consultation approach and overview
- ~~4.~~ Consultation responses
- ~~4-5.~~ Cost benefit information
6. Additional information identified at the Modification 434 workgroup meetings

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Appendix 1 The original consultation document for reference

Appendix 2 The ICOSS response letter

Appendix 3 National Grid Gas Transmission response in full

## 1. Introduction

This report has been prepared during the development ~~of the modification 434 for inclusion in the draft and final modification reports.~~ 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 and present the benefits case for modification 434.

A draft of this report was presented to the Nexus Workgroup and review comments made at these meetings have been included within the report.

The consultation document is shown in Appendix 1.

## 2. Overview of the Modification 434

Modification 434 provides for the retrospective update of the supply meter, supply meter installation or supply point data and for any relevant reconciliation charges to be processed automatically.

The modification provides the current registered user with the ability to update asset and read data it has provided to UK Link systems, and to update asset data that the previous registered user has (or has not) submitted in its period of ownership. Where required, reconciliation charges will be processed for the current registered user, the previous registered user is not financially affected by the actions of the current registered user.

The modification will only apply to data submitted and accepted on UK Link after the date of implementation of the modification.

The full details of the modification can be found on the Joint Office website:

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

## 3. Consultation approach and response summary

To determine the industry cost benefit case Xoserve prepared on behalf of, and with industry support (through the Project Nexus Workgroup), a consultation document. This document was issued to the industry ~~on 1 xxxvgin January 2013.~~ The original consultation document is included in appendix 1.

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 [Nexus Workgroup and review comments made at this meeting have been included in this report](#). ~~May PN UNC and Modification 434 workgroups <http://www.gasgovernance.co.uk/0434/070513> and additional comments were provided by the industry. These comments have been incorporated into this report.~~

ICOSS submitted a letter in support of Modification 434 to the May [2013 workgroup](#) meeting- ~~(see link above)~~. The industry were invited to comment on this letter, no comments were received and so the letter presented in May forms part of the cost benefit analysis. The text of the ICOSS letter is in [Appendix 2](#).

#### 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. [The comments provided below are the exact comments from the responses. Due to the varying nature of the comments it was not considered possible to summarise them, the comments have been grouped into “supportive” and “concerns”.](#)

[There is a reference made to the Performance Assurance Framework \(PAF\) in a number of comments. The cost benefit consultation spanned the period of the formation of the Performance Assurance Workgroup \(see Joint Office website under Network Code, Workgroups\). This workgroup was established in January 2013 \(and at the time of this report is still established\) to consider a Performance Assurance Framework \(PAF\) for the gas industry to ensure settlement accuracy across the gas market. In their responses to the 434 cost benefit consultation a number of Shippers, whilst welcoming the industry requirements, wish to see the PAF developed in such a way that incentivises robust industry performance to ensure the delivery of the expected Project Nexus benefits.](#)

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 noting 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.

## **5. Cost Benefit Assessment**

The information provided in the responses and discussed at the 434 workgroup has not provided reliable quantitative benefits for use in this report. Many supportive comments and concerns refer to a cost avoidance benefit of this modification. The 434 workgroup considers that this modification provides for a "safety net" in the event of an incorrect asset or read record existing on the UK Link systems.

## **6. Additional information identified at the Modification 434 workgroup meetings**

The workgroup considered the implications of the implementation of Modification 432 Project Nexus Gas Demand Estimation, Allocation, Settlement and Reconciliation Reform. One of the main aspects of this modification is the implementation of individual meter point reconciliation for all supply points (not just larger supply points as currently).

A number of consumption adjustments are raised at present for the larger supply point market to correct consumption created by the submission of incorrect reads or to correct historic consumption as a result of the late /none update of the meter asset record.

It was considered by the workgroup that with the planned replacement of all "traditional" meters with smart meters there would, on occasions, be a late or incorrect update of asset details. Each occasion may give rise to a retrospective update, which in current arrangements would be treated as a consumption adjustment, but which under modification 434 would be treated as a retrospective update. It was considered that if the number of retrospective updates could be determined this could demonstrate that modification 434 would avoid the manual costs (shipper and Xoserve) associated of raising and processing consumption adjustment queries.

Xoserve has assessed the number of consumption adjustments presently processed for the larger supply point market. The results are shown below:

<u>Contact Type</u>	<u>Average Annual Volume</u>
<u>Request for Adjustment (RFA)</u>	<u>550</u>
<u>Consumption Dispute Query (CDQ)</u>	<u>330</u>
<u>Filter Failure Consumption Adjustments</u>	<u>7,000</u>

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Total 7,880

The main scenarios that factor into the generation of Consumption Adjustments are:

Meter Asset Incorrect  
Late Meter Attached  
Negative Volume  
Through the Zero's Incorrect

The figures above represent a consumption adjustment rate of 2.07% of the population of 380,000 larger supply points. If extrapolated to 23 million meter points this would equate to approx 475,000 consumption adjustment requests per annum. However, new read validation functionality may stop the majority of the read submissions that lead to the requirement for a consumption adjustment occurring.

It may not be considered that this data will be reflective of the future volume of meter exchanges. For this assessment the starting position is the exchange of 23 million meters over the next 5 years. Currently, meter asset notifications (RGMA ONJOB records) are operating at a 94% success rate, leaving 6% rejections, requiring re-work and re-submission. This figure suggests that 1,380,000 meter asset notifications would reject at their first attempt. If it was not possible to successfully re-submit the asset notification before any subsequent action is recorded on UK Link system e.g. the submission and acceptance of a meter reading, a change of supplier event, then a consumption adjustment would be required. However, it cannot be assumed that the meter asset notification rejection rate will remain at 6%, it may go up or down and it cannot be assessed how many subsequent actions (meter read or change of supplier event) may occur before the asset can be updated.

It is not possible to determine a future figure for consumption adjustments that would require processing if modification 434 were not implemented. But it can be reasonably assumed that with the introduction of individual meter point reconciliation and the volume of future meter exchanges, the need for the swift rectification of incorrect asset or read information (and any associated reconciliation) will be an advantage to each and all shipper organisations.

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Appendix 1 Consultation document

**Retrospective Adjustment cost benefit assessment**

This is an information gathering exercise for Modification 434 Retrospective Adjustment.

Industry participants are requested to provide responses to any of:

Xoserve at [commercial.enquiries@xoserve.com](mailto:commercial.enquiries@xoserve.com)

Ofgem at [smartermarkets@ofgem.gov.uk](mailto:smartermarkets@ofgem.gov.uk)

Responses are required by 1<sup>st</sup> March 2013

In order to support the Project Nexus Retrospective Adjustment modification - <http://www.gasgovernance.co.uk/0434> 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.

The business requirements documents prepared at the Project Nexus UNC workgroup can be found at: <http://www.gasgovernance.co.uk/nexus/brd>

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 potential benefit areas for the industry requirements of Retrospective Adjustment, discussed at the Project Nexus UNC workgroup. Respondents are welcome to provide information on any other benefit areas they can identify.

Currently, asset update files are rejected where there is later activity on UK Link systems e.g. a read or asset exchange, prior to the date of the asset update in the relevant file. To submit the asset update the data has to be adjusted (the date of works changed to one after the latest activity on UK Link systems) to enable the asset update to be accepted. If required, a query is submitted to rectify any transportation and energy charging matters.

The Retrospective Business Requirements Document outlines the following principles:

- All data updates are recorded correctly, for the correct effective date, where possible and subject to validation.
- Only the current Shipper can update data, with the exception of meter reads whereby only the Shipper who submitted the read can replace it.
- Financial adjustments following a replacement transfer read are automatically processed for both the previous and current Shipper
- Financial adjustments following an asset or Meter/Supply Point update during the current Shippers period of ownership are automatically processed
- Financial adjustments following an asset update or Meter/Supply Point update during the previous Shippers period of ownership are only processed following a request and if the update has been submitted by the current Shipper and processed

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Questions to consider:

1. What resources (internal and external) do you have supporting your current query process with regards to historic asset and read updates
2. To what extent does this disrupt any other aspect of your business e.g. relationship with the consumer
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?
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?

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The following table consolidates the views expressed through PN UNC workgroup discussions. The table should be seen as a guide and not an exhaustive list of benefit areas, respondents are welcome to provide additional cost and benefit information.

<u>Retrospective Adjustment functionality</u>	<u>Impact</u>	<u>Shipper opportunity</u>	<u>One-off benefit</u>	<u>Annual benefit</u>
<u>Allows retrospective updates relating to the asset for the correct effective date e.g. prior to any current meter readings.</u>	<u>Files containing asset updates to be applied to the supply point register will be accepted (subject to validation). Adjustment activities are automated.</u>			
<u>Allows previous reads to be replaced</u>	<u>Adjustment activities are automated. Validation on the read would apply.</u>			
<u>Allows updates to Supply &amp; Meter Point data</u>	<u>Adjustment activities are automated. Validation on the update would apply.</u>			
<u>Allows retrospective fix to meter installations</u>	<u>Adjustment activities are automated. Validation on the update would apply.</u>			

#### Cost areas

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

#### Usage

Shippers are invited to provide an assessment of the current issues:

How many asset update records require manual intervention to enable them to be accepted into UK Link?

<u>How many queries are submitted to rectify consumption as a result of late asset updates into UK Link?</u>	
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## Appendix 2 ICOSS letter

Tim Davis

Chair, UNC Panel

Joint Office of Gas Transporters

22nd April 2013

### Regarding UNC Modification 0434 (Project Nexus Retrospective Updates)

The Industrial and Commercial Shippers and Suppliers (ICoSS) group represents all the major non-domestic industrial and commercial (I&C) suppliers in the GB energy market, supplying 70% of the gas needs of the non-domestic sector; a number of our members also supply electricity to their customers<sup>1</sup>.

I am writing with regard to UNC Modification 0434 (Project Nexus – retrospective updates) to express the views of ICoSS members concerning the benefits to the industry that the modification will bring. UNC Modification 0434, replacing the current intensive manual process to correct industry data errors with an automated process, represents a clear benefit to the market and should be seen as integral to the success of Project Nexus.

There are several clear advantages in implementing an automated process to correct historical industry data as part of Project Nexus:

- As part of the Smart Metering rollout programme, an unprecedented number of new meter installations are required to occur up to 2019 – over 20 million successful installations are required. It is not feasible to expect the industry to maintain a current view of all data items in the central systems when completing such an accelerated meter replacement programme. Far greater use of the retrospective correction process will occur and it will need to be scaled appropriately.
- It is the express intention of Ofgem to significantly shorten the process of switching customers, possibly moving to a next day process. As the customer experience should not be impaired by the need by the outgoing supplier to update industry data, greater reliance will be placed on retrospective corrections.
- The current manual process is extremely resource intensive. Irrespective of the greatly increased demands that will be placed on the current process by the market changes referenced above, there is a current requirement to simplify and automate the process as much as possible to save costs to the industry.
- Project Nexus provides the ideal opportunity to minimize the cost of implementing such a process as it will mean that it will cost a fraction of the £5m estimated by Xoserve for a standalone implementation. The most significant changes to the current industry framework since the advent of full competition is being driven by the cost efficiencies that Project Nexus provides. Implementing an automated process as part of Project Nexus not only results in significant savings for Xoserve, it also drives efficiencies in Shipper system development.

<sup>1</sup>

<sup>1</sup> Current Membership: Corona Energy, ENI, First Utility (associate), Gazprom Energy, GDF Suez Energy UK, Statoil UK, Total Gas & Power, Wingas UK.

It would be mistaken to believe that automation of such a process would represent a risk to customers or the wider industry; manual processes currently allow for retrospective correction of industry data at the request of Shippers, this change simply streamlines that process. Considering the significant efforts being undertaken to improve the quality of industry data and the unique situation of the market, to rely on current processes will result in significant inefficiencies, data inaccuracy and cost to the market.

Please feel free to contact me if you wish to discuss this in any further detail.

Yours sincerely

Gareth Evans  
Chair ICoSS



## Appendix 3 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 13<sup>th</sup> 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.