

Stage 04: Final Modification Report

0434:

Project Nexus – Retrospective Adjustment

At what stage is this document in the process?



This modification is one of a number of complementary modifications seeking to implement the requirements identified under Project Nexus. This modification identifies changes to the UNC to enable the retrospective adjustment of relevant Transportation and Energy Balancing invoices through the entering of revised Meter Information, Meter Readings, relevant Supply Point and Address data to the Supply Point Register.



The Panel recommended implementation



High Impact: Users and Transporters



Medium Impact:



Low Impact:

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About this document:

This Final Modification Report will be presented to the Panel on 16 January 2014.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.

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|  |
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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that self-governance procedures were not appropriate for this modification.

Why Change?

As part of the outcome of the last Gas Distribution price control review, it was agreed that funding should be available to support a major IT systems investment programme by the Transporters' agent, Xoserve. This major systems investment for UK-Link Replacement provides an opportunity to consider whether the existing UNC requirements remain appropriate. Rather than asking Xoserve to procure replacement systems that deliver the existing functionality, there is an expectation that introducing regime enhancements at this stage would be the most economic time to implement any such change. This is particularly opportune since it is coincident with the development of smart metering, such that requirements can be specified that recognise changes to metering arrangements rather than any changes to accommodate smart metering being retrofitted in due course. The requirements gathering exercise for the enhancements is entitled Project Nexus. This modification is one of a number of complementary modifications, which reflects the requirements.

Solution

The output in terms of systems requirements have been published as a Business Requirement Document (BRD)¹. This identifies arrangements whereby Users are able to retrospectively replace Meter Information, Meter Readings, relevant Supply Point and Address data for the purposes of reconciling consumption at Supply Points. This would lead to more accurate relevant Transportation and Energy Balancing invoices through an improved reconciliation process.

Relevant Objectives

This modification would have a positive impact on relevant objectives d) Securing of effective competition and f) Promotion of efficiency in the implementation and administration of the Code.

Implementation

01 October 2015 if an Authority decision is made by 31 March 2014

01 April 2016 if an Authority decision is made by 30 September 2014

With a backstop lead-time of 18 months (549 calendar days) should the Authority makes its decision after 30 September 2014. This is noting that no implementation would take place in the winter operations period for the Gemini system being 02 October – 31 March and any implementation must be on the first of the month.

If Ofgem issues a direction that this Modification should be made, this text would take effect on the Project Nexus Implementation Date. Consequently, following Authority direction (should this occur) the modified text would need to be monitored and amended as necessary as part of any relevant Modification which may arise to ensure that it remains in line with the version of the Code applicable at any one time.

The additional costs of implementing this modification, over and above the cost of replacing UK Link systems on a like for like basis with existing functionality, amounts to between £3 and £6m.

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¹ <http://www.gasgovernance.co.uk/nexus/brd>

2 Why Change?

Background to Project Nexus

At the time of the current Gas Distribution Price Control Xoserve anticipated the need for a major IT systems investment programme. Stakeholder consultation was initiated, under the banner of 'Project Nexus' to inform the scope and nature of Xoserve's future services that IT systems would need to support – the detailed Business Requirement Documents that support this document form a key input to the design of that investment programme.

The initial phase of Project Nexus was a consultation exercise, in which interested parties were asked for their views on the long-term strategic requirements for Xoserve's services. The consultation also developed a preferred approach to further definition of stakeholder requirements.

Following the consultation phase of Project Nexus, an Initial Requirements Register (IRR) was compiled, identifying all the topics that respondents to the Consultation had raised.

Topics were grouped into three broad categories:

- UNC changes
- Independent Gas Transporter (iGT) services
- Data management.

A UNC Workgroup was established to consider the UNC topics and develop requirements.

3 Solution

The BRDs identify detailed business rules which form the foundation for the necessary changes to the UNC. The following BRD is relevant to this Modification Proposal:

| <i>Document Name</i> | <i>Version and Date</i> | <i>Current Location (12/09/12)</i> |
|--|--|------------------------------------|
| Business Requirements Document for Retrospective Updates | V4.0 25/10/2013 | www.gasgovernance.co.uk/nexus/brd |

Introduction

The following information outlines arrangements under which the UNC would be modified to provide for the adjustment of Meter Information and Meter Readings on a retrospective basis.

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Key Proposals

- Facility for the current User to amend Meter Information ('meter asset' data) for their period of Supply Point Registration ('ownership')
- Automatic financial adjustments for amended Meter Information
- Ability for current and previous Users to amend any periodic Meter Reading for their period of Registration
- Automatic re-reconciliations where a Meter Reading is amended
- Retrospective updates to Meter Point/Supply Point and Address data
- Automatic re-reconciliations where relevant updates are made

Update of Meter Point/Meter Asset Data (Retro Updates BRD Section 8.2)

The current (incumbent) User would be able to amend the key Meter Information for any effective date in their period of Supply Point Registration (e.g. the metric/imperial indicator or the read units). The earliest effective date for any charges would be the first day of their ownership (Registration), although they would submit the correct date of the update.

If applicable, a financial adjustment would be calculated and issued automatically following an update to Meter Information, in the form of a re-reconciliation. The invoicing 'line in the sand' or 'backstop' Code Cut Off Date² for reconciliation would continue to apply, so some reconciliation periods may not be adjusted and invoiced if they fall before the Code Cut Off Date. Changes to current backstop arrangements are outside of the scope of this Modification Proposal.

Any 'previous' User/s would not be able to amend Meter Information for their period of Registration and would not receive any notification of changes by subsequent Users. If a User was previously registered at a Supply Point, lost it and subsequently regained it, the amendment facility would apply only in the current period of Registration.

Where a previous User identified an error in the set up of Meter Information for their period of Registration, they would need to request a financial adjustment via the Transporters agent, Xoserve.

Retrospective Update to Meter Point/Supply Point (Retro Updates BRD Section 8.3)

The current User would be permitted to make retrospective updates to data held on the Supply Point Register relating to the Meter Point/Supply Point. This includes changes to the Conversion factor and Supply Meter Point status. If applicable, where the current User amended the relevant data, a financial adjustment would be calculated and issued automatically following an update to such data, in the form of a re-reconciliation.

Replacement of Meter Readings (Retro Updates BRD Section 8.4)

Any User would be able to change any Meter Reading in their period of Registration for all Products³, subject to the Code Cut off date. An amended Meter Reading for Products 3 or 4 would usually trigger two re-reconciliations, for the two periods either side of the Meter Reading. For Products 1 and 2 a 'first time' replacement would trigger two reconciliations, for the two days either side of the Meter Reading. Subsequent replacements would trigger re-reconciliations.

Replaced Meter Readings would be subject to validation [as described in Modification Proposal 0432].

² TPD Section E1.3.9

³ Product definitions are identified within UNC Modification 0432
<http://www.gasgovernance.co.uk/0432>

Change of User (Opening) Meter Readings can only be expedited with the agreement of both the outgoing and incoming Users.

Address Amendments (Retro Updates BRD Section 8.5)

Both the User and the Transporter would be able to amend the address details for a Supply Meter Point. Where an address amendment changed the LDZ to which the Supply Meter Point is assigned, this may change the Transportation charging rate for the Supply Meter Point. If applicable, where the current User amended address data, a financial adjustment would be calculated and issued automatically following an update to such data, in the form of a re-reconciliation.

| User Pays |
|---|
| Classification of the modification as User Pays, or not, and the justification for such classification. |
| <p>Since substantial changes to central systems are envisaged in this modification, and those changes involve enhancements to the existing UNC regime, this modification technically could fall within the definition of a User Pays Modification. Xoserve has indicated that the additional costs of implementing this modification, over and above the cost of replacing UK Link systems on a like for like basis with existing functionality, amount to between £3 and £6m. The actual difference in costs between a like for like and enhanced systems development will never be known since only one procurement and development exercise will be undertaken, based on the identified requirements. Ofgem believes that all reasonably foreseen costs arising from the UK Link replacement have been considered when price controls were set, and funding provided. If significant additional costs beyond this can be demonstrated and justified, these should be considered in the context of the arrangements for funding which are in place following the review of Xoserve's governance and funding. On this basis, given this change is embedded with a wider system replacement, it is not proposed to include a User Pays element in the funding equation.</p> |
| Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view. |
| Not applicable |
| Proposed charge(s) for application of User Pays charges to Shippers. |
| Not applicable |
| Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve. |
| Not applicable |

4 Relevant Objectives

| Impact of the modification on the Relevant Objectives: | |
|--|-------------------|
| Relevant Objective | Identified impact |
| a) Efficient and economic operation of the pipe-line system. | None |
| b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters. | None |
| c) Efficient discharge of the licensee's obligations. | None |
| d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers. | Positive |
| e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers. | None |
| f) Promotion of efficiency in the implementation and administration of the Code. | Positive |
| g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators. | None |

Relevant Objective d)

Implementation of the changes identified within this modification is expected to facilitate Relevant Objective d) Securing of effective competition between Users. These changes are expected to lead to more accurate allocation of costs between Users. In circumstances where better and more accurate data is available to a User than that prevailing in the Supply Point Register, then it is desirable that the facility is made available for such data to be entered. The resultant more accurate cost allocations through an improved reconciliation facility are a fundamental underpinning for effective competition.

Implementation would allow a User on change of supplier to update the existing data records so that it more accurately reflects the situation on site. This would allow all Users to rely on the data held on central systems so they would be able to provide consumers with accurate quotations, which supports relevant objective d) Securing of effective competition between Users.

National Grid Distribution believed that implementation of the changes identified within this modification would facilitate Relevant Objective d) by providing an enhanced ability to provide and maintain accurate data on the Supply Point Register. However NGD noted this would be 'after the event' and could be construed as being at least in part a

consequence of the failure of a User to submit and maintain timely and accurate data in the first instance.

Relevant Objective f)

Implementation would lead to a reduction in barriers that currently prevent records being updated, by the introduction of an automated process that would allow Users to amend records. Furthermore the implementation will mitigate the associated risks as outlined in Section 6 of Appendix A - benefits case consultation report. This leads to improvements in existing process by reducing complexity and costs. This would aid Users in maintaining the accuracy of data provided to Transporters and therefore promote efficiency in the implementation and administration of the Code f).

5 Implementation

01 October 2015 if an Authority decision is made by 31 March 2014.

01 April 2016 if an Authority decision is made by 30 September 2014.

With a backstop lead time of 18 months (549 calendar days) should the Authority makes its decision after 30 September 2014. This is noting that no implementation would take place in the winter operations period for the Gemini system, being 02 October – 31 March, and any implementation must be on the first of the month.

If Ofgem issues a direction that this modification should be made, this text would take effect on the Project Nexus Implementation Date. Consequently, following Authority direction (should this occur) the modified text would need to be monitored and amended as necessary as part of any relevant modification which may arise to ensure that it remains in line with the version of the Code applicable at any one time.

The Workgroup recommended that as this modification is dependent on Modification 0432 - Project Nexus – gas settlement reform, it should adopt the same implementation timescales, as it could not be implemented in isolation.

General Comments on Implementation (date, timescales and ability to implement)

British Gas indicated that it supported and could meet the proposed implementation date of 01 October 2015, as did Winchester Gas, Opus Energy, Co-Operative Energy, First Utility, RWE npower,

DONG indicated that a minimum 18 month lead time was required to implement changes to its system.

E.ON observed that this modification should be implemented at the same time as Modification 0432, in October 2015.

ScottishPower strongly supported the implementation of this Modification 0434 and the full introduction of the Project Nexus package of reforms by October 2015, observing that already the Project Nexus programme has been in development for over four years and that it did not believe that any slippage beyond the intended implementation timescale of October 2015 could be justified, in particular when the benefits of Project Nexus would accrue to customers. ScottishPower indicated the 18 month lead time was acceptable to allow for system changes, and observed that if there was any scope to bring the date forward it would be happy to discuss this prospect.

Scotia Gas Networks considered the implementation date of October 2015 was achievable despite the congested change programme Transporter systems are required to facilitate over the next two to three years.

SSE agreed that this modification should be implemented on 01 October 2015 if Modification 0432 is implemented on this date; if this date is not met then this Modification 0434 should be implemented at the same time as Modification 0432. It was sensible to bring in this modification at the same time as Modification 0432 and to build this functionality into a brand new system rather than try to retrofit it at a later date, which would result in significantly higher costs and a longer development time.

However a number of organisations expressed concerns regarding the convergence of other industry implementation timescales with that proposed by Nexus and the industry's ability to meet and manage these challenges thrown up by wider industry reforms.

Gazprom believed that the significance of a number of identified issues (highlighted in its individual representation) raised sufficient material risk that an implementation date of 01 October 2015 should be reviewed and rescheduled by a minimum of 12 months; it therefore proposed a revised implementation of the project, to post October 2016.

Total indicated it will work in line with the lead-time set by Xoserve for implementation but would stress that **quality** of delivery of the Project Nexus Modifications is critical. It believed the project plan should be realistic and not overly ambitious in terms of delivery date, especially in the context of other major industry change. Quality should not be compromised for the sake of delivering an arbitrary implementation date.

Corona Energy also noted its concerns in respect of appropriate implementation timescales. Project NEXUS has been in development since 2008 and whilst Corona understands the desire by the industry to ensure that the changes identified are delivered in a timely manner, it also was of the opinion that it was 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. It noted that the commencement of the mass rollout of smart meters is expected to commence in mid-2015, and so Corona also has 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, Corona would therefore prefer to see the current implementation date of 01 October 2015 for NEXUS delayed to at least October 2016 or beyond.

Consideration of Wider Industry Impacts

Smart Metering

EDF commented that 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 it noted that delivery and integration of systems with the Smart Data Communication Company (DCC) was 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, it would expect that these project plans would recognise and reflect the interactions and pressures of the various system developments.

National Grid NTS observed that because Project Nexus is largely founded on smart metering, implementation of smart metering should precede implementation of Project Nexus so that Nexus benefits are ensured.

EU Third Package related Network Codes and Regulations and the current Gas Significant Code Review

National Grid NTS evinced concern regarding the level of change scheduled for a similar implementation period as that related to Project Nexus related system changes. If Nexus changes are implemented in 2015 it was imperative that there be careful

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assessment of any impact on other system changes. These are changes required to ensure that GB is compliant with EU Third Package related Network Codes and Regulations, and also output from the current Gas Significant Code Review.

6 Legal Text

Text

The Text for this modification has been prepared by National Grid Distribution and is published alongside this report; no issues were raised by the Workgroup regarding its content.

The Workgroup considered a transitional mechanism for providing the visibility of both current and future state of legal text for Project Nexus modifications was required. The proposal will be for the UNC TPD Sections to reflect the prevailing state and will include footnotes and links to the future state Legal Text.

Noting that it is proposed that Modification 0434 be implemented on 01 October 2015, National Grid Distribution pointed out that it is likely that UNC Modifications will be brought forward in the meantime which may impact on the proposed legal text. Two scenarios may arise where the Project Nexus text could be affected.

Firstly, 'enduring' Modifications that are implemented prior to Nexus implementation (01 October 2015) will need two versions of text – one for the existing Code and one post Nexus.

Secondly, UNC Modifications not due to be implemented until on or after Nexus implementation date will need one version of text. This would need to be appropriate to that to be implemented for Nexus.

It was National Grid Distribution's intention to introduce a mechanism to monitor the production and impacts of any new proposed text over the ensuing period. National Grid Distribution anticipated working closely with the Joint Office, GDNs and the UNC Modification Panel and Committee to ensure that the integrity of UNC legal text both pre and post Project Nexus implementation was maintained.

7 Consultation Responses

Representations were received from the following parties:

| Company/Organisation Name | Support Implementation or not? |
|----------------------------|--------------------------------|
| British Gas | Support |
| Co-Operative Energy | Support |
| Corona Energy | Qualified Support |
| DONG Energy | Support |
| E.ON Energy | Support |
| EDF Energy | Support |
| First Utility | Support |
| Gazprom | Qualified Support |
| National Grid Distribution | Support |
| National Grid Transmission | Neutral |
| Northern Gas Networks | Support |
| Opus Energy | Support |
| RWE npower | Support |
| ScottishPower | Support |
| Scotia Gas Networks | Support |
| SSE | Support |
| Total | Qualified Support |
| Winchester Gas | Support |

Of the 18 representations received, 14 supported implementation, 3 offered qualified support and 1 maintained a neutral position.

Summary Comments

Implementation of Project Nexus Modifications as a complementary group – Importance of maintaining cohesion

British Gas noted that it was important that all Nexus modifications are approved and implemented as a package to reap the full benefits of Project Nexus. In its view this is the right time for wholesale changes to the UK link systems as it accounts for the rollout of smart metering and takes advantage of the efficiency gains made from implementing significant changes simultaneously. Once these modifications are implemented then any further large scale changes would be unlikely achieve the cost efficiency advantages that the current programme will deliver. For this reason it is imperative that the Nexus suite of modifications is delivered as single package, though this may involve a staged implementation process.

British Gas recognised that the planned implementation deadline of 01 October 2015 was challenging but achievable. It noted that both industry participants and Xoserve were committed to this delivery date; it was important that this momentum be

maintained, and British Gas urged that the industry hold fast to this date.

EDF noted there was a high level of interdependency between UNC Modifications 0432, 0434 and 0440 and potentially other future modifications (eg 0467 and 0473) 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.

Costs/Benefits

A number of parties commented that costs would be significantly outweighed by benefits.

EDF observed, along with a number of other parties, that it was difficult to quantify any costs for changes to its internal systems at this stage without further system design detail from Xoserve. It noted that Modification 0434 complements what Modification 0432 was seeking to introduce and that, even if implemented independently to Modification 0432, it will introduce an efficient automated process into the settlement regime reducing costs of manual workarounds and inter-shipper disputes.

E.ON commented that Implementation of this modification should be done with Modification 0432 to ensure that the costs are minimised while benefits are maximised.

Scotia Gas Networks (SGN) noted that Xoserve has provided an initial estimate of the costs associated with the changes Modification 0434 would introduce, at £3m to £6m more than a 'like for like' re-build of the central systems. As no systems' tendering exercise has been undertaken on a 'like for like' basis it is difficult at this stage to accurately ascertain the additional costs associated with this modification proposal.

SGN further noted that the requirements introduced by Modification 0434 would also impact on National Grid Transmission's Gemini system. These costs have yet to be fully calculated and remain a cost risk to the project which would need to be managed under a reformed Xoserve regime, resulting from the recent Ofgem funding, governance and ownership decision.

Corona noted that this modification would require significant changes in its business and IT operations. The removal of the RbD process and the replacement of a universal smear will require it 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 its wholesale purchasing and management activities. Corona also expects that the number of meter reads which it 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 Corona's IT solutions have been designed around these processes and so any change will inevitably lead to higher costs). Overall Corona expects its 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 (0432 and 0434).

SSE indicated there would be a one-off IT cost in moving from a manual to an automated solution involving more data items to be updated, but it believed that this cost will be far outweighed by the benefits of retrospective adjustments which will be realised over a number of years going forward.

National Grid NTS still had concerns relating to the co-ordination of implementation activities between Nexus and EU Third Package related changes, and the degree of cost uncertainty, which leads to difficulty in assessing the cost versus benefit of the modification.

National Grid NTS noted that the Draft Modification Report only states an additional implementation cost, over and above a UK Link 'like for like' replacement, as a range of between £3m and £6m. The Report does not consider additional "Gemini" system

costs, which are yet to be determined, such that the full cost impact is currently unknown.

National Grid NTS believed that all initial capital and on-going administration costs associated with the required changes to the Gemini system (applicable to all Project Nexus Modification Proposals) should be made available to those impacted by this proposal via the completion of a Detailed Cost Analysis (DCA). National Grid NTS had previously requested that the UNC Panel and Proposer consider completing such a DCA, and National Grid NTS considers that this is a necessary pre-requisite for consideration of this Modification Proposal(s), in order that those responding to this consultation can make an accurate cost versus benefit assessment.

National Grid NTS considered that an agreement on funding for the additional changes required to the Gemini system is also needed before work can begin. The TPCR4 and RIIO-T1 allowances for Gemini Change Costs did not include any specific or incremental sums for delivering Project Nexus reforms.

It also noted that a decision to approve this Modification 0434 would need to have regard to the expected scope and timing of smart metering, such that commensurate system change costs are approved.

Impacts on the Transporters' Agent

Northern Gas Networks observed there would be significant impacts on the Transporters' Agent. The necessary system changes have been funded and, although the deadlines are tight, Northern Gas Networks believes they can be met as long as additional changes are not introduced through conflicting modification proposals.

Additional Issues Identified in Responses

Significant industry changes – potential conflict of delivery timings and other constraints

EDF believed that it is important to emphasise again the potential conflict of timings of industry change deliverables that are being proposed for delivery on or around the October 2015, including:

- UNC Modification 0461 - 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

EDF Energy expected Xoserve to ensure that it manages efficiently and professionally the interactions of the delivery of numerous systems changes at once. EDF Energy also wished to highlight that Xoserve needs to take into account the impacts of quicker switching initiatives and change of supplier 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.

Gazprom also expressed concerns regarding conflicts of delivery times and identified a number of risks, and believed that a review of delivery timings across industry change projects was necessary to mitigate risks that were perceived to be unacceptable.

National Grid NTS noted that given the considerable resourcing required across the industry in order to implement Project Nexus, a programme management approach to delivery would be highly beneficial.

Gazprom reiterated its increasing concerns over a number of issues, both within the direct control of NEXUS and external to it, which have the potential to increase the overall project risk and threaten a successful implementation of both NEXUS and those other initiatives. It noted that whilst some of these issues are within the direct control of NEXUS, others will need to be managed at an industry level and, to date, no such vehicle with appropriate oversight and decision making powers exists to undertake this critical role.

Gazprom noted that the introduction of Nexus will require significant commitments of resource from industry participants and its scheduling needs to be considered in the context of other market changes which, even if not directly impacting NEXUS, will indirectly impact participants' finite resources. It observed that it had yet to see a strategy implemented for overall program management with clear Terms of Reference setting out how issues will be addressed and decisions made and prioritisation and scheduling undertaken in a fair and transparent manner.

Total also expressed a concern over the scale of wider industry reform that is scheduled to happen towards the end of 2015, noting there was no industry wide programme to co-ordinate change and therefore a risk that Project Nexus is implemented without regard to the burden of change on Gas Shippers and Electricity Suppliers. Total believed that a "go live" for project Nexus at the same time as DCC implementation presents a significant risk to the industry and specifically the quality of the change that is delivered under Project Nexus.

Lack of clarity on the impact of the removal of RBD in the SSP sector

Gazprom has asked at several meetings for modelling/analysis on the impact of the removal of RBD and the introduction of individual meter settlement. In the light of the lack of smart metering being rolled out in the domestic market (the Q4 2013 rollout level is 0.4%) it remains unclear what the impact of smearing factors introduced in NEXUS will be on smaller market participants in the short to medium term. Without these enabling technologies in place Gazprom is concerned that infrequent reads will continue to dominate the majority of the domestic market for many years potentially leading to volatility in reconciliations which could create cash flow and credit issues for all market participants and in particular for smaller suppliers.

Gazprom was also interested in understanding the impact of an exit from recession on AQs and the potential for AQs moving from generally being higher than actual consumption to being lower as the economy picks up. Whilst the introduction of rolling AQ may reduce the risk associated with this concern the ability for market participants to access rolling AQ is of course dependant on accessing more frequent meter reads. In the absence of more frequent data it is unclear to what extent rolling AQ will benefit SSPs.

Corona Energy commented that 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 it can see theoretical benefits of changing the settlement process, it is concerned that without more detailed analysis it is difficult to assess whether the benefits to the consumers justify the time and cost. It believed its view was 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 Corona that the industry should wait for it to be finalised before it 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 Corona has concerns over how this residual gas will be apportioned. In particular it notes 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 retrograde step out of keeping with the general principle in Project NEXUS of improving accuracy of cost apportionment. Corona see the continuation of a target process to be crucial.

Lack of analysis relating to a number of interlinked system impacts/potential changes

Gazprom believe it is important to understand if any of the proposed changes could have an unintended and adverse consequence on smaller market participants and as noted it has not seen any modelling or analysis on these issues. It also noted a wide ranging concern regarding the perceived lack of analyses regarding the interlinked system impacts/potential changes that may be required following the implementation of the numerous industry projects currently in progress, ie relating to CoSEG, DCC, REMIT, changes resulting from EU developments, and changes to Xoserve's structure).

Corona suggested that wider analysis needed 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.

Internal impacts and the ability of smaller parties to manage the scale of change

A number of organisations noted concerns regarding the ability to field sufficient resources to address the scale of proposed convergent industry change.

Commenting on and 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, Corona pointed out that allocation of resources may affect small suppliers in particular, who will not be able to dedicate sufficient resources to all the different projects and activities. Given the magnitude of NEXUS and SMART metering roll-out it seemed to Corona that being able to achieve everything in the current timescales was putting all projects at risk. It believed therefore that wider analysis needed 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.

Impact of retrospective element and effects on the integrity of the settlement process

ScottishPower had concerns that a modification such as this, which introduces a retrospective element, may not promote or encourage the correct behaviours in terms of provision of timely and accurate data in the first instance. Where the functionality is introduced that permits the entry of inaccurate data into settlement with the knowledge that it can be subsequently corrected at a later date then this has the potential to have a detrimental impact on the overall integrity of the settlement process.

Shippers who operate to ensure that the highest standards of data accuracy are maintained both within their individual portfolio updates and billing processes may continue to be adversely impacted by parties who do not perform the same level of scrutiny and audit to their data. ScottishPower felt that the introduction of a Performance Assurance Framework (PAF) could ensure that appropriate controls and incentives are put in place to ensure that, should this modification be implemented, there is visibility to the extent to which the retrospective update process is utilised.

It was acknowledged that the retrospective update functionality will be live from the effective date of the new system, and that no retrospective element will predate the 'go-live' date. ScottishPower believes that it is imperative that adequate monitoring and controls are put in place to ensure that the update mechanism is used in accordance with the intent of the Modification. It also believes that, similar to electricity obligations, Shippers should be required to retain sufficient evidence at an MPRN level to support all retrospective updates within their portfolio that have been processed. This obligation is essential should any future market audit of the process be required.

ScottishPower acknowledged that the use of this functionality is difficult to predict. Concerns exist over the level of system investment that is required when considered against the overall benefit to be achieved via settlement adjustment is therefore difficult to quantify. It is anticipated that utilisation will be particularly prevalent as the market progresses through the mass rollout of Smart metering where meter technical data

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anomalies may be identified and require correction. ScottishPower believes that in the short/medium term retrospective adjustment may be common practice as the market moves towards increased accuracy. However in the long term this is a process where utilisation should diminish as data becomes cleaner under the regime that will be introduced under Modification 0432, and still further under full smart meter rollout. ScottishPower believes that the use of the retrospective update mechanism could be monitored under the Performance Assurance Regime.

National Grid Distribution (NGD) expressed a concern that providing the ability for Users to submit retrospective data updates should not discourage industry parties from providing accurate and timely data in accordance with their UNC or licence obligations. It anticipated that reporting of the number of retrospective updates and the value of subsequent energy adjustments should be made available to the industry to enable monitoring of the volume of such updates being submitted by Users during their own period of ownership and updates in a previous User's ownership. It also anticipated that such requirements would be reflected in the recommendations and output of the Performance Assurance Workgroup.

Observing that this modification identifies a 'safety net' for Users whereby data can be retrospectively updated to the Supply Point Register, NGD pointed out that there is a risk that this could lead to Users being less concerned with getting data correct 'first time'.

Corona Energy commented that 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. It therefore expects 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.

Retention of current process for apportionment of gas to each market sector

Corona Energy commented that 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 and 0434 will jeopardise this. Corona reiterated its opinion that the current proposals would be a retrograde step and that it believes UNC Modification 0473 is crucial to delivering the full benefits of NEXUS.

8 Panel Discussions

The Panel Chair summarised that Modification 0434 forms part of a suite of modifications developed under the auspices of the Project Nexus Workgroup to effect a number of industry agreed changes. This modification addresses whether it is appropriate to allow data to be retrospectively adjusted, and provides for retrospective adjustment of relevant Transportation and Energy Balancing invoices as a result of revised Meter information, Meter Readings, and relevant Supply Point and Address data.

Members considered the representations raised noting that, of the eighteen representations made, fourteen supported implementation, three offered qualified support and one remained neutral. They also and, in particular, noted concerns that whilst the ability and opportunity for correcting errors is appropriate and beneficial, conversely it may also be argued that to allow retrospective adjustment creates a disincentive for accurate and timely primary submission, and this may produce adverse impacts. This risk and its attendant concerns may be alleviated in the short term by the establishment of a Performance Assurance regime to monitor and address poor performance, and may diminish over time as data becomes more accurate.

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Members further noted that a number of respondents indicated that they would require at least 18 months' lead time to implement the proposals in this modification and the additional concern raised that a number of major industry projects were likely to 'go live' in a similar timeframe and that it may be prudent to delay the implementation date. Combined implementation of Modifications 0432, 0434 and 0440 was favoured due to the recognised mutual dependencies and the collective benefits.

Members noted that as this modification is dependent on Modification 0432 - Project Nexus – gas settlement reform, it could not be implemented in isolation.

Members then considered the relevant objectives (d) and (f).

Where more accurate data is available for use then it is beneficial to Users that this should be provided and, through the introduction of an automated process, enable appropriate updates to the Supply Point Register to be effected. This should result in improved reconciliation and ensure that subsequent cost allocation is more accurate in its apportionment. It will also provide Users with greater confidence in the degree of reliance that can be placed on the accuracy of data held in the central systems. This would therefore facilitate objective (d) the securing of effective competition among existing Users.

A reduction of complexities within the existing process would assist Users in maintaining accuracy of data and would also contribute to reductions in known risks and costs, furthering relevant objective f) Promotion of efficiency in the implementation and administration of the Code.

Members agreed that implementation would expect to further these relevant objectives.

Members voted unanimously to recommend implementation of Modification 0434.

9 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel recommended:

- that proposed Modification 0434 should be made.

10 Appendix A

Modification 0434 Project Nexus Retrospective Updates, benefits case consultation report

A report provided to the Modification 0434 Workgroup for inclusion in the Modification Report

1st November 2013

Contents

- 1. Introduction**
- 2. Cost Benefit Assessment**
- 3. Overview of Modification 0434**
- 4. Consultation approach and overview**
- 5. Consultation responses**
- 6. Additional information identified at the Modification 0434 workgroup meetings**

Appendix 1 The original consultation document for reference

Appendix 2 The ICOSS response letter

Appendix 3 National Grid Gas Transmission response in full

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1. Introduction

This report has been prepared during the development modification 0434 for inclusion in the draft and final modification reports.

The purpose of the report is to document the responses to the cost benefit consultation and present the benefits case for modification 0434.

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. Cost Benefit Assessment

The information provided in the responses and discussed at the 0434 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 0434 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.

3. Overview of the Modification 0434

Modification 0434 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/00434>

4. 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 in 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

Eon*

Npower

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Scottish and Southern Energy
Scottish Power
Utilita

Gas Transporters
National Grid Transmission

*responses provided directly to Ofgem, any financial information provided by these organisations has not been provided to the authors of this report nor included in this report.

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.

ICOSS submitted a letter in support of Modification 0434 to the May 2013 workgroup meeting. 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.

5. Consultation questions and responses

The following are the comments received from industry participants in response to the Modification 0434 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 0434 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.

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

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

5.1.1.1 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.

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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.

5.1.1.2 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.

5.1.2 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.

5.2 Allows previous reads to be replaced.

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

5.2.1.1 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.

5.2.1.2 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

5.2.2 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.

5.3 Allows updates to Supply & Meter Point data.

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

5.3.1.1 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.

5.3.1.2 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

5.3.2 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.

5.4 Allows retrospective fix to meter installations.

5.4.1 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?

5.4.2 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.

5.5 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.

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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 0434 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

5.6 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.

5.7 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 customer's 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

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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.

5.8 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.

5.9 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 0434.

6. Additional information identified at the Modification 0434 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 0434 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 0434 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> |
|--|------------------------------|
| Request for Adjustment (RFA) | 550 |
| Consumption Dispute Query (CDQ) | 330 |
| Filter Failure Consumption Adjustments | 7,000 |
| 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 0434 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.

Appendix 1 Consultation document

Retrospective Adjustment cost benefit assessment

This is an information gathering exercise for Modification 0434 Retrospective Adjustment.

Industry participants are requested to provide responses to any of:

Xoserve at commercial.enquiries@xoserve.com

Ofgem at smartermarkets@ofgem.gov.uk

Responses are required by 1st March 2013

In order to support the Project Nexus Retrospective Adjustment modification - <http://www.gasgovernance.co.uk/00434> 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

Questions to consider:

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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?

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 addition cost and benefit information.

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

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? | |
| How many queries are submitted to rectify consumption as a result of late asset updates into UK Link? | |

Appendix 2 ICoSS letter

Tim Davis
Chair, UNC Panel
Joint Office of Gas Transporters

22nd April 2013

Regarding UNC Modification 00434 (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 customers⁴.

I am writing with regard to UNC Modification 00434 (Project Nexus – retrospective updates) to express the views of ICoSS members concerning the benefits to the industry that the modification will bring. UNC Modification 00434, 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.

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

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

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 13th February 2013, this response will summarise National Grid NTS' views on benefits, costs and concerns related to Modification Proposal 00434.

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.

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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 00434.

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.