



Sandra Simpson
Stakeholder Engagement Manager
Xoserve Limited
31 Homer Road
Solihull
B91 3LT

E.ON Energy Solutions Limited
Newstead Court
Little Oak Drive
Sherwood Park
Annesley
Nottinghamshire
NG15 ODR
eonenergy.com

Colette Baldwin
T 02476 181382
M 07793 648490
Colette.baldwin@eonenergy.com

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Dear Sandra

Change Programme Delivery Options Consultation

Thank you for the opportunity to consult on the Change programmes currently impacting the industry, I hope you find our response useful and should you have any questions or would like clarification on any of the points we've raised in our response please feel free to contact me.

Consultation Response Approach

We recognise the need for Xoserve to consider and manage the scale of change that it is facing in 2015, however having read the consultation document and the supporting presentation material provided to the Senior Stakeholder Forum recently we are left unfortunately with more questions than answers.

We have been asked to quantify and qualify our implementation preferences as set out in the assessment table, however we don't believe that we or the industry have sufficient information to consider them adequately and make an informed recommendation. We have expressed our concerns with the consultation questions below.

E.ON Energy Solutions Limited
Registered in
England and Wales
No 3407430

Registered Office:
Westwood Way
Westwood Business Park
Coventry CV4 8LG

Consultation Questions

| Question | 1A-2015 | 1B- later | Nexus EU | EU Nexus |
|---|---------|-----------|----------|----------|
| 1. What is the scale of dependency to achieving successful delivery? | | | | |
| 2. What would be the impact of failure to achieve? | | | | |
| 3. What would be the likelihood of failure to achieve? | | | | |
| 4. What would be the feasibility of mitigating the likelihood of failure? | | | | |
| 5. What would be the impact to your organisation of mitigating the likelihood of failure? | | | | |
| 6. What would be the scale of risk/impact to your organisation of delivery? | | | | |
| 7. What would be the scale of foregone benefits to your organisation relative to option 1A? | | | | |

Comments specific to the consultation questions

1. Please clarify the dependency to what?
2. Please clarify – EU and Nexus, Nexus only or EU Only?
3. That can't be determined by anyone but Xoserve, since the failure to achieve UK Link Replacement or Gemini changes sits solely with Xoserve.
4. As Question 3.
5. As the mitigation action has not been described we cannot assess the impact.
6. As Question 2.
7. We have had insufficient time to assess the impact to provide a meaningful response.

We propose therefore not to complete the response table, but have provided comments for consideration.

Options Consideration Section 3.4 - Comments and Assumptions

Option 1: The assumption from the consultation document would appear to be that either both changes are delivered for 1st October 2015 or that both are

delivered later than 1st October 2015 – but no later date is proffered.

Option 1A

The current assumption of the Project Nexus Workgroup is that UK Link Replacement is targeted for delivery on 1st October 2015, and while Gas Day EU Changes are required for 1st November 2015 it is proposed to implement these changes on 1st October 2015 too.

Option 1B

Given the lack of an anticipated delivery date for this option it makes it impossible to assess the risk, feasibility or impacts of delaying delivery of both reforms to an indeterminate time.

Option 2: Sequenced Delivery of the solutions but without a proposed interval timeframe provided.

Option 2A & 2B

EU reform of the Gas Day is regulatory requirement of the CAM European Network Code and its implementation is driven not through a discretionary decision on the relative costs and benefits and determining a suitable timescale if the modification is approved, but by wider legislative requirements. However, reviewing the UNC Mod 461 responses, it would appear that the GDNs have serious concerns about the impacts of these proposals and they have all expressed concern that they have not yet completed their assessment of the impacts of these proposals and therefore the risks and feasibility are not fully understood. It is worth noting that the UNC Modification Panel failed to recommend the implementation of the EU Reform proposals at its meeting on 20th February and the decision is now one for Ofgem to wrestle with.

Since the GDNs haven't completed their assessment of the EU Reform requirements yet, it is not possible for Xoserve to offer any certainty over the interval between the implementation of EU Reform and UK Link Replacement if sequenced in this order. The issue if sequencing UK Link replacement first and delaying delivery of the EU Reform would be the consequences of non-compliance with the relevant EU legislation.

Despite the table presenting a matrix of options, views were invited on the merits of conducting a further assessment to bring forward elements of Nexus if Option 2B were preferred. There is insufficient information provided by Xoserve in this consultation document to detail the Nexus elements that are proposed to be

delivered separately, information as to what (if any) impact that might have on Gemini, nor are there any indications of what timescale is being proposed between EU Reform and Project Nexus or indeed whether it is Xoserve's intention to delivery any part of the Nexus changes pre the EU changes to Gemini.

It is unclear how this approach would impact modifications currently being delivered/developed that are to be managed pre-Nexus delivery – such as 0450B and 0451A (Mods that will fall away with Nexus reforms), or 0477 (faster switching), and 0467, 0440 and iGT039 which are all related to the delivery of iGT Single Service Provision by the Large Transporters' agent.

We cannot therefore offer any views on the vague suggestion of a piecemeal delivery of Project Nexus without further clarification.

Future Changes

Xoserve and the GDNs have been very clear that the base-lined requirements of the Nexus modification proposals are a phase I delivery, and that future enhancements of the solution that come out of any further analysis will be considered in a phase II set of requirements. Industry change can't stand still and clearly during the development phase from the high level design to the detailed design it's likely that issues as well as potential improvements will be identified, however a line in the sand was drawn when the legal text was drawn up for the proposals and the GDNs were clear that any future enhancements will need to be taken through the modification process – such as UNC 0467 (future role of the AUGÉ), or other development process (as with Gas Performance Assurance). These newer developments will have to be considered against the backdrop of planned changes already moving forward.

The risk that the gap between the understanding of the BRDs by the preferred bidder and the development of the detailed designs requiring significant reworking of the logical analysis must have been considered when the timescales for Nexus were being proposed and reflected back to Ofgem in the assurance they gave them in their ability to deliver Nexus by October 2015 following Ofgem's consultation. Indeed, in the Baringa report, the preferred bidder's knowledge and experience of Gemini and UK Link was lauded as an important decision making factor when awarding them the contract. It would seem incongruous to now suggest that they don't understand enough about the BRDs in the context of UK Link and Gemini that this introduces additional risk.

EU Reform Issues - Uncertainty

Modifications to the Network Code for EU Reform have yet to be approved by Ofgem, and there is some doubt expressed by parties that the full impacts of the EU Reforms are not fully understood.

Xoserve have stated that the scope of the EU changes are not being limited to the Gas Day changes and have indicated that further changes are anticipated as a consequence of EU reform to the UNC Balancing and Capacity Allocation arrangements to reflect the requirements of European Codes.

The UNC Modification Proposal 0461 Final Mod Report¹ related to the Gas Day changes included comments from the GDNs relating to consequential changes not specified in the modification proposal...

"For instance, the definition of LDZ gas demand does not appear to change as part of the proposal, but the underlying calculation to determine gas demand will have to be reprogrammed to provide a value for the new gas Day period and the supporting input data will need to be rescheduled to provide data to feed the revised calculation."

We should further consider whether changes to the Gas Day not coincident with Project Nexus implementation as well being achieved at the start of the Gas Year (1st October) could potentially result in Xoserve having to revisit allocation proposals within the settlement arrangements and that the calculation of gas day averages will need to be redone (which may in turn impact the calculation of ALPs, DAFs and WCFs). This may lead to additional complexity in the settlement processes being implemented and have wider impacts on the residual RbD allocations.

Smart Metering, Smart Settlement & UK Link's ability to cope

Some suppliers have already started rolling out smart meters to their customers, and so are becoming less reliant on pedestrian readings. The locked door or barred gate will no longer be a barrier to the supplier obtaining meter readings and this will result in an increase in the number of readings being submitted and accepted by Xoserve. We are not clear from this consultation or any other document in the public domain, to what degree the UK Link system is limited or constrained in its capacity to manage the additional traffic from the increased number of meter readings, meter exchanges and indeed the increased activity around and following the AQ Review before UK Link is replaced.

1

<http://www.gasgovernance.co.uk/sites/default/files/Final%20Modification%20Report%200461%20v1.0.pdf>

We have seen a number of instances over the past 2 years when Xoserve have been unable to process the number of readings on the day they have been sent because of a capacity constraint. In the case of our larger non-domestic customers with AMR equipment, we are having to limit the number of reads we can submit because of the current limits on read submissions. They have encouraged shippers to try and manage the meter reading submissions, particularly at the beginning of a week to enable Xoserve to cope with the increased volumes being received.

Increased readings into Xoserve systems may yet further increase the AQ Review activity until Project Nexus delivers Rolling AQ. Increased AQ activity may also result in further constraining Xoserve's ability to handle SPA activity around the start of the gas year. We have seen phases 1-4 of outages and relaxed SLAs to handle many of the BAU activity which have had to stop or be delayed because of AQ Updates and Xoserve's systems inability to multi-task!

The plans that suppliers have for rolling out smart meters may have to be rethought or even limited by Xoserve's ability to cope with the additional burden this activity may place on their systems if there are delays in replacing their systems.

Ofgem and Smart Rollout Impacts

Ofgem are keen to ensure that Smart Metering benefits are available as soon as possible. The GDNs received a letter from Ofgem on this very point.... Ofgem's open letter to the GDNs of the 31st July 2012.² Ofgem expressed their concern in 2012 that "progress was slow" and that they expected the settlement systems to be "smart ready as soon as possible". Their consultation concluded, among other things, that...

1. there should be

"New systems in place and operational by end-2015, which (a) substantially improve the accuracy of the settlement process based on existing meter data availability, and (b) are capable of making effective and efficient use of smart and advanced meter data as its availability increases over time."

2. and that...

² <https://www.ofgem.gov.uk/publications-and-updates/open-letter-gas-distribution-networks-project-nexus-gas-settlement-reforms>

"For the vast majority of customers, the gas settlement arrangements do not provide an ongoing accurate link between a consumer's consumption and their supplier's charges. This can result in some consumers paying more than they should, and others paying less. It can also distort competition between suppliers and represent a barrier to entry. Gas transporters have a duty under the Gas Act 1986 to facilitate competition in the supply of gas. 2 We consider that a well-functioning settlement system is an important contribution to the performance of this duty.

Ofgem will have to be mindful in responding to any request to delay the delivery of Nexus beyond October 2015 of the views they expressed in their letter on the impacts to the consumer, competition and the need for a suitable functioning settlement system.

Additionally, Ofgem have only recently expressed their frustration with the industry in delivering the benefits of smart metering in their Open letter on 6th February regarding facilitating industry changes to realise the benefits of smart metering.³

"We note that there are other examples where the industry has not progressed important changes to market arrangements in a timely way. This includes Project Nexus, which among other things seeks to reform the gas settlement arrangements such that they provide an ongoing accurate link between a consumer's consumption and their supplier's charges. While this work has been constructive, progress has been slow and gas settlement systems have remained largely unchanged since the start of domestic competition. The changes proposed by Project Nexus are critical to deliver a more accurate allocation of costs and to support competition between gas suppliers.

We expect that industry, whether suppliers, network companies or any other market participants, should not take actions through the code modification processes that delay the realisation of consumer benefits. Moreover, market participants must commit sufficient resource to undertake robust and timely assessment and implementation of modifications."

I believe this is as clear a signal to the industry that delays that impact the realisation of the benefits of smart metering must not be unnecessarily delayed by resource constraints.

Xoserve have stated that they can manage the smart meters in the same way we manage dumb meters, but with the prevailing reading requirements as set out in the code and with the current read frequency, however they cannot cater for the increased volumes or frequency of read submissions that Nexus will facilitate.

³ <https://www.ofgem.gov.uk/publications-and-updates/letter-industry-role-creating-market-conditions-necessary-support-realisation-benefits-smart-metering>

This may have an bearing on suppliers' decisions on when smart metering rollout levels might be ramped up.

iGT Single Service Provision

The proposals for iGT single service provision have been developed to be delivered at the same time as Project Nexus; in fact the reform of the settlement arrangements with single meter point reconciliation is of considerable importance to gas shippers. Delays to delivery of project Nexus would delay the not insignificant benefits that have been attached to the delivery of these changes, any fragmentary delivery of the Nexus solutions would need to consider how the iGTs will manage the transition arrangements where some, but may be not all of their proposed services will be delivered by Xoserve.

System Changes

Xoserve have expressed the view in 2.5 (b) that Gemini changes for Nexus and EU reform would need to be delivered as a single package because of the configuration of system code and that this would effectively be true irrespective of which option was chosen, and over whatever timescale was preferred. This leads us to believe that there are clearly limits on what configuration of options can be progressed sensibly. One of the issues not elaborated on is to what degree this change is contingent on Xoserve's own staff to support the delivery from any training and/or testing perspectives and therefore how that might limit Xoserve's capability to manage the change. Again the Baringa report suggested that there was a low dependency on Xoserve's SME as a decision making factor when selecting their preferred bidder, however to what degree the system change capability is limited by Xoserve's resource capability should be explored before any recommendation is made.

Equally, the future level of resources required to deliver the change over a longer timeframe than initially envisaged of an October 2015 delivery for Nexus changes will increase the costs of delivery of the change, not just for Xoserve but also for all affected parties, and at whose expenses is this cost burden borne?

UK Link Future Support & Funding

Xoserve have explained that there is a shelf life to the current support contracts for the existing UK Link system, and any delays to the replacement of the system would potentially require Xoserve to re-procure the support for the existing system. Given the fact that the GDNs have already been funded for the replacement of UK Link in the GDPCR 2007-2013, how will the costs caused by any delayed delivery of a replacement system resulting from a potentially expensive,

short term contract for the soon to be redundant systems be funded?

The projected costs for a large system replacement have surely grown over the lifetime of the development of the proposals and while shippers will not directly fund the replacement of the system, the costs will be passed on to shippers and therefore ultimately to consumers through the recovery of transportation charges. Further delays will potentially increase the costs of this project, if not directly in terms of the system build now that it is at the contract offer stage, however, the costs of Xoserve supporting the implementation will have gone up since the proposals were put forward in 2008, and will continue to rise until the new system is delivered.

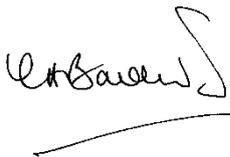
Conclusions

E.ON firmly believes that the initial aspiration to deliver the changes for 1st October 2015 should still be the preferred date and that they should be the concurrent changes of Nexus and EU Reform.

E.ON has already invested heavily in preparing for the Nexus changes. We have begun the rolling out of smart meters to our customers and on the back of this we have already made changes to our business systems and processes that move us towards the new settlement arrangements and to help ensure that we could meet the timetable proposed by the GDNs and also desired by Ofgem.

For the reasons Ofgem set out in Ofgem open letters referred to earlier, we agree that the current settlement arrangements don't deliver charges that accurately reflect a customer's consumption (a feature of the outdated settlement arrangements), which leaves the smearing of the cost of that inaccuracy predominantly to domestic customers. Ofgem concluded these changes will help competitive gas supply arrangements and we believe they will put our customer at the heart of the future settlement arrangements by ensuring they have consumption reflective settlement arrangements specific to their own supply, rather than the archaic averaging of general consumption for their market sector.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Colette Baldwin', with a horizontal line underneath it.

Colette Baldwin
Regulation & Policy Executive