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27 September 2010

Dear Mark,

Open letter consultation: Potential Significant Code Reviews

Thank you for the opportunity to respond to Ofgem's open letter on potential Significant Code Reviews ("SCRs").

We are responding in our capacity as the Gas Transporters' Agent, responsible for delivering on behalf of the large Gas Transporters ("GTs") a range of centralised gas transportation services as defined in the GTs' Uniform Network Code ("UNC") and licence, including energy balancing (settlement) invoicing arrangements and switching processes. As such, we have limited our response to the proposal for an SCR in respect of the Smart Metering impact on wider industry processes ("the Smart Metering SCR").

We have set out below our thoughts on the proposals for a Smart Metering SCR, and have given specific consideration to its compliance with the criteria for SCRs, its scope and its timing. We have also cross referenced the documentation held on the Joint Office website relating to our Project Nexus discussions with industry participants on the use of Smart Metering data in UNC processes.

Appendix 1 contains background information on the role of xoserve in the gas industry, and Appendix 2 provides a pictorial overview of the prevailing UNC processes that use energy consumption data and illustrates how this data flows through to settlement arrangements.

Summary

xoserve welcomes the proposal to initiate the Smart Metering SCR. We consider that the Smart Metering SCR could bring greater certainty and authority to potential UNC changes that have been discussed through xoserve's Project Nexus industry engagement activities. This increased certainty would enable more efficient systems investment planning, and would help to inform the nature of xoserve's GT Agent services for consideration within the forthcoming Gas Distribution and Transmission Price Control Reviews.

The Smart Metering SCR should be cognisant of and ensure co-ordination with the parallel and related developments that are taking place under the auspices of the Smart Metering Implementation Programme (“the SMIP”).

The proposal

We have reviewed Ofgem’s criteria for the initiation of an SCR, and we agree that the outcome of the Smart Metering SCR could create significant cross-code issues. In respect of the gas industry, we would expect that the UNC and the proposed Smart Energy Code (“SEC”) would fall within the scope of the impacted industry codes, and that consideration may also need to be given to impacts on the independent Gas Transporters’ Uniform Network Code and the Supply Point Administration Agreement.

In relation to the scope of the Smart Metering SCR, we would recommend that consideration be given to industry process impacts for all Supply Points, regardless of whether they are fitted with Smart Meters, Automated Meter Reading (“AMR”) equipment, or continue to have legacy meters for an interim period. This would be necessary to ensure the integrity of both the commercial balancing of the system and the delivery of GTs’ wider obligations.

The launch of the review at the end of 2010 will result in parallel industry engagement in respect of both the Smart Metering SCR and the SMIP. Achieving a successful outcome that delivers clear direction to the industry will require careful co-ordination of these related developments.

Use of Smart Metering data in UNC processes

xoserve launched Project Nexus in 2008 in order to consult with the gas industry on the scope and nature of its services, and to understand strategic requirements that would inform future investment in its IT systems. One of the key outcomes of a period of formal consultation was the establishment under industry governance of a Project Nexus UNC Workstream (“PNUNC”) to take forward the definition of requirements for a number of areas identified in consultation responses.

During the past twelve months, PNUNC and supporting Topic Workgroup meetings have developed a set of principles and associated high level benefits for the use of Smart Metering data in UNC processes. Whilst the principles taken together are at a high level logically coherent, they are aspirational in nature and do not necessarily reflect the views of all industry participants.

The Topics considered by PNUNC have comprised Energy Allocation, Reconciliation and Annual Quantity. The scope of the Topics has been limited to those processes that PNUNC participants considered appropriate for discussion pending further understanding of the scope of the SMIP. In particular, PNUNC has not considered the impacts of Smart Metering on Change of Supplier processes and, after initial discussions, has decided to defer further consideration of retrospective update processes pending further clarity on Smart Metering data responsibilities.

Further information regarding the output of the Topic Workgroups is available from the website of the Joint Office of Gas Transporters at <http://www.gasgovernance.co.uk/nexus>.

The establishment of the Smart Metering SCR could provide a good focal point for these principles and offer a framework within which they could be formally reviewed and progressed in a co-ordinated manner.

Next Steps

We would very much welcome the opportunity to contribute to the progression of the proposed Smart Metering SCR. We have considerable knowledge and experience to offer in providing detailed information about prevailing arrangements, as well as being able to provide analysis of potential alternative industry processes.

We are happy for you to publish this letter, including its Appendices.

If you would like to discuss further any aspect of our response, please contact Martin Baker on 0121 623 2692 or e-mail martin.baker@xoserve.com.

Yours sincerely

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Head of Strategy and Development
xoserve

Appendix 1 – The role of xoserve

xoserve is appointed by the principal Gas Transporters of England, Wales and Scotland as their common agent to deliver a range of centralised gas transportation services as defined in the Uniform Network Code (“UNC”). The UNC governs the arrangements for the provision of transportation transactional services by Gas Transporters to Shippers, and the principal role of xoserve is to deliver those services on behalf of the Gas Transporters. xoserve also provides services which fulfil a range of Gas Transporters’ obligations as defined in their regulatory licences. Services are concerned primarily with the management of the register of Supply Points connected to the Gas Transporters’ networks and the preparation and submission of transportation and energy invoices to Shippers.

In addition to the provision of transactional services, a key element of the common agent role is the management of changes to these services, principally driven by Modifications to the UNC and/or Gas Transporters’ licences.

Both the transactional and change management services delivered by xoserve are fundamental to the efficient commercial operation of the gas industry and essential to enabling gas supply competition in Britain.

Appendix 2 – Use of Energy Consumption Data in UNC Processes

