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Ofgem
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Dear Harpal

Promoting Smarter Energy Markets

Thank you for the opportunity to respond to Ofgem's consultation on the scope of its strategy to shape energy market development from the platform of Smart Metering.

We are responding in our capacity as the principal Gas Transporters' common Agent ("the GT Agent"), responsible for discharging Gas Transporters' Licence and Uniform Network Code ("UNC") obligations in respect of transportation transactional services. We refer to these services collectively as "Agency Services".

The scope of Agency Services includes wholesale gas market settlement processes (as included in the outline in Sections 4.6 – 4.9 of the consultation document) and the change of gas supplier process (as included in the outline in Sections 4.25 – 4.28 of the consultation document). In respect of the change of gas supplier process, the scope of Agency Services is limited to updates to the data held on the Gas Transporters' Supply Point Register in respect of the incumbent Supplier at each Supply Point and the provision of Supply Point information to both the incumbent and proposing Supplier.

As explained below, the industry has already expended a considerable amount of effort in its consideration of strategic changes to gas market processes. It is important that the consultation and any subsequent programmes of work compliment this thinking rather than bring forward competing approaches and proposals.

Summary

We are keen to see an outcome from this consultation that provides a clear strategic direction for key features of the wholesale gas industry's commercial framework, and consequently for the breadth and depth of a number of Agency Services provided by Xoserve.

As referenced in Section 4.17 of the consultation document, we have been conducting an extensive stakeholder engagement programme since 2008 under the banner of Project Nexus to gather requirements from Gas Shippers and Gas Transporters in respect of strategic change to the UNC regime. Much of this work has been undertaken under the auspices of the Project Nexus UNC Workstream and associated Workgroups (“the PNUNC Workgroups”). This requirements gathering activity is drawing to a conclusion, and a key next step for the industry during 2012 will be to raise UNC Modification Proposals in order that the potential service changes can be progressed through formal UNC governance, including the preparation of cost benefit assessments. The exact nature and timing of any UNC governance decision to proceed to change implementation is outside of Xoserve’s span of control, although we would not anticipate that such a decision would be made during 2012.

The topics that have been discussed at the PNUNC Workgroups include wholesale gas settlement arrangements, including the maintenance of Annual Quantities, energy reconciliation arrangements for all gas meter points, and the use of actual daily meter reads in energy allocation, balancing and settlement processes. We note that these topics fall within the scope of Proposition 5 (Settlement Arrangements) as set out in the consultation document. The requirements documentation for these and other PNUNC topics has been published by the Joint Office of Gas Transporters, and is available at <http://www.gasgovernance.co.uk/nexus/brd>.

We note that the gas market aspects of Proposition 5 as set out in the consultation document are not fully aligned with the proposals developed by Gas Shippers and communicated to Xoserve at the relevant PNUNC Workgroup. The existence of such a misalignment causes us to make two observations. Firstly, it would be disappointing to find that the outcome of the consultation creates a need for Xoserve and the industry to rework key aspects of the PNUNC Workgroup outputs. Secondly, we would be concerned to see a future in which stakeholders are reluctant to provide further input to Project Nexus and to the PNUNC Workgroups because they consider that the Smarter Markets consultation is likely to provide an alternative and prevailing direction for the industry. We therefore regard it as vital that Ofgem should provide clarity of direction at the earliest possible opportunity to provide confidence to stakeholders, and to mitigate the risk of apparently competing initiatives that have potentially different outcomes.

We would also wish to clarify that the PNUNC Workgroups have agreed to date not to consider requirements for the change of supplier process within the scope of their work, as there is an expectation that the obligations for at least some aspects of supplier / meter point registration and the change of supplier process will migrate from the Gas Transporters to the DCC at a later date. Nevertheless, we consider that the positioning of the obligations is secondary to the industry’s requirements, and as such we welcome Ofgem seeking views in this area.

Further Views and Information

We have set out in Appendix 1 our responses to Questions 5 – 8 as set out in Chapter 4 of the consultation document, in so far as these relate to the gas settlement arrangements aspects of Proposition 5. We have also included within these responses further relevant detail in respect of the requirements that have been set out by the PNUNC Workgroups.

We have set out in Appendix 2 a small number of observations and corrections in respect of the consultation's descriptions of the prevailing arrangements for gas industry processes.

Next Steps

We are keen to continue to support this consultation as it moves forward, and would be willing to meet with the Ofgem Smarter Markets Team to explain in more depth the future direction for gas settlement that stakeholders have communicated to us through Project Nexus.

We are happy for you to publish this letter and the supporting 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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XOSERVE RESPONSE TO PROMOTING SMARTER ENERGY MARKETS CONSULTATION
APPENDIX 1: RESPONSES TO QUESTIONS 5 – 8 FOR PROPOSITION 5

Proposition 5: *Settlement arrangements should use actual daily (gas) and half-hourly (electricity) meter reading data in order to improve their accuracy and efficiency.*

Question 5: *Do you agree with the propositions set out in this chapter?*

Question 6: *For each proposition, have we identified the right sources of costs and benefits associated with achieving them?*

Question 7: *For each proposition, have we identified the key issues, such as the timescales for any changes to market arrangements?*

Question 8: *Are there additional opportunities to reform market processes that we should include in the scope of our work?*

In so far as Proposition 5 relates to wholesale gas market processes, we note that it is not fully aligned with the proposals that have been developed by Gas Shippers and communicated to Xoserve at the relevant PNUNC Workgroup. The consensus view of the members of the PNUNC Workgroup that has been considering settlement arrangements is that periodic (monthly or annual) individual meter point reconciliation will remain sufficient for many Supply Points. The Workgroup has therefore set out a requirement for the continuing provision of a non-daily metered service, albeit that there would also be an option for currently non-daily metered sites to become daily metered and for non-daily metered sites to be subject to more frequent, potentially daily, reconciliation. As is the case at present, only the very largest Supply Points would have to be daily metered.¹

We would also make the observation that it will be challenging to achieve the full application of Proposition 5 without the complete rollout of Smart Meters, suggesting that industry rules will need to allow for alternative settlement arrangements to apply at those sites where a Smart Meter (or Automated Meter Reading equipment) has not been installed and/or where daily communications have failed.

The consultation suggests (at paragraph 4.14) that Smart Meter rollout would remove the need for the continued operation of processes that estimate, profile and reconcile consumption data. Whilst it may well prove possible to significantly reduce the scale of operation of these processes, the gas industry will have an ongoing need, even in a 100% daily metered scenario, to be able to exercise contingency arrangements in the event of failure of meter read data capture processes. In addition, an allocation process will always be required to deal with differences between the sum of individual Supply Point consumptions and the total system usage.

¹ Further details in respect of the PNUNC Workgroup's proposals is available at <http://www.gasgovernance.co.uk/nexus/brd>

**XOSERVE RESPONSE TO PROMOTING SMARTER ENERGY MARKETS CONSULTATION
APPENDIX 2: OBSERVATIONS AND CORRECTIONS IN RESPECT OF DESCRIPTIONS OF
PREVAILING ARRANGEMENTS**

Section	Observation / Correction
4.7; Bullet Point 3	The estimation of gas consumers' consumption at individual Supply Points is based on expected annual consumption assuming seasonal normal weather conditions, historic relationships to weather and overall changes in demand on the day, when compared to the current connected load under seasonal normal weather conditions.
4.7; Bullet Point 3	Smaller Supply Points are in fact subject to reconciliation. These are reconciled in aggregate through the "Reconciliation by Difference" process.
Appendix 3; Definition of Annual Quantity	The definition of Annual Quantity should be extended by adding the phrase "under seasonal normal weather conditions".