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Dear Clement

Change of Gas Day

Thank you for the opportunity to submit our views on the potential impacts to GB gas market systems and processes arising from the proposed change of gas day. 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. Our service suite also includes the provision of systems support services for the Gemini system.

Introduction

We set out below a summary of our initial thoughts on the potential impacts, and have included more detailed observations in Appendix 1 to this letter. In carrying out our assessment, we have drawn up an interpretation of the change of gas day, based on the definition included in the final draft European Commission Regulation dated 15 April 2013 appertaining to the establishment of a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems ("the Regulation"). We have made a number of assumptions, and have sought to identify the processes that are likely to be most highly impacted, as well as those that may possibly experience little or no impact. We have highlighted some areas of uncertainty that have potentially significant implications, and have considered the potential challenges associated with the implementation of the proposed change.

We have not carried out at this stage any formal analysis of business systems and processes, nor have we sought to estimate the costs and timescales associated with the delivery of changes to systems that may be required. Additionally, we have not considered potential consequent impacts on systems and processes operated by other stakeholders.

Appendix 2 provides further background information about Xoserve's role in the gas industry and the scope and nature of the Agency Services that we provide.

Summary

The assumptions that we have made have not been tested with stakeholders (particularly Gas Transporters and Shippers), and would require validation (or the agreement of alternative assumptions) in order to build confidence in the scope and nature of potential impacts. It is important that the industry develops, agrees and commits to work with a common set of assumptions, and we see this as an essential early step in the development of a carefully co-ordinated response both across the GB market and between EU Member States to the proposed change in the timing of the gas day.

The principal impacts on systems and processes (including Gemini) would appear to be in respect of the scheduling of batch jobs for the processing of industry data and the maintenance of demand estimation profiles. Extensive further analysis would be required to fully understand the impacts, and the latter impact area is likely to require the UNC Demand Estimation Sub-Committee to provide guidance and advice to the industry. By comparison, the suite of services and processes operated by Xoserve that are required to be completed after the gas day are more likely to be able to continue with little or no change to the prevailing arrangements.

We would welcome further consideration of the effective date for implementation of the proposed change, as well as clarification of any requirement to maintain historical gas day data.

Next Steps

We remain committed to fully supporting the industry in the efficient and timely delivery of agreed changes to GB gas market arrangements arising from the implementation of European Network Codes.

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, External Affairs Manager on 0121 623 2692 or e-mail martin.baker@xoserve.com.

Yours sincerely

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APPENDIX 1 – DETAILED OBSERVATIONS

1. Introduction

- 1.1 We set out below our detailed observations in respect of the potential impacts to GB gas market systems and processes arising from the proposed change in the timing of the gas day.
- 1.2 The observations include an interpretation of the proposed gas day definition and a number of assumptions about the potential change impact. Whilst we have already tested this interpretation with representatives from the Ofgem European Wholesale team (that has in turn sought clarification from ENTSOG representatives), our assumptions remain untested at this stage. We consider that validation of these assumptions, or the development of alternative assumptions that enjoy majority stakeholder support, would be an important step in taking forward further change impact analysis and solution development activities.

2. Definition and Interpretation

- 2.1 Article 3, Clause 7 of the Regulation states that “‘gas day’ means the period from 5:00 to 5:00 UTC the following day for winter time and from 4:00 to 4:00 UTC the following day when daylight saving is applied”.¹
- 2.2 We have interpreted this statement to mean that the gas day is always 0500 to 0500 the following day, such that there is one 23 hour gas day when daylight saving is applied and one 25 hour gas day when daylight saving is no longer applied. This interpretation is consistent with:
- (a) Advice provided by ENTSOG via the Ofgem European Wholesale team; and
 - (b) The prevailing GB market arrangements, where the gas day always runs from 0600 to 0600 the following day, with one 23 hour gas day when British Summer Time (“BST”) commences and one 25 hour gas day when BST ends.

3. Assumptions

Ahead of and Within the Gas Day

- 3.1 Where the UNC requires the completion of a process by no later than a defined number of days ahead of the gas day, there would be no change required to the prevailing arrangements.
- 3.2 Where the UNC requires the completion of a process by no later than a defined time within the day ahead of the gas day, the defined time for the completion of that process would change in line with the change in the timing of the gas day.

¹ We understand that “UTC” refers to Co-ordinated Universal Time. For the purposes of this assessment, we are treating UTC as being synonymous with Greenwich Mean Time (“GMT”).

- 3.3 Where the UNC requires the completion of a process by no later than a defined time within the gas day, the defined time for the completion of that process would change in line with the change in the timing of the gas day.

After the Gas Day

- 3.4 Where the UNC requires the completion of a process by no later than a defined time within the day after the gas day, there would be no change required to the prevailing arrangements.
- 3.5 Where the UNC requires the completion of a process by no later than a defined number of days following the gas day, there would be no change required to the prevailing arrangements.

Effective Date and Time

- 3.6 The UNC provides for certain transactions and amendments to data items to be deemed to be effective as at the time of the start of the gas day. It is envisaged that this principle would continue in the period following any future implementation of the change of gas day, and that its application would include changes to the identity of the registered Shipper and to meter reads.

4. Impacted Processes

- 4.1 We set out below our initial observations on impacted processes. This is inevitably a limited assessment at this stage, and we acknowledge the need for more extensive and industry co-ordinated analysis to be carried out in the future of the impacts on all UNC provisions and the associated systems and processes.

Greater Impact

- 4.2 Our initial observations indicate that the principal processes operated by Xoserve (or industry processes facilitated by Xoserve) that are likely to be the most highly impacted by the proposed change of gas day are the scheduling of batch jobs for the processing of industry data and the maintenance of demand estimation profiles.

Processing of Batch Files

- 4.3 The proposed change in the timing of the end of the gas day would reduce the available window between the end of the normal working day and the end of the gas day for the processing by Xoserve of industry data batch files. Retention of the prevailing schedule for the processing of batch files would create the risk that not all files would be fully processed prior to the start of the next gas day, leading to inaccurate or incomplete Supply Point portfolio data being made available to the industry.
- 4.4 In order to mitigate this risk and to continue to ensure the timely availability of complete and accurate data, it would be necessary and appropriate to amend the prevailing schedule. At a simplistic level, it may be possible to change the timing of jobs within the schedule in line with the change of gas day, although this approach would require extensive analysis before

any firm conclusions could be reached as to its viability. In particular, we have not considered the implications for the timing during the day following the gas day of the receipt and submission of meter reads in respect of Daily Metered Supply Points.

- 4.5 We have not sought to estimate at this stage the scale of effort required to amend the prevailing schedule. Factors that would influence the scale of effort include the degree of flexibility of systems to accommodate change, the extent of any requirement to modify supporting systems documentation, and any consequent requirement to vary vendor contracts for systems support services.
- 4.6 We have not considered the consequent impacts on industry participants' systems and processes of any amendments to the prevailing schedule that may be required. Impacts could extend to both providers of data to Xoserve and recipients of data from Xoserve.

Demand Estimation Profiles

- 4.7 An effect of the change of gas day would be to cause the gas demand that occurs between 0500 and 0600 to be reattributed to the following gas day. In most instances, the net effect on demand for an individual gas day would be negligible, but may be more pronounced for demand at non-domestic Supply Points and at the transition between working days and non-working days. The effect of the reattribution would be on the values for daily gas flow nominations and allocations.
- 4.8 It would be appropriate to consider in more depth the impact of reattribution on demand profiles. It is likely that the UNC Demand Estimation Sub-Committee would be well placed to provide advice on potential impacts.
- 4.9 In the event that it is concluded that changes to certain demand profiles are necessary and appropriate, consideration would need to be given to the lead time to capture the data required to generate amended profiles. Recording equipment that is installed at around 15,000 GB NDM meter points captures reads at 0600 at the start of each gas day, and would need to be re-programmed to capture reads at 0500 rather than 0600. As the demand profile models are based on a three year smoothed model, there may be a requirement to capture reads at both 0500 and 0600 for a two year transitional period. We have not assessed the feasibility or costs associated with obtaining two daily reads rather than one for a period.

Lesser Impact

- 4.10 As a direct consequence of the assumptions set out above in relation to processes that are required to be completed after the gas day, it would appear likely that there would be little or no impact on all such processes. The scope of these processes would include the close out of energy allocations (both inputs and offtakes), energy settlement and reconciliation processes, transportation and energy balancing invoicing arrangements, and Supply Point portfolio enquiry and information provision services.

5. Maintenance of Historical Gas Day Data

- 5.1 We do not offer a particular proposal on this matter, but have included it in our response for completeness, and to allow it to be taken forward for future consideration by Ofgem and the industry.
- 5.2 Historical data is held in industry systems for gas days that run from 0600 to 0600 the following day, and this would continue to be the case for gas days going forward until such time as any change is implemented. It is unclear as to the extent to which there would be a requirement to maintain historical data for gas days from 0600 to 0600 the following day for the period prior to the change alongside data for gas days from 0500 to 0500 the following day for the period following the change. A requirement to maintain two definitions of a gas day within industry systems may prove particularly challenging.

6. Change Implementation

- 6.1 Xoserve is undertaking a programme of strategic investment in its UK LINK system, and is working to a planning assumption for the delivery of both replacement technologies and a suite of industry reforms by the end of 2015. We note that Article 28 of the Regulation states that it shall apply with effect from 1 November 2015, and we would therefore expect to plan to include the functionality necessary to accommodate the change of gas day within the specification for the replacement system.
- 6.2 However, giving on time effect to the provisions of the Regulation would also require the planning of a programme of work to change the existing UK LINK system. Industry agreement to not give effect to the change until at least early 2016 would increase the likelihood that the dual effort of developing functionality in both existing and new systems could be avoided.
- 6.3 With regard to potential changes to the Gemini system that is used for capacity auctions and energy balancing processes, any changes in functionality to accommodate the proposed change to the gas day would need to be planned and delivered in a way that takes account of potentially competing demands on the Gemini system arising from the introduction into the GB gas market of a range of European Network Code provisions.

APPENDIX 2 – BACKGROUND INFORMATION

A. ROLE OF XOSERVE IN THE GAS INDUSTRY

The principal Gas Transporters each have a Licence obligation to appoint a common Agent to deliver to Gas Shippers and others a range of gas transportation transactional services and systems that discharge certain of their Licence and Uniform Network Code (“UNC”) service obligations. The principal Gas Transporters (“the GTs”) are National Grid Gas Transmission (“NGGT”) and the eight Gas Distribution Networks (“the GDNs”).

Xoserve has been appointed by the GTs as their common Agent, and the primary role of Xoserve is to deliver regulated Agency Services to Gas Shippers and others on behalf of the GTs. The Agency Services delivered by Xoserve are fundamental to the efficient commercial operation of the gas industry and essential to enabling gas supply competition in Great Britain.

A detailed definition of the Agency Services is set out in the Agency Services Agreement (“the ASA”) between Xoserve and the GTs. The ASA is a public document that is available from the Xoserve website at <http://www.xoserve.com/wp-content/uploads/AgencyServicesAgreement.pdf>.

The funding of Xoserve for the delivery of the majority of Agency Services is provided by the GTs through allowed revenues that are determined under the RIIO-GD1 (for the GDNs) and RIIO-T1 (for NGGT) Price Control Reviews². Agency Services that are funded from GT allowed revenues are defined as “Core Services”, and other Agency Services that are funded directly by the users of those services are defined as “User Pays Services”. For the purposes of the GT Price Control, User Pays Services are treated as excluded services. Xoserve also provides a small number of non-regulated services to individual customers under bilateral commercial contracts.

The GTs hold shares in Xoserve and, in their capacity as shareholders, nominate Directors to the Xoserve Board.

B. SCOPE AND NATURE OF AGENCY SERVICES

The principal Agency Services comprise:

- The maintenance of a Supply Point Register that records the identity of the registered Gas Shipper at each Supply Point on the GTs’ networks, and holds a number of data attributes necessary for the provision of gas transportation services;
- A range of Supply Point Administration services, that include the updating of the Supply Point Register in response to a decision by an end consumer to switch Supplier;
- The preparation and issue of GT transportation invoices to Gas Shippers for capacity and commodity charges (where cash collection from Gas Shippers is the responsibility of GTs);

² Xoserve funding, governance and ownership arrangements are currently the subject of a review by Ofgem.

- The preparation and issue of energy balancing invoices, the collection and disbursement of cash necessary to maintain neutrality, and energy credit risk management services on behalf of the industry;
- A range of settlement services that calculate and/or record estimated or actual gas consumption, and raise reconciliation charges and credits for differences between estimated and actual commodity charges and energy consumption;
- Systems support services, including for the Gemini system that is used by NGGT to administer a range of entry and exit capacity auctions, and to operate daily gas balancing processes; and
- A suite of Supply Point information provision services to Gas Shippers and other stakeholders.

In addition to the delivery of operational Agency Services outlined above, Xoserve fulfils a key role as the provider of change solutions and services. Functional changes are driven by modifications to the UNC (or GT Licence) that have been approved for implementation through industry governance processes.

Xoserve also invests in systems in order to ensure the robustness of essential infrastructure, such that the highly valued quality and reliability of its service provision is maintained at all times. These investments can range in nature from minor sustaining enhancements to the strategic replacement of significant applications.