

Wednesday, 22 June 2016

Rob Salter-Church
Partner, Consumers and Competition
Ofgem
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Email: alisonrussell@utilita.co.uk

By email only

Dear Rob,

Re: Project Nexus – Consultation on options for a successful implementation

Utilita continues to engage positively with Project Nexus, we participate actively in the industry debate, supporting the process with the challenger constituency. We have made excellent progress within our company on our preparations for the project rollout and continue to test and monitor the outcomes closely.

As you are aware, we have a number of reservations with the project, and while we welcome Ofgem's intervention and this consultation process, we remain concerned at the failure of Project Nexus to deliver a number of key benefits. We have stated clearly our disappointment at the descoping which the project has experienced, and while we understand the reasons, we believe this represents a failure to deliver the project by xoserve despite repeated slippage of timescales. It is also necessary to reiterate the point that even now, the targeted delivery is a descoped solution which we do not consider meets industry requirements.

As we have identified in previous correspondence, the solution is not in our view fit for purpose. There are three key areas missing which would have offered real benefit to consumers and/or suppliers. We restate the points for completeness:

1) Average pricing on reconciliation

Nexus should not have been designed in a way which used average pricing on reconciliation, marginal pricing would provide the correct signal/compensation. There is a clear model for this in the electricity industry and we do not understand why this could not have been mirrored in gas. This imposes additional cost and risk. We have discussed this with the CMA and believe they would have a similar view.

2) The initial profile used for the initial allocations

Given the point above, it is essential to use the smart meter data available for both the initial allocation and settlement. Nexus will fail to deliver on this point. By removing the prepayment profile previously introduced as a result of the modification we proposed, this means the

position on prepayment allocation will be poorer post the implementation of Nexus than it is now. While the current prepayment profile is not good quality, it is a better representation of the profile of a prepayment customer than is a standard EUC1 profile. While the volume may be correct post reconciliation, the cashout prices will not be. As we identified, the material inaccuracy in the profile will adversely impact prepayment customers more than credit customers. We have significant amounts of smart prepayment data which would clearly improve the profile.

3) Retrospective Adjustments

In order to implement Nexus, xoserve sought further descoping by deferring the implementation of retrospective adjustments until October 2017. This represented a materially poorer delivery for shippers, and while some small safeguards may be in place for manifest error, we are not satisfied that these arrangements are sufficient. As noted previously, shippers and not xoserve bear the financial risk as a result of this descoping.

Current consultation

Moving to the current consultation, we support the recommendation by PwC that delivery of Nexus should be deferred. We agree that the current position reached by xoserve, while materially improved from that six months ago, is still in a place where implementation is too high a risk to consumer welfare. We therefore support Ofgem's 'minded to' position to accept a delay.

As a result of this extra delay, we believe that further consideration should have been given to addressing the points we have previously raised. While we reluctantly accept that in the time available, it would be impractical to address the average pricing point, we do not accept that the profiling point could not be addressed, either by the introduction of a smart meter data prepayment profile or a continuation of the existing arrangements until Nexus Go Live and then a smart meter data profile from October 2017.

We also consider that more thought should be given to RAASP, and if this is not implemented from Go Live, xoserve must be instructed to maintain the delivery date of October 2017. Xoserve should also put in place monitoring arrangements for reconciliation errors, with an understanding that if these become significant for shippers, xoserve will implement arrangements to suppress inaccurate charges from the reconciliation invoice which await RAASP for correction.

We agree with representations in the industry discussions that a single date rather than a window should be provided and welcome the clarification from Ofgem that this is intended. We have also responded as instructed, assuming that xoserve can deliver all options, though at variable levels of risk. However, in common with other shippers, we note that this has not yet been confirmed by xoserve in their submission, which we understand will be a published response to the consultation.

On that basis we accept that options C and D would both be a single date, but that further analysis is required to fine tune that decision.

On both we note that we would prefer that as far as possible, traditional approaches are followed to implementation, in particular, that we would not favour implementation in the winter months under option C. Equally, if option D is chosen we suggest a change of gas year date would be preferable

rather than 10 months into the gas year. We also note that if option D were selected, a further AQ review would be required in 2017.

Putting aside the issue of 'fit for purpose', we otherwise generally agree with the analysis presented by PwC and concur in particular with the point that regression testing must be thorough, robust and carried out on a stable system without additional code drops being implemented.

We also wish to see a full analysis of the xoserve costs of the delay and the proposed treatment of such costs. Shippers will also face further costs.

The GONG criteria in outline appear appropriate, but we would welcome a more detailed debate including participants, before these are finally agreed.

We believe that for the reasons set out in the paper, option C would be the preferred option with an implementation date of 1 April 2017. If this is not achievable, then option D would be the second choice, however, we consider this should be implemented from 1 October 2017 rather than the July/August window.

In addition to the points made above, we believe it is essential that xoserve are required to report progress regularly and transparently, and that full assurance reports are published or the industry by both PwC and Baringa at regular intervals prior to implementation.

We hope this submission has been useful, but would be happy to discuss any points in more detail if you would find that helpful.

Kind regards

By email only

Alison Russell
Head of Regulatory Affairs