

CMA ENERGY MARKET INVESTIGATION

SCOTTISHPOWER'S RESPONSE TO THE CONSULTATION ON THE GAS SETTLEMENT ORDER

1. INTRODUCTION

- 1.1 The CMA issued an initial consultation on the proposed Gas Settlement Order on 16 September 2016, following publication of its final report on 24 June 2016. It then issued a formal consultation on 18 October comprising a draft order (incorporating draft additions to the gas supply and shipper licences) and a draft explanatory note. This note provides ScottishPower's response to the formal consultation.
- 1.2 We welcome the changes which have been made since the initial consultation, including extending the date that Article 3 comes into force from 1 April 2017 to the Project Nexus Implementation Date; and modifying the requirement in Article 3.3 from obtaining valid meter readings on a daily basis to taking all reasonable steps to obtain a valid meter reading at least once per month (and from 6 months after Project Nexus implementation, taking all reasonable steps to obtain valid daily meter readings at least once per month).
- 1.3 Our comments cover the follows items:
- (a) requirement to obtain daily meter reads (section 2);
 - (b) requirements for non-smart meters (section 3).

2. REQUIREMENT TO OBTAIN DAILY METER READS

- 2.1 We welcome the change in date for the introduction of the requirement to provide daily readings into settlement for smart-type meters, as outlined in Part 2 of the Order, but we remain concerned that the requirement to submit daily meter reads goes further than was set out in the CMA's final report without any clear rationale or consideration of the costs involved.
- 2.2 We recognise that in the longer term there may be reasons other than settlement accuracy why it may be desirable to mandate submission of daily reads for settlement, but we think this is outside the scope of the AEC identified by the CMA which focused on concerns about settlement accuracy. We therefore believe the question of daily meter read submission should be a matter for Ofgem to take forward in due course, when smart meter rollout is closer to completion.

Lack of rationale to justify costs of system development

- 2.3 Whilst we support an increase in the number of readings submitted into gas settlement to improve accuracy, the CMA has not explained what problem the requirement to submit daily readings is trying to address or what benefit it is expected to deliver beyond the submission of monthly readings as per the original remedy decision in the Final Report.
- 2.4 We are not aware of any evidence that daily meter reads will positively impact the volume of unidentified gas or address the inefficiencies in the allocation of gas that the CMA highlighted in its

final report. In an assessment of settlement risk commissioned by Ofgem and undertaken by Engage Consulting¹, the risk of Product Class 4 MPRNs not being read as frequently as Product Class 3 MPRNs was categorised as a ‘less significant risk’, and was ranked 12 out of the top 15 risks. The quantified risk to the industry was estimated at £1.35m. This was the risk to initial allocation only, with individual meter point reconciliation correcting any misallocation, suggesting that there would be no or negligible enduring benefit. On that basis it seems unlikely that any benefits would be sufficient to justify the significant costs that are likely to be incurred by Shippers and Xoserve.

Need for further industry system development.

- 2.5 As we explained in our response to the initial consultation, we believe the increased requirement for daily reads will prove extremely challenging for much of the industry to implement, even with the time period extended to six months post-Nexus implementation. To provide daily readings into settlement, a Shipper would need to have built Project Nexus Product Class 3 functionality. This was not a mandatory requirement under Project Nexus and it is possible that a significant number of shippers may have taken a commercial decision not to build Product Class 3 functionality. If so, we would be concerned that such shippers would miss out on the opportunity to test their solutions through the Ofgem-led market trials process, since this process closed on 11 November 2016 and alternative arrangements may need to be put in place to ensure that there is no wider market impact.

Xoserve capacity constraints

- 2.6 We are also concerned about Xoserve’s ability to accept the volume of readings proposed in the Order, and whether Shippers may have to stagger the submission of readings to accommodate Xoserve’s system constraints, which would impose additional costs on Shippers for manual intervention.
- 2.7 The CMA’s final report (para 12.161). says it expects the cost of submitting monthly readings for smart meters to be minimal for companies and that “*Xoserve will not incur increased costs concerning scaling up its systems, because it is already capable of handling the increased meter read frequency contemplated with this proposed remedy*”. The implication of footnote 165 is that Xoserve built its systems based on information from Shippers of their *intended* use of Product 3, not on the basis that *all smart meters*, as they are installed, would be providing daily readings for Product 3. There is therefore an unknown, but likely significant, gap between Xoserve’s present plans to increase capacity and what would be required to accommodate mandatory daily reads for all Smart meters. ScottishPower would welcome transparency on the plans Xoserve shared with the CMA to upgrade its capacity.
- 2.8 In addition to the capacity constraints of the central system, it is unclear whether Xoserve would be resourced to manage the increased level of exceptions that may result from the submission of daily readings for all smart meters. Any plans Xoserve currently has are presumably predicated on the projections for daily meter reads (without Product Class 3 being mandated), as noted in the previous paragraph, and may therefore fall short of what is required to accommodate all smart meters.

Summary

- 2.9 In summary, we support a gas settlement regime that seeks to ensure that costs are allocated and settled accurately, and in which the model for settlement offers no opportunity for gaming of the arrangements. We believe that the new settlement arrangements introduced by Project Nexus, namely full market site-specific reconciliation and Rolling AQ, coupled with a robust and reliable Performance Assurance Framework (PAF) regime, represent the best means of achieving this.

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http://www.gasgovernance.co.uk/sites/default/files/Gas%20Market%20Settlements%20Risks%20Quantification%20Section%202%20%20V2.0_Final.pdf

- 2.10 The CMA has not explained what additional benefit the proposed provision of daily readings would deliver and appears to have significantly underestimated the costs that will be incurred and the industry's ability to deliver. We would suggest that a proposal of this scale, which could be deemed similar to the introduction of mandatory half hourly settlement in the electricity market, should be subject to a similar level of development rigour and impact assessment scrutiny.
- 2.11 To the extent that the concern relates to settlement accuracy, we believe the question of whether to mandate daily reads for smart meters should be referred to the PAF Committee for detailed consideration, including determining the risks and benefits that it is trying to address; the costs that would be incurred in implementation, and whether there are any more cost-effective alternatives to achieve allocation and settlement accuracy. If the motivation relates to wider future benefits of daily settlement (time of use tariffs etc), the matter should be referred to Ofgem to take forward in due course, when smart meter rollout is closer to completion.

3. REQUIREMENTS FOR NON-SMART METERS

- 3.1 We remain fully supportive of the requirements with respect to non-smart meters (NDM) in Part 2 of the Order, and we have raised modification proposal 570 to implement these requirements in the UNC. The modification provides that compliance and monitoring will fall under the PAF proposal.