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Dear David

### **Energy Market Investigation (Gas Settlement) Order 2016**

Thank you for the opportunity to respond to the consultation on the Energy Market Investigation (Gas Settlement) Order (“the Order”) and the supporting Explanatory Note (“the Note”). Our response is in our capacity as the Transporter Agency and as the gas industry Central Data Services Provider (“CDSP”) designate.

### **Proposals for Submission of Meter Readings**

We note that the Order would place obligations on Retail Gas Suppliers to obtain and submit Valid Meter Readings to the Relevant Gas Transporter in accordance with the frequencies and timescales set out in Part 2 of the Order. We would ask the CMA to note that obligations in respect of the submission of Meter Readings to Gas Transporters are currently positioned with Shippers (and not Suppliers) under the UNC, and we would not expect this arrangement to be varied as a result of the Order. We observe also that the definition of Relevant Gas Transporter as set out in the Gas Supply Licence would cause the Order to not be relevant to Supply Points directly connected to the National Transmission System, and consider this to be an appropriate exclusion.

We consider that the introduction of such obligations would in effect cause the voluntary arrangements for the take up of Product 3 (Batched Daily Readings) as defined in UNC Modification 432 “Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform” to become mandatory for Supply Points where meters are installed that are

capable of remotely transmitting Valid Meter Readings. It is interesting to note that Shipper activity during Project Nexus Market Trials does not indicate any significant industry appetite to voluntarily reclassify Supply Points as Product 3.

As Smart Meters are rolled out, compliance with the obligation would cause a significant ramp up in the volume of data that the DCC's Service Providers, Suppliers, Shippers and Xoserve would be required to obtain, disseminate, process and store.

### **Settlement Arrangements – operation of gas energy allocation and reconciliation under UNC**

Appendix 8.6 of the Energy Market Investigation Final Report (“the Appendix”) sets out the prevailing energy allocation and reconciliation arrangements for gas and also those planned to be introduced under the ‘Nexus’ UNC Modifications. The ‘Nexus’ UNC arrangements include individual meter point reconciliation and monthly updates to AQ (providing that a qualifying meter reading has been submitted in that period), and give Shippers the option of designating one of four ‘Classes’ for each meter point in their portfolio. The Appendix sets out several concerns with prevailing arrangements and recognises that the ‘Nexus’ modifications will address a number of these concerns, but will not remove all opportunities for ‘gaming’. We note also that the CMA has summarised the planned introduction of the gas Performance Assurance Framework (“PAF”).

We consider that the combination of the ‘Nexus’ modifications and a well-considered PAF should mean that the structural concerns with the prevailing energy allocation and reconciliation arrangements should be remedied, with the ability of participants to ‘game’ within the new arrangements being managed through the PAF. Providing that Shippers operate the ‘Nexus’ arrangements within both their letter and spirit (encouraged by the PAF), we do not understand from our reading of the Appendix the envisaged benefits of mandating the submission of daily meter readings for all qualifying meter points and how these are expected to be realised.

As the Transporter Agency, Xoserve has a detailed understanding of the working of energy allocation and reconciliation arrangements, and would welcome the opportunity to discuss this aspect of the Order in more detail, if the CMA would find that helpful.

### **Managing increased demands on IT systems**

Working in close collaboration with Gas Transporters and Shippers, Xoserve is in the final stages of implementing the new UK Link system (Project Nexus). The new IT system's ‘non-functional’ capabilities have been designed and sized based on a combination of market intelligence from some Shippers and extrapolations and judgements regarding the likely adoption of different products available under the ‘Nexus’ modifications. On this basis, the new UK Link system has been sized to receive an exceptional peak 49 million meter reads on any one day.

Based on projections that there will be approximately 5 million Smart Meters installed by June 2017, we estimate that approximately six months after Project Nexus go-live, meter read submissions would, to comply with the draft Order, be in excess of 100 million per month (which could be on a single day at month end) and, towards full maturity of Smart Meter rollout, would be 24 million per day, potentially in monthly batches of 720 million.

Given the order of magnitude difference between current non-functional design and the potential implications of the Order, a CMA decision to implement would necessitate a review of the non-functional capability of the system to assess the feasibility, costs and time that would be needed to accommodate such an increase in data processing and storage requirements. A change of this scale in close proximity to Project Nexus implementation would place additional risk on the timely embedding of new systems and processes, and impact assessment activities risk drawing resources away from their priority focus on successful Project Nexus delivery in June 2017. There might also be a request from market participants to market trial 'Product 3' processes, which to date have had less extensive interest.

Yours sincerely

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Director, Customer Engagement