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18<sup>th</sup> November 2016

Dear Sirs,

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

Gazprom Marketing & Trading Retail Limited ("**Gazprom Energy**" or "**we**") hereby submits its response to the Energy Market Investigation (Gas Settlement) Order 2016. We consider our response to be Confidential.

Gazprom Energy operates in the UK non-domestic sector as a gas Supplier and a gas Shipper. In addition, we also operate in the UK non-domestic power market as an electricity Supplier.

Gazprom Energy has been at the forefront of rolling out Advanced Metering Reading ("**AMR**") solutions across our whole portfolio to deliver the benefits of remote meter reading for our customers. These benefits include, but are not limited to, an end to estimated bills, the removal of the inconvenience of having to have physical reads taken and empowering our customers with information to help them optimize their energy usage.

To date we have installed tens of thousands of AMR devices and this new technology is being brought in without the need for complex and cumbersome central services. Gazprom Energy, as an early adopter, of these technologies has also sought to deliver those benefits to our customers through improved services.

We believe the requirement for Smart and Advanced meters to provide monthly readings from Nexus Go Live is a proportionate and logical proposal supporting the implementation of rolling AQ. This proposal can be easily implemented within the relevant post-Nexus contractual / product classes (Class 4). This approach optimizes the rolling AQ product and will improve the efficiency of settlement whilst also being a proportionate response. We also believe the proposal to be consistent with the CMA's Final Report (see below):

*"With respect to all non-daily metered supply points in Great Britain with a dumb meter, an order on gas suppliers (and amendments to gas suppliers' standard licence conditions) to submit valid meter readings (as defined in the Uniform Network Code) to Xoserve as soon as they become available, and at least once per year.*

*(c) With respect to all non-daily metered supply points with a smart or advanced meter, an order on gas suppliers (and amendments to the suppliers' standard licence conditions) to submit valid meter readings (as defined in the Uniform Network Code) to Xoserve at least once per month (unless for reasons of malfunction or related issues it was not possible to take such a meter reading)".*

We however have a number of concerns relating to the proposal to mandate the submission of daily reads into settlement from Project Nexus Implementation Date ("PNID") + 6 months for all Smart and Advanced meters. These concerns are as follows:

#### Adequate consultation

The mandating of all Smart and Advanced meters to provide Daily Reads into settlement has not been previously signposted or discussed. In fact no prior notice has been provided that a change of this significant scale was envisaged.

#### Cost Benefit Analysis

The mandating of all Smart and Advanced meters to provide Daily Reads into settlement has not been subject to any Cost Benefit Analysis. The rationale or reason for forcing such a paradigm shift to market operation has not been properly articulated or considered. With the proposal affecting millions of customers we would expect a robust justification to be provided.

#### Proximity to Project Nexus Implementation Date (PNID)

The industry has, for the past 5 years, been developing a new set of central arrangements for the gas market under the umbrella of Project Nexus. This program has suffered from significant problems including being formally delayed twice. It is now running circa 2 years behind its original schedule. Following implementation of such a problem-beset major program, the industry is expecting a period of "hyper care" during which the industry systems will be bedded in and during which non critical changes should be avoided. We are fundamentally concerned that mandating the transfer of millions of customers to Class 3 will pose a material risk to system stability with its implementation being so close to the PNID.

### Mandating a change in customer Class

The industry will be implementing a number of new Customer Classes from PNID, including Class 3 which has no comparator to existing market arrangements. Other than Class 1, the choice of Class is at the customer's discretion allowing customers maximum choice of which Class best meets their needs. At PNID the vast majority of customers will reside in Class 4, which is a proxy for the existing Non Daily Metering ("NDM") arrangements. As noted above, Class 4 can support the mandating of monthly reads and thus a cutover to these new arrangements is fairly benign.

However the mandating of all Smart and Advanced meters to provide daily reads into settlement will mean moving customers to Class 3 or Class 2. This means moving millions of customers into these Classes which will be untested for this step change in volume. The accelerated rollout of Smart metering will also result in significant daily volumes of new Smart Meters which will also need to transfer Class.

### The Lack of a Gas Industry Test Environment

Ofgem's recent rejection of Modification 0531 (Provision of an Industry User Test System) means that the industry will not be able to robustly test mandatory utilization by millions of customers of Classes 3 and 2. To enable a test environment to be put in place has been estimated at costing circa £2m and requiring at least 12 months from PNID to be delivered.

### Industry's ability to manage volumes

The proposal to move mandatory move millions of customers into Class 3 and 2 has not been considered within Xoserve's or Shippers' post implementation plan. Based on the current performance in delivering Nexus we have little confidence in their ability to manage such a paradigm shift in market operation. We believe that robust and detailed independent analysis of all market participants' ability to support such a change should be undertaken.

### Winter Go Live

We believe implementing a mandatory of shift millions of customers to Class 3 or 2 during the winter period risks creating unnecessary volatility to the broader market. The movement of millions of customers to a more dynamic settlement platform during the winter, when markets are constrained and volatile, introduces an unnecessary risk.



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### Conclusion

We believe that improving the volume of robust reads into central systems is an important step in leveraging the roll out of Advanced and Smart metering. To that end we raised Modification 0594R (Meter Reading Submission for Advanced and Smart Metering) to investigate an appropriate implementation strategy. We believe this is the appropriate vehicle to determine a suitable strategy.

We believe the proposal to require the submission of monthly reads from PNID is proportionate and consistent with the CMA's previous publications. It is achievable with minimum impact on the new system as the proposal can be accommodated within the existing Class 4 product, so it is overall a low risk / high benefit solution.

Whilst we believe that a progression towards daily read submission is logical we believe the proposed mandatory paradigm shift to Class 3 and 2 on PNID + 6 months is a high risk / low benefit solution.

We hope you find our comments useful. If you have any questions relating to the information provided in our response, please do not hesitate to contact Steve Mulinganie, Regulatory Manager.

Yours faithfully

For and on behalf of  
**Gazprom Energy**

Steve Mulinganie  
Regulation & Compliance  
Gazprom Energy