

2020 gas settlements: discussion

Change Overview Board 4 July 2016

Looking ahead to 2020 so we can start thinking and planning now: what are the options for gas settlements?

Assumptions for 2020

- Smart Meter roll out will be complete;
- CMA remedies will be implemented in full:
 - Nexus and PAF in place
- Storage properties of gas mean there will be less policy focus than on electricity:
 - Not the same drivers for demand side response
 - Less scope for gas time of use tariffs

Drivers for change:

- Accuracy
- Efficiency



"No, Mr. Jones. It's only 20/20 vision if you read it from the seat, back there."

CMA remedies

- Focused on accurate cost allocation (including reduced scope for gaming) and reduction of Unidentified Gas
- Order on suppliers to submit a meter read at least annually for 'dumb' meters
 - Possibly in line with UNC570 (negating need for an order)
 - 100% is unlikely – reasonable exemptions to be identified and PAC to oversee performance
- Order on suppliers to submit a read at least monthly for smart/AMR Monthly
- Recommendation on Ofgem to ensure PAF established <12 months from report
 - take appropriate steps to ensure that failure to meet targets under the PAF is sanctioned.

Reduced settlement window

- Last looked at in gas as part of UNC395/398
- Ofgem concluded that whilst industry should aspire to further shorten the settlement window, prevailing (2013) data and processes were not sufficiently robust to support 2-3 years (UNC395) and therefore accepted UNC398, 3-4 year code cut off.

% unreconciled gas from the original allocation figure (Source: Xoserve during UNC395/398 development)

Age	2007	2008	2009	2010	2011
-5	1.49%	1.82%	2.42%	2.15%	2.66%
-4	1.86%	2.45%	2.24%	2.72%	3.04%
-3	2.67%	2.60%	3.04%	3.39%	3.40%
-2	3.38%	3.97%	4.09%	4.13%	3.59%
-1	6.30%	6.05%	5.54%	4.99%	4.31%

BSC settlement runs

% of meters settled on actuals (Source: elexon)

Run type	Timing	NHH	HH
SF	D+16 WD	8.5	99.24
R1	D+40 WD	29	99.53
R2	D+85 WD	69	99.65
R3	D+154 WD	90	99.64
RF	D+293 WD (14 mths)	97	99.50

Proposal to reduce BSC settlement window down to seven months once smart meters are prevalent (Source: Profiling and Settlement Review: Reducing Settlement Timescales - Final Report)

Reduced settlement window

Options:

1. Align with electricity
2. Go for shortest time that can be supported by monthly smart/AMR reads
3. Determine based on good accountancy practice (i.e. when to finalise an accounting period)

Benefits:

1. Back office efficiencies
2. Reduced risk (of historic and/or large reconciliations)
3. Reduced finance costs (reduced credit cover requirements)
4. Reduced Unidentified Gas

Considerations:

1. Reduced ability to reconcile discovered error (i.e. offtake meter errors)
2. Scale of residual legacy metering

Take up of Daily Metering

- CMA remedy of monthly submission of smart/AMR read seems to fall somewhere between Nexus settlement Classes 3 and 4
- Option to further incentivise (not mandate) take up of Class 3 (monthly batch submission of daily reads), for instance through further differentiation of UG allocation factor

Benefits:

1. Quicker reconciliation – less ‘short term pollution’ of genuine UG
2. Reduced UG – problems identified earlier and PAF incentives targeted to respond
3. Faster realisation of energy efficiency savings
4. Possible network efficiencies (though not on same scale/scope of electricity)
5. Scope for more granular (cost reflective) cash out pricing

Considerations:

1. Efficiency gains from fewer settlement classes – assuming they outweigh additional transaction costs
2. Scale of residual legacy metering – would low volume arrangements negate savings from above