

## Stage 01: Modification

# 0451V:

## Individual Settlements For Pre-Payment & Smart Meters

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

Increase the accuracy of reconciliation of for SSP Pre-Payment and Smart Meters



The Proposer recommends that this modification should be:

- Issued to consultation alongside Modification 0451AV



High Impact:  
Small Suppliers



Medium Impact:  
Large Suppliers, Xoserve



Low Impact:

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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined this is not a self-governance modification

## Why Change?

Under the current regime all SSPs are subject to RbD, and their allocation is determined by the EUC1 banding. However as they have a higher visibility of their usage the profile of a pre-payment customer is flatter than that of a standard domestic credit meter (EUC1) customer, which effectively results in an over allocation of gas during the winter period and under allocation during the summer period for this sector of the market. The impact of the disparity in allocation of costs compared to the billed consumption has a detrimental financial impact on shippers with above average proportions of pre-payment customers in their portfolio, and especially smaller niche shippers that focus on this market sector. We have requested that this modification be given urgent status, as over this winter period we have seen our over allocation increase by over 10%, a figure which is not sustainable for any shipper, especially a small shipper.

## Solution

It is proposed that Xoserve develop, for the 2013/14 gas year, an estimated profile for pre-payment meters using the pre-payment usage data submitted by Winchester Gas along with any other supporting data available from other shippers. Each month Xoserve would then calculate energy allocations based on this new profile, applying weather correction values. Prepayment sites would then be reconciled after month end based on the average SAP price for that month. All supply points with either a pre-payment meter or Smart meter operating in pre-payment mode, would be eligible to be billed to this new profile. It is intended that this solution will only apply until the UK Link Replacement is delivered.

## Relevant Objectives

Implementation would facilitate effective competition by improving cost allocations, which would be more reflective of the gas consumed by pre-payment customers. It would also reduce the financial risk that shippers, particularly some smaller niche shippers, are exposed to, thereby facilitating effective competition by removing a barrier to competition.

## Implementation

The urgent timetable set by Ofgem envisages a decision being made by 1 October 2013. Implementation could be immediate following a direction to implement. Although Xoserve would not expect to be in a position to immediately apply revised allocations from 01 October 2013, subsequent adjustments could be applied with effect from the implementation date. A retrospective calculation back to 01 October 2012 would also be required.

## 2 Why Change?

There is evidence that pre-payment customers have a much flatter profile than that of credit customer. Because pre-payment customers are currently allocated under the RbD regime (EUC1B), this can cause them to be over allocated in the winter and under allocated in the summer. The financial implications of this can be considerable, especially for smaller shippers who concentrate on the pre-payment market. Due to the flatter nature of the pre-payment profile a shipper may find that over the course of the year the under and over allocations cancel themselves out in volume terms. However due to the variance of system buy and sell prices over the winter and summer months a shipper can find themselves with a considerable financial deficit. Having a profile that disadvantages any supplier that wishes to concentrate on this area of the market is a barrier to competition. This also means the pre-payment sector in effect has to pay for gas used by the credit sector which further disadvantages customers who on the whole tend to be of a lower income.

## 3 Solution

It is proposed that any pre-payment meter or Smart meter, in pre-pay mode, be reconciled on a profile for each LDZ, or group of LDZs dependent on the Transporters' Agent, on behalf of the Transporters, (referred to as Xoserve in the remainder of these business rules) judgement of the most appropriate approach to aggregating the available data, derived for pre-payment meters rather than the current EUC1 profile which is based on the usage from a credit meter. Xoserve shall produce the pre-payment profile for the gas year 2013/14 using the best data available to them at the time the profile is produced. Xoserve will be able to review the pre-payment profile on an annual basis if they receive data that will enable them to produce a more accurate profile.

Detailed Business Rules:

### 1. Scope

- 1.1 - Any supply point that has a pre-payment or smart meter, in pre-pay mode, which is held on the Supply Point Register (SPR) to be reconciled to the alternative pre-payment profile.
- 1.2 - For the multi-metered supply points the aggregated AQ will need to be below and remain below the LSP threshold and all meters must be either be pre-payment or smart meters in pre-pay mode for the supply point to use the alternative profile.
- 1.3 - It is intended that this modification will be superseded by the UK Link Replacement and the UNC modifications related to this.
- 1.4 - Xoserve will take a snap shot of all meter points that are shown on the SPR as having a pre-payment or smart meter on the 15<sup>th</sup> of the month (or nearest practical business day) to identify the potentially eligible meter points.
- 1.5 - All pre-payment meters identified in the snap shot taken in 1.4 will be subject to the new pre-payment profile.
- 1.6 - To identify the smart meters in pre-pay mode, each shipper may provide monthly, no earlier than the 16<sup>th</sup> of the month and no later than the 28<sup>th</sup> of the month, a list of meter points where they reasonably believe a smart meter was installed and operating in pre-pay mode on 15<sup>th</sup> of each month. This list will contain the MPRN. Any not in the Xoserve snapshot taken under 1.4 will not be eligible. If a list has been provided by any Shipper in one month and no list is received in the following month, Xoserve shall use the list provided by the Shipper in the previous month. For the avoidance of doubt, any MPRN included in a list provided by Shippers is expected to remain there for a whole year – reports will be submitted by Xoserve to the Authority to provide reassurance that Shippers are not electing meter points only at times when a credit is expected.
- 1.7 - Any smart meter not in pre-pay mode, or in pre-pay mode that is not provided in the report in 1.5, will remain subject to the EUC1 profile.
- 1.8 - No subsequent amendments to the snapshot taken by Xoserve nor the information provided by Shippers will be accepted nor actioned – the initial eligible supply point identification will be sacrosanct and this is a one-off adjustment, never to be revisited.

### 2. Conditions for eligibility when the snap shot (1.4) is taken.

- 2.1 - Must be a SSP, with either a pre-payment or smart meter in pre-pay mode installed that is held on the Supply Point Register. The status of the smart meter will be determined by the monthly shipper report in 1.5.
- 2.2 - For the avoidance of doubt, it is proposed that this modification is applicable only to supply meter points on Large Transporter networks, i.e. excluding iGTs.
- 2.3 - The following events will automatically cause the meter point to revert to being subject to the EUC1 Profile:
  - i. The meter is exchanged and a dumb credit meter is installed.
  - ii. The smart meter is changed to credit mode.
  - iii. As part of an AQ review or appeal the supply point of which the meter point is part becomes an LSP.

### 3. Energy and Transportation Reconciliation

- 3.1 - The supply point remains in the SSP regime for all purposes except it will be subject to the new pre-payment profile rather than the EUC1 profile.
- 3.2 - Energy allocation on the day is unchanged – the supply point retains the same EUC and ALP. WAR bands do not apply.
- 3.3 - The supply points will be billed after month end on an unchanged basis.

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3.4 - Each reconciliation billing period, for eligible supply points identified by Xoserve in accordance with paragraph 1, a subsequent credit or debit will be calculated as the difference between the energy and transportation commodity charges allocated (as in 3.2) and the energy and transportation commodity charges that Xoserve calculate would have been allocated based on the derived pre-payment profile, with appropriate adjustments made for weather. To derive values, energy will be multiplied by average SAP for the reconciliation billing period. Transportation charges will be based on the applicable charging statement for the reconciliation billing period.

#### 4. Reconciliation by Difference

4.1 – The volumes and values under 3.4 are assigned to the annual reconciliation pot (E7.2.1 (b)) and therefore fall within RbD. The supply points within the ambit of RbD remain unchanged – i.e. sites eligible under paragraph 1 remain in RbD.

#### 5. Threshold Crossers

5.1 – If due to any reason an eligible meter point crosses the threshold from an SSP and becomes an LSP after the 15<sup>th</sup> of the month it will continue to benefit from the alternative pre-payment profile until the end of the month in which the snapshot was taken.

#### 6. Change of Shipper

6.1 – If a change of shipper occurs after the 15<sup>th</sup> of the month the losing shipper will continue to receive the invoice calculated in accordance with 3.4 until the month end based on the alternative pre-payment profile, after which the gaining shipper will then be reconciled going subject to the 3.4 mechanism going forward.

#### 7. Charging

7.1– The User Pays approach applies for development and ongoing costs, with Shipper invoices based on market share of all SSPs on 15 September 2013 for development costs. A transactional basis is proposed for ongoing costs, with charges based on each Shipper's share of the number of meter points that are adjusted each month..

#### 8. Retrospection

8.1 – Within 1 month of implementation Xoserve will run the snap shot report in 1.4 historically for the period 1<sup>st</sup> October 2012 to the implementation date to identify those sites eligible for the alternative pre-payment profile as per the conditions in paragraph 2. The shippers will also run the report in 1.6 for the same period so that the smart meters in pre-payment mode can be identified. A shipper will need to have provided this report within 1 month of implementation for the supply points to be re-billed. Xoserve will calculate the difference between the energy and transportation commodity charges allocated and the energy and transportation commodity charges that would have been allocated based on the derived pre-payment profile, with appropriate adjustments made for weather for the period 1<sup>st</sup> October 2012 to 30<sup>th</sup> September 2013. A subsequent credit or debit will then be issued to each shipper.

Below is an example timeline for the reconciliation billing periods

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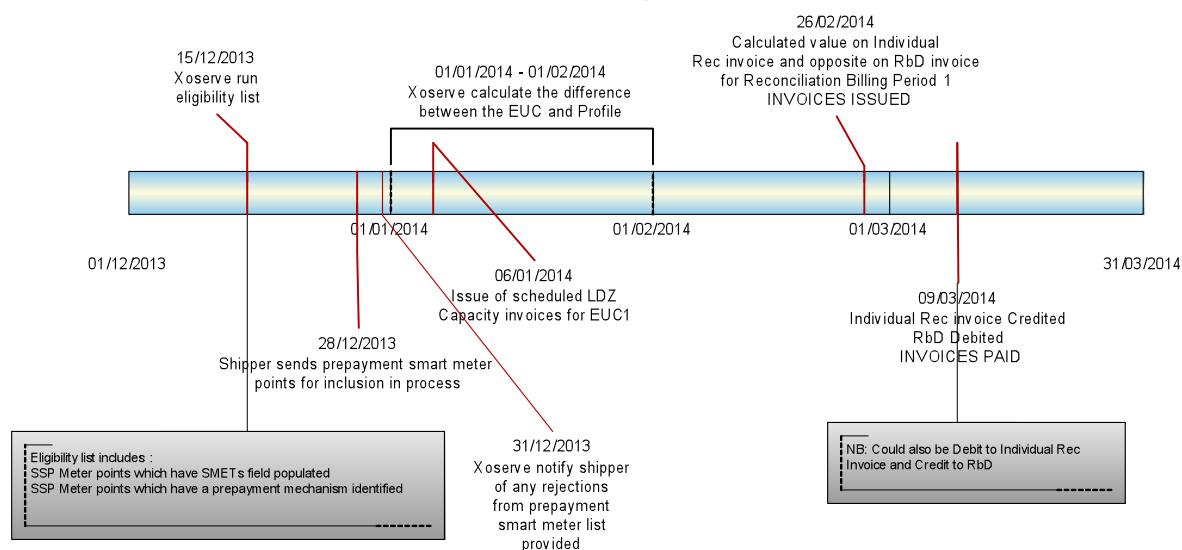
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## Timeline in Reconciliation Billing Periods for 0451 Transaction



### User Pays

Classification of the modification as User Pays, or not, and the justification for such classification.

*Classification as user pays due to the change that would be required within Xoserve's systems*

Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.

*100% cost to users*

Proposed charge(s) for application of User Pays charges to Shippers.

*All shippers based on their SSP market share on 15 September 2013 for development costs A transactional basis is proposed for ongoing costs, with charges based on each Shipper's share of the number of meter points that are adjusted each month...*

Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.

Xoserve development costs are expected to be in the range of £200k to £350k. Ongoing costs are expected to be under £5k per month.

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## 4 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

D - Accurate cost allocations are a fundamental underpinning of a competitive market. Implementation would allocate transportation and energy costs differently, with some Workgroup attendees believing this would more accurately allocate costs by better recognising the true usage pattern of PPM s over the year. More accurately reconciled on this sector of the market is especially important for any smaller supplier which would want to focus on this area. Rejection of this modification could have a detrimental effect on competition as it could put smaller suppliers focussing on this market in a position they cannot sustain, creating risk and uncertainty as the impact is volatile and unpredictable. Having a profile that disadvantages any supplier that wishes to concentrate on this area of the market is a barrier to competition.



## 5 Implementation

The urgent timetable set by Ofgem envisages a decision being made by 1 October 2013. Implementation could be immediate following a direction to implement. Although Xoserve would not expect to be in a position to immediately apply revised allocations from 01 October 2013, subsequent adjustments could be applied with effect from the implementation date. A retrospective calculation back to 01 October 2012 would also be required.

## 6 Legal Text

### Text

#### TRANSPORTATION PRINCIPAL DOCUMENT

#### SECTION E: DAILY QUANTITIES, IMBALANCES AND RECONCILIATION

*Amend paragraph 1.3.2 to read as follows:*

1.3.2 "Individual NDM Reconciliation" ~~is~~includes:

- (a) a reconciliation and adjustment in respect of gas offtaken from the Total System ...
  - (i) where the Supply Meter Point ...
    - (1) the quantities ...
    - (2) the quantities ...
  - (ii) where the Supply Meter Point ...
    - (1) the quantities ...
    - (2) the quantities ...; and
- (b) Individual Eligible SSP Reconciliation.

*Amend paragraph 1.3.6 to read as follows:*

1.3.6 For the purposes of an Individual NDM Reconciliation ...

- (a) ...
- (b) ...
- (c) "Reconciliation Values" means:
  - (i) NDM Reconciliation Quantities, DM Reconciliation Quantities, ~~or (as the case may be)~~ Individual CSEP Reconciliation Quantities or (as the case may be) Individual Eligible SSP Reconciliation Quantities; and
  - (ii) ...

*Amend paragraph 6.1.1 to read as follows:*

6.1.1 Individual NDM Reconciliation will be carried out:

- (a) (for all Days in the relevant Meter Reading Period) ...; and
- (b) in respect of an Eligible SSP in accordance with paragraph 6.9.

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*Add new paragraph 6.9 to read as follows*

6.9 Individual Eligible SSP Reconciliation

6.9.1 For the purposes of this Section E:

- (a) "Eligible SSP Profile" is the profile developed by the Transporter Agency in respect of Eligible SSPs for the purposes of this paragraph 6.9;
- (b) "Individual Eligible SSP Reconciliation" is reconciliation and an adjustment in relation to an Eligible SSP in respect of the differences between the quantities determined as offtaken by a User during a Reconciliation Billing Period by reference to:
  - (i) the Applicable End User Category for Smaller Supply Points in accordance with Section H2;
  - (ii) the Eligible SSP Profile;
- (c) the "Individual Eligible SSP Reconciliation Quantity" is the amount by which the quantity determined under paragraph 6.9.1(b)(i) differs from the quantity determined under paragraph 6.9.1(b)(ii). The Individual Eligible SSP Reconciliation Quantity is:
  - (i) negative where the quantity under paragraph 6.9.1(b)(i) exceeds the quantity under paragraph 6.9.1(b)(ii);
  - (ii) positive where the quantity under paragraph 6.9.1(b)(ii) exceeds the quantity under paragraph 6.9.1(b)(i);
- (d) the Reconciliation Clearing Value for an Individual Eligible SSP Reconciliation Quantity for a Reconciliation Billing Period shall be established by multiplying the Individual Eligible SSP Reconciliation Quantity by the System Average Price for each Day in the Reconciliation Billing Period.

6.9.2 For each Reconciliation Billing Period and for each LDZ an "Eligible SSP" is a Smaller Supply Point which is identified in:

- (a) a report submitted by the Transporter to Users in accordance with paragraph 6.9.3 in respect of the Reconciliation Billing Period; and
- (b) the notice submitted by a User in accordance with paragraph 6.9.4 in respect of the Reconciliation Billing Period.

6.9.3 On the 15<sup>th</sup> day of each calendar month (or where such day is not a Business Day the next following Business Day) the Transporter will prepare a report identifying in respect of each LDZ those Smaller Supply Points at which on the 15th day of the calendar month the Supply Point Register indicates there is installed a Pre-payment Meter or relevant Smart Meter.

6.9.4 A User shall between the date following the date on which the Transporter prepares the report under paragraph 6.9.3 and the 28th day of the calendar month (or where such day is not a Business Day the next following Business Day) submit a notice to the Transporter specifying for each LDZ the Supply Meter Point Reference Number for each Supply Meter Point comprised in a Smaller Supply Point of which it is the Registered User, at which the User, acting reasonably, believes there to be installed a relevant Smart Meter.

6.9.5 An Eligible SSP will remain an Eligible SSP in respect of a Reconciliation Billing Period where the Eligible SSP ceases to be a Smaller Supply Point following the 15th day of the relevant calendar month (but shall not be an Eligible SSP in respect of any subsequent Reconciliation Billing Period).

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6.9.6 Where a User ceases to be the Registered User of an Eligible SSP the User shall be continue be treated as being the Registered User of the Eligible SSP for the purposes of this paragraph 6.9 for the Reconciliation Billing Period for which the relevant calendar month is the month in which the User ceased to be the Registered User.

6.9.7 In the event a User fails to submit a notice in accordance with paragraph 6.9.4 the last such notice submitted by the User in respect of the LDZ shall be used to determine which Smaller Supply Points are Eligible SSPs.

6.9.8 For the purposes of this paragraph 6.9, a "relevant" Smart Meter is a Smart Meter which is operating in pre-payment mode.

*Amend paragraph 7.2.1 to read as follows:*

7.2.1 For the purposes of this paragraph 7:

- (a) ...
- (b) "Annual Individual NDM Reconciliation" is Individual NDM Reconciliation in respect of Supply Meter Points with Annual Read Meters; Individual NDM Reconciliation; ~~and~~ DM Reconciliation for gas illegally taken under paragraph 3.5.1, ~~and~~ Individual NDM Reconciliation in relation to adjustments pursuant to paragraph 7.2.2(i) and Individual Eligible SSP Reconciliation;
- (c) ...

*Amend paragraph 7.2.2 to read as follows:*

7.2.2 Subject to paragraph 7.8, for each Reconciliation Billing Period, for each LDZ and for each Individual Reconciliation Sector:

- (a) the "Aggregate Reconciliation Quantity" and the "Aggregate Reconciliation Clearing Value" are the net aggregate respectively of the Reconciliation Quantities and Reconciliation Clearing Values for System Exit Points in the LDZ and LDZ Reconciliation and Individual Reconciliation Sector for which Individual Reconciliation or LDZ Reconciliation was carried out in (or in respect of) that Reconciliation Billing Period;

....

## SECTION M: SUPPLY POINT METERING

*Amend paragraph 1.2.2 to read as follows:*

1.2.2 For the purposes of the Code, in relation to a Supply Meter Point:

- (a) ...
- (b) ...
- (c) ... is to be read accordingly;
- (d) a "Pre-payment Meter" is a Supply Meter in respect of which a consumer must pre-pay for the supply of gas passing through the meter.

- 13 TPD Section E: Daily Quantities, Imbalances and Reconciliation
- 13.1.1 By no later than [ ] 2013 a User will submit a report to the Transporter identifying in respect of each LDZ those Smaller Supply Points in relation to which it is the Registered User at which on [ ] 2013 a Pre-payment Meter or a Smart Meter operating in pre-payment mode is installed (each such Smaller Supply Point a "relevant SSP").
- 13.1.2 Following receipt of a report under paragraph 1.13.1 the Transporter shall calculate in respect of a relevant SSP the difference in the quantity of gas (the "adjustment quantity") treated as offtaken between 1 October 2012 and [ ] ("the adjustment period") at the relevant SSP by reference to:
- (a) the Applicable End User Category for Smaller Supply Points; and
  - (b) the Eligible SSP Profile for Smaller Supply Points at which a Pre-payment Meter or a Smart Meter operating in prepayment mode is installed.
- 13.1.3 The adjustment quantity shall be positive where the quantity under paragraph 13.1.2(b) is greater than the quantity under paragraph 13.1.2(a) and negative where the quantity under paragraph 13.1.2(a) is greater than the quantity under paragraph 13.1.2(b). The Reconciliation Clearing Value shall be established by multiplying the adjustment quantity by the System Average Price for each Day in the adjustment period and shall be deemed to have been sold and purchased pursuant to System Clearing Contract pursuant to Section F5.

## 7 Recommendation

The proposer recommends that assessment of this modification continues in line with the timetable set by Ofgem when granting urgent status, with a Workgroup Report completed in time for submission to the August Modification Panel.