

## Stage 04: Final Modification Report

# 0451V/0451AV:

## Individual Settlements For Pre-Payment & Smart Meters

At what stage is this document in the process?



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



The Panel does not recommend implementation



High Impact: Small Suppliers



Medium Impact: Large Suppliers, Xoserve



Low Impact: -

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## About this document:

This is a Final Modification Report presented to the Panel on 10 January 2014. At the request of the Panel revised legal text for Modification 0451V has been provided and included in this Report.

The Authority will consider the Panel's recommendation and decide whether or not either of these changes should be made.


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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that these are not Self-Governance modifications, as they are expected to have a material impact on competition.

## Why Change?

Under the current regime all SSPs are subject to RbD, and their allocation is determined by the EUC1 banding. Evidence submitted by Winchester Gas suggests that 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 of gas 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.

## 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 dis-advantages 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 dis-advantages 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.

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- 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.
- 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

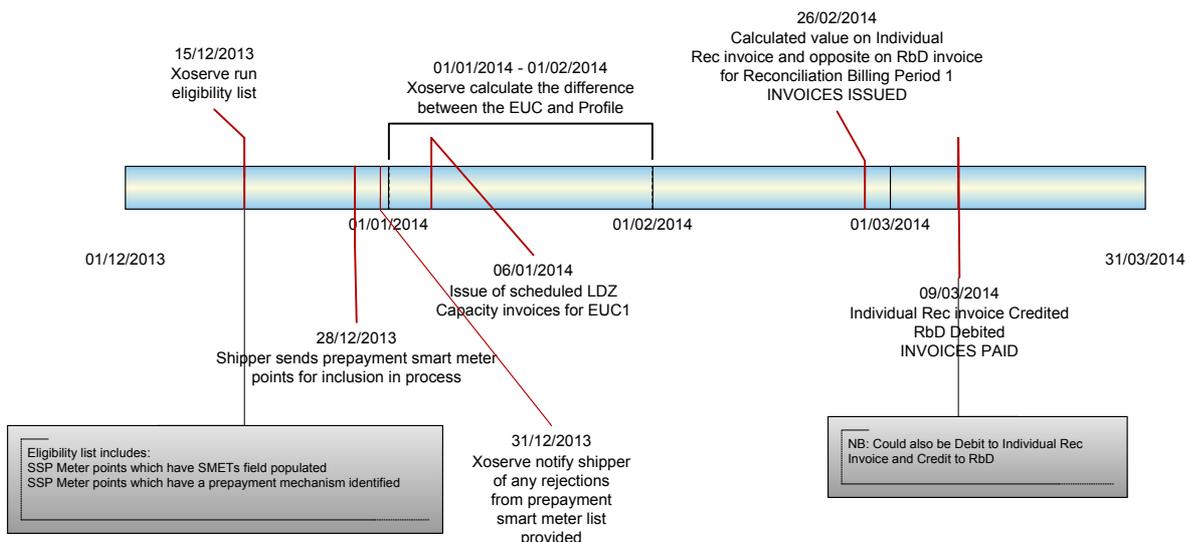
- 7.1 – The User Pays approach applies for development and ongoing costs, with Shipper invoices based on market share of all SSPs on 15 September 2013 for development costs. A transactional basis is proposed for ongoing costs, with charges based on each Shipper's share of the number of meter points that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

### 8. Retrospection (not applicable to 0451AV)

- 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

### 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.

## 4 Relevant Objectives

Impact of the modification on the <b>Relevant Objectives:</b>	
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.	Impacted
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) Securing of effective competition:

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 PPMs 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 dis-advantages any supplier that wishes to concentrate on this area of the market is a barrier to competition

British Gas notes that these modifications will only benefit shippers with prepayment portfolios.

Winchester Gas considers that any increase in the accuracy of cost allocation can only help effective competition as it will enable shippers to set more accurate and cost reflective tariffs.

## 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. In the case of 0451V, a retrospective calculation back to 01 October 2012 would also be required.

Northern Gas Networks has concerns regarding possible implementation of these modifications that would result in costly and complex changes and would require considerable ongoing activity to maintain. These changes would only have effect from the time of implementation until such time as the UK Link Replacement/Project Nexus changes were implemented making them short lived. Furthermore they will need to utilise resources within Xoserve that could be better used elsewhere in the considerably congested current change timetable, much of which is driven by the EU or DECC changes.

**0451V** - At the Panel's request (made at its meeting on 10 January 2014) revised legal text has been provided to include an implementation date in Transition Document Part IIC - Transition Rules. This date has been agreed with Ofgem and set at 1 February 2014.

## 6 Legal Text

### Text

The following Text has been prepared by Northern Gas Networks, and has been reviewed by the Workgroup.

At the Panel's request (made at its meeting on 10 January 2014) revised legal text has been provided to include an implementation date in Transition Document Part IIC - Transition Rules.

### 0451V

#### 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) ...

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- (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.

*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

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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).
- 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) ...

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- (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.

**TRANSITION DOCUMENT**

**PART IIC - TRANSITIONAL RULES**

*Add Section 13 after 12.3.3 to read as follows:*

**13 TPD Section E: Daily Quantities, Imbalances and Reconciliation**

- 13.1.1 By no later than 1 February 2014 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 1 October 2012 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 13.1.1 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 1 February 2014 ("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.

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**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" 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.

*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

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(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).

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;

....

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## 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.

## 7 Consultation Responses

The following is a summary of representations that were previously received in respect of Modifications 0451 and 0451A:

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?		Stated Preference
	0451	0451A	
British Gas	Not in Support	Not in Support	0451A
EDF Energy	Not in Support	Not in Support	
E.ON UK	Not in Support	Qualified Support	0451A
Opus Energy	Not in Support	Neutral	0451A
RWE npower	Not in Support	Not in Support	0451A
Scottish Power	Not in Support	Not in Support	0451A
SSE	Not in Support	Not in Support	0451A
Winchester Gas	Supports	Not in Support	0451

### 0451

Of the 8 representations received 1 supported implementation and 7 were not in support.

### 0451A

Of the 8 representations received 1 offered qualified support, 1 party remained neutral and 6 were not in support.

Of the 8 representations received 1 expressed a preference for **0451**

Of the 8 representations received 6 expressed a preference for **0451A**.

### Summary Comments

British Gas support the principle of accurate cost allocation but were not able to support either modification, as they do not believe either will improve cost allocation. They particularly highlight; that no evidence had been provided to demonstrate the offline reconciliation will improve the energy/cost allocation; that the allocation of cost

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will not be based on a site's read history and the new Xoserve deeming allocation profile was not available for review. They also expressed concerns regarding; the validation of the prepayment flag; that the profile will be based on a small sample of customers within a single LDZ and how the smear for unidentified gas will be picked up by the SSP credit meter market, appearing to deteriorate the allocation of energy within the credit meter market, to the detriment of competition. British Gas further express concerns about by-passing the role of the Demand Estimation Sub-Committee, which is responsible for developing and revising EUCs and associated demand models, and that the retrospective element applicable to Modification 0451 presents a risk to Shippers by re-opening a closed settlement period.

EDF Energy did not support either modification because they believe the evidence provided is not robust enough to justify the adoption of new profiles for all pre-payment meters and that the cost of these modifications would outweigh the perceived short-term benefit, which would become redundant once Project Nexus is implemented. They also express concern surrounding the pre-payment flag and its scrutiny/accuracy.

E.ON question the limited evidence used to justify changes to all pre-payment meters but nevertheless recognised, if there was sufficient evidence to support the claim of an imbalance in the allocation of energy, the modifications create a simple mechanism to adjust the allocation until new arrangements are introduced by Project Nexus. E.ON also express concerns about the retrospective elements in Modification 0451 - they believe this is not appropriate and does not facilitate effective competition if other suppliers have to bear the burden of retrospective cost applications, and highlight that it is unclear how customers would benefit from such retrospective application and that implementation may simply create a windfall for suppliers.

Opus Energy understand the basic principle that pre-payment customers may have a slightly different profile but do not believe the analysis is robust enough to support a change, with very little evidence that the benefits would outweigh the costs before Project Nexus is implemented. They also raise concerns about retrospection and how this could create windfall gains and losses.

RWE npower raise issues about the sample size to drive a change and that there is no evidence to suggest that this modification would benefit customers.

Scottish Power raise concerns about the sample size and engagement of the Demand Estimation Sub-Committee. They believe Implementing this modification would result in a cross-subsidy being introduced between customers within the SSP market sector. They do not support the retrospection element in Modification 0451.

SSE also questioned the sample size, and the period in which it was taken, and the validation of the prepayment flag. They recognise that the SSP profile may not necessarily fit exactly a particular type of customer but is an amalgamation of type of customers and targeting a specific sector will have risks. Recognising supply is a commercial decision with inherent risks, they believe it is not appropriate to raise a retrospective modification against losses incurred. They also question the costs against the short-term benefit.

## Workgroup Consideration of Additional Issues Identified by Panel

The Workgroup was requested to consider the following points by Panel:

- Legal text should be included that would enable either modification to be given full effect; and

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- Further clarity from Xoserve on its high level estimate of the implementation and operational costs of implementing either modification, and any further information Xoserve provides on this should be included in a revised version of the Final Modification Report.

Xoserve confirmed that the high level cost estimate has been revised and costs are now expected to be in the range of £200,000 to £350,000 for development. Ongoing costs remain unchanged at under £5,000 per month. It was confirmed that there is no expected benefit from the implementation of either of these modifications, which would carry through into the implementation of Project Nexus.

It was noted that these modifications might implement a more accurate profile for pre-payment meters based on the data provided by one User. However, this profile may need further refinement should other Users provided additional data. The proposed profile would not be carried across under the proposed Project Nexus business requirements.

The Workgroup reviewed the Legal text provided by Northern Gas Networks and were satisfied it would meet the intent of the modifications and no further issues were raised regarding its content.

The Workgroup have considered the variation requests submitted by the proposers of these modifications and agree that these should be considered as immaterial.

## Consultation Responses for Modifications 0451V and 0451AV

The following is a summary of representations were received in respect of Modifications 0451V and 0451AV:

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?		Stated Preference	
	0451V	0451AV		
British Gas	Not in Support	Not in Support	0451AV	No change in view
EDF Energy	Not in Support	Not in Support	-	No change in view
Northern Gas Networks	Comments	Comments	-	-
Opus Energy	Not in Support	Neutral	0451AV	No change in view
RWE npower	Not in Support	Not in Support	0451AV	No change in view
Scottish Power	Not in Support	Not in Support	0451AV	No change in view
Winchester Gas	Supports	Not in Support	0451V	No change in view

### 0451V

Of the 7 representations received 1 supported implementation, 1 offered comments and 5 were not in support.

### 0451AV

Of the 7 representations received 1 party remained neutral, 1 offered comments and 5 were not in support.

Of the 7 representations received 1 expressed a preference for **0451V**

Of the 7 representations received 4 expressed a preference for **0451AV**.

## Summary Comments

British Gas is concerned that Modification 0451V contains retrospective elements. They consider the required high bar of evidence and proof has not been met and approval of this change will result in a windfall for some organisations after the settlement period has closed out.

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EDF Energy is concerned that there will be significant ongoing costs to industry associated with systems development, producing the report and validating the adjustment invoices. These developments will become redundant once Project Nexus is implemented.

Northern Gas Networks is concerned that these modifications have been developed in a rushed manner and without proper consideration for the overall need and demand for the service or the cost/benefits of making temporary changes to the existing regime. The development of these modifications, particularly in the latter stages, has been heavily driven by the ability to produce legal text rather than setting out clear objectives with obligations and rights being clearly defined and described within the modification. This has resulted in numerous iterations of legal text being required, none of which would be considered complete due to the incomplete nature of the modifications. The final version of the legal text produced for this consultation included new business rules that had not been discussed during the original assessment which Northern Gas Networks believe shows that the accelerated nature of assessment did not allow sufficient time to ensure that the modifications were complete and robust.

Opus Energy does not believe the analysis is robust enough to enable them to support this modification. In particular they are concerned by the small sample size and that there is little evidence that the benefits will outweigh the costs before Nexus makes this modification redundant.

RWE npower is concerned that the costs given by Xoserve for the development and ongoing support are high for a short term change. User Pays arrangements do not acknowledge the proportion of PP Customers that a Shipper has and therefore a bigger proportion of the costs will be met by those who will not get the most benefit.

ScottishPower notes that should Modification 0451V be implemented, which includes a retrospective element, this will introduce additional uncertainty for SSP Shippers and further reduce the integrity of the gas settlements process. As a consequence, some SSP Shippers and their customers will be adversely impacted to the benefit of others.

## 8 Panel Discussions

The Panel Chair summarised that Modifications 0451V and 0451AV seek to introduce a supplemental NDM allocation process. After completion of the standard processes as set out in the UNC, sites with a pre-payment meter would be subject to a further adjustment with the change being based on an assumed profile of consumption by pre-payment customers. The proposer of Modification 0451V has provided evidence to Xoserve and Ofgem supporting their view that, relative to credit meter customers, pre-payment customers tend to consume less gas in winter and more in summer. The modification seeks to ensure that these sites are subject to an allocation that is in line with this flatter profile. By doing this, costs for supplying pre-payment customers would be lower in winter and higher in summer, with a net cost reduction anticipated. This would be funded by an equal and opposite change in costs allocated to others. Modification 0451AV proposes that this arrangement would apply prospectively while Modification 0451V includes a retrospective element backdated to be effective from October 2012.

Members recognised that the intention of the modification is to deliver more accurate cost allocations for a particular market segment, and acknowledged that appropriate (cost reflective) allocations are a fundamental underpinning of a competitive market. However, Members did not consider evidence had been provided to make a sufficient case that change is justified for pre-payment customers, with the evidence falling short of the statistical standards expected for other aspects of the allocation process. In addition, Members noted that the proposed means of identifying pre-payment metered sites is not robust, being based on a flag in Xoserve's systems which is not used for any billing or allocation purposes, and which is not subject to scrutiny or validation. As such, the cost reflectivity and associated benefits of the proposed change may not be commensurate with any evidence presented from a sample of pre-payment customers.

Members similarly did not feel that sufficient evidence had been provided to demonstrate that any benefit from implementing the modification would be likely to outweigh Xoserve's projected implementation costs of £200k to £350k, especially since the benefits are only expected to accrue until delivery of the planned UK Link replacement. Members did not, therefore, consider that implementation could be expected to facilitate the relevant objective of securing effective competition.

Regarding the retrospective element proposed in Modification 0451V, Members considered that any retrospective modifications create uncertainty and risk and hence are damaging to the securing of effective competition. Members did not feel that compelling evidence had been provided to suggest that there were grounds for a retrospective adjustment in the case of Modification 0451V and, as such, there were no grounds for believing implementation of this element would facilitate the relevant objectives.

Members then voted and, with no votes in favour, failed to determine to recommend that Modification 0451V be implemented. With no votes in favour, Members also failed to determine to recommend that Modification 0451AV be implemented.

Members then considered which of Modification 0451V and 0451AV would, if one were to be implemented, better facilitate the achievement of the Relevant Objectives. In light of the absence of the retrospective element, Members voted unanimously that, of the two modifications, Modification 0451AV would be expected to better facilitate achievement of the relevant objectives.

## 9 Recommendation

### Panel Recommendation

Having considered Modification Report 0451V/0451AV, the Panel recommends:

- that proposed Modification 0451AV better facilitates the Relevant Objectives than proposed Modification 0451V.
- that proposed Modification 0451V should not be made; and
- that proposed Modification 0451AV should not be made.

## 10 Appendix 1: Initial Xoserve Analysis

The analysis provided by Xoserve, showing variations in consumption between PPM and credit meters, is reproduced below.

## Pre Payment Meters – Updated Analysis – 2009 to 2012 data - SO

### **Nature of the Analysis**

Daily consumption data was provided by one Shipper for one LDZ. We are advised that all meter points (“MSNs”) in this data set are fitted with Smart meters and are operating in prepayment mode. However the data provided was anonymous (i.e. did not include live Meter Point References) and Xoserve is unable to check the status or ownership of the Meter Points.

The data was subjected to the same analysis process as the data from the Xoserve NDM Sample, which is used to determine the NDM Algorithms each year. The outputs of that process include the “Annual Load Profile” (ALP) which is a daily value used in Demand Estimation. The value represents the daily proportion of energy consumed under seasonal normal conditions compared to average daily consumption: a value greater than 1 represents more than the daily average; and a value lower than 1 represents below average consumption.

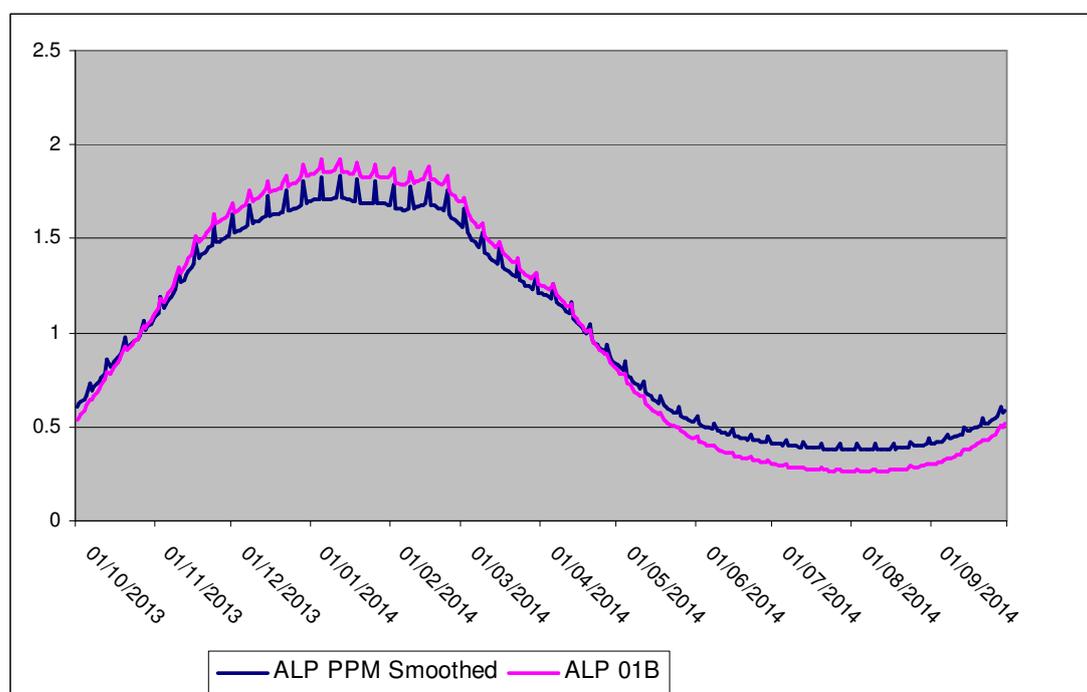
The source data is for the gas years 2009/10, 2010/11 and 2011/12 for SO LDZ only. Prior to the analysis, the data was subjected to the same validation tests as for the NDM Sample data, to ensure that no erroneous data was used. After applying validation to the dataset provided, up to 451 MSNs were eligible to be used in the analysis (71 for 2009/10; 415 for 2010/11 and 332 for 2011/12).

The data was analysed to calculate a relationship to the relevant weather for each year, and the regression parameters were averaged to provide a smoothed model, in line with normal NDM modelling processes. This was then used to determine a “PPM ALP” for 2013/14 under seasonal normal conditions, which could be compared to the proposed EUC1 ALP for SO LDZ, to identify any difference in patterns.

### **Results – all MSNs**

Below is a graph showing the proposed EUC1 ALP for the coming year (2013-2014), for LDZ SO, EUC01, compared to the calculated ALP for PPM, for LDZ SO.

The PPM Aqs in this dataset varied between 1,611kwh and 23,299kwh.



## Pre Payment Meters – Updated Analysis – 2009 to 2012 data - SO

### **Analysis by Consumption Band**

Earlier analysis was carried out on the 2009/10 data only by splitting the dataset into the following ranges: AQ between 0 – 10,000kwh and 10-20,000 kWh. That analysis identified that the general trends in both sectors were consistent with the overall profile, but that the weekend effects were slightly more marked in the 0 – 10,000 kWh dataset.

That analysis has not been repeated for subsequent years, as the intention is to develop a single profile for all PPM meters for simplicity and not to sub-divide any calculations.

### **Comparison to 01B Profile**

Below is a table displaying the ALP values at both the peak and trough points within the gas year for SO LDZ.

	<b>12/01/2014</b>	<b>30/07/2014</b>
ALP PPM Smoothed	1.8340184	0.380638406
ALP 01B	1.926613	0.263989
Difference	<b>-5%</b>	<b>44%</b>