

## Stage 04: Final Modification Report

# 0507:

## Changing The Effective Date of 0451AV (Individual Settlements For Pre-Payment & Smart Meters)

At what stage is this document in the process?



This modification seeks to amend the reconciliation effective date of Modification 0451AV to 01 October 2014



Panel consideration is due on 18 September 2014



High Impact: Shippers



Low Impact: - Transporters

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## About this document:

This Final Modification Report will be presented to the Panel on 18 September 2014.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.



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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification. It is seeking to change the current effective date of Modification 0451AV from 1<sup>st</sup> February 2014 to the 1<sup>st</sup> October 2014, thereby changing the date of the commencement of reconciliation to the pre-payment profile under Modification 0451AV.

## Why Change?

When Ofgem approved Modification 0451AV, they rejected 0451V due to the retrospective element within it. However, by directing implementation of 0451AV to be the 1<sup>st</sup> February 2014, with the pre-payment profile to be used not developed, Ofgem have added an element of retrospection. Ofgem have also added uncertainty to the market place, as shippers will have no way to calculate the invoice they will receive for the payment profile with the profile not yet developed. The February 2014 implementation date also goes against the original intent of 0451AV, which was to balance out the allocation over a gas year.

## Solution

It is proposed that the reconciliation under 0451AV should not commence until 1<sup>st</sup> October 2014 so that the reconciliation going forward would be over a full gas year. Reconciliation may also not commence until the pre-payment profile has been fully developed so that shippers will be able to calculate the invoice amounts. If the Authority decision and/or the pre-payment profile has not delivered by 1<sup>st</sup> January then there will be no reconciliation under 0451AV.

## Relevant Objectives

Some participants consider that this modification would have a positive impact on relevant objective d), as by removing the current uncertainty that shippers are facing receiving an invoice they have no way of accurately predicting will remove the negative impact the current reconciliation effective date would have on competition. Also an October start date would allow more accurate financial planning for shippers as it will have removed the uncertainty that the market currently faces. The October start date would more accurately meet the original intent of Modification 0451AV as it would mean the reconciliations would be based on a full gas year.

f) Promotion of efficiency in the implementation and administration of the Code.

Some participants were concerned that the time and effort expended to develop Modification 0451AV, the pre payment meter profile and associated sunk system development costs have been put at risk due to the requirements set out in this modification and if implemented would therefore be detrimental to the promotion of efficiency in the implementation and administration of the Code.

## Implementation

There would be no costs for implementation as this would only be changing the effective date of 0451AV. There could be a reduction of costs of 0451AV as the Transporters would not have to perform a retrospective reconciliation to the implementation date of February 2014.

Implementation 01 October 2014 if a decision is made by 30 September 2014;

Implementation 01 November 2014 if a decision is made by 31 October 2014.

The backstop lead time is the 1<sup>st</sup> Working Day 30 days following the Ofgem decision.

For clarity if under any of the above proposed implementations a Shipper has raised a concern with DESC regarding the pre-payment profile then there will be no reconciliation until the query has been satisfactorily resolved by DESC.

### Does this modification affect the Nexus delivery, if so, how?

No impact as none of the requirements proposed in this modification are carried over into the UK Link replacement programme.

## 2 Why Change?

Some participants consider that when Ofgem approved Modification 0451AV, it rejected 0451V due to the retrospective element within it. However, by directing implementation of 0451AV to be 1<sup>st</sup> February 2014, with neither the pre-payment profile to be used nor the system solution to be developed is ready, Ofgem has added an element of retrospection. Other participants disagree with this view as the industry is aware at the time of implementation that the billing solution and profile would follow later in the year.

The system solution is not likely to be ready until January 2015 and there is currently no solution date from DESC for the pre-payment profile although this is anticipated to be available by September 2014. This will mean that when the the system solution is implemented it will be performing a reconciliation back dated to the 1<sup>st</sup> February implementation date, which if the solution is delivered in October 2014, will mean that Shippers will face an invoice for an 11 month period.

Due to the fact that the pre-payment profile has not yet been developed this will mean Shippers will have no way of predicting the value of this invoice and as such will create uncertainty within the market place for Shippers who operate within the pre-payment market. This along with retrospection is something that industry has always sought to avoid and has been used as a reason for rejecting modifications previously. An example of this was Modification 0456, which sought to bring forward a more accurate AUGGE methodology but was rejected by Ofgem due to the market uncertainty it could bring despite recognising it to be a more accurate method for allocating unidentified gas.

### 3 Solution

It is proposed that the reconciliation effective date of Modification 0451AV is changed to the 1<sup>st</sup> October 2014, providing the pre-payment profile has been developed and the industry has had chance to review it to ensure it is fit for purpose. Our reasoning for choosing this date is that it would align with the start of the new gas year and therefore would ensure that the change effects a full gas year and as such allows for volume to be more accurately apportioned throughout the gas year rather than the current proposal which is being brought in mid-year and won't ensure the equitable allocation of gas. It would also ensure that DESC would have had plenty of time to develop the pre-payment profile required. If once the profile has been published by DESC any shipper raises concerns with DESC over the profile, then reconciliation would not be able to commence until those concerns have been satisfactorily addressed by DESC. If the pre-payment profile is not delivered by the 1<sup>st</sup> January 2015 then there should be no reconciliation under 0451AV. The reason for this is that 0451AV was originally raised to balance out the apportionment of gas over the winter and summer periods for pre-payment meters. Commencing reconciliations after 1<sup>st</sup> January 2015 would mean that the re-apportionment wouldn't be over a whole gas year and therefore would not fulfil the intent of 0451AV. This would also be in line with Ofgem's decision on iGT054 where they stated that "Given that any relative over or under allocation of gas during the winter or summer months is netted off over the course of a year, we do not consider that it would be appropriate to allow for an alternative profile to be used for less than a whole year". Also with the UK Link Replacement due to commence 1<sup>st</sup> October 2015, 0451AV would not remain cost effective.

#### User Pays

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

Whilst there is an amendment to a user pays modification, it is only a change to the effective date and therefore there would be no User Pays costs associated with it.

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.

N/A

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

N/A

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

N/A

## 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.	Negative
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:

Some participants consider that this modification would have a positive impact on relevant objective (d), as by removing the current uncertainty that Shippers are facing in receiving an invoice, which they have no way of accurately predicting, this modification will remove the negative impact the current implementation date would have on competition. Also an October start date would allow more accurate financial planning for Shippers as it will have removed the uncertainty that the current implementation date brings. The October start date would more accurately meet the original intent of 0451AV as it would mean the reconciliations would be based on a full gas year. However, other participants were concerned that insufficient evidence has been provided to demonstrate that this modification will improve competition, as in the best case scenario it will reduce the period of time the benefits defined under Modification 0451AV can be accrued, and in the worst case scenario it will remove all of its requirements and benefits.

### f) Promotion of efficiency in the implementation and administration of the Code.

Some participants were concerned that the time and effort expended to develop Modification 0451AV, the pre payment meter profile and associated sunk system development costs have been put at risk due to the requirements set out in this modification and if implemented would therefore be detrimental to the promotion of efficiency in the implementation and administration of the Code.

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## 5 Implementation

The following timescales for implementation are proposed by the Workgroup:

- If the prepayment profile is ready by 1<sup>st</sup> September and an Authority decision is made by 30<sup>th</sup> September 2014 then implementation should be 1<sup>st</sup> October. Such a short lead time as this has been given to ensure that the reconciliation going forward would be over a full gas year and as such allows for volume to be more accurately apportioned throughout the gas year. By not commencing any reconciliation until after the pre-payment profile is ready this will remove the market uncertainty that is currently in place.
- If the prepayment profile is ready by 1<sup>st</sup> October and an Authority decision is made after 30<sup>th</sup> September and by 31<sup>st</sup> October 2014 then the implementation date should be 1<sup>st</sup> November. If an Authority decision is made after the 31<sup>st</sup> October 2014 then implementation would be the on the 1<sup>st</sup> working day of the month following the decision, providing the pre-payment profile has been published. If the pre-payment profile has not been published for one month, then the implementation date would be the 1<sup>st</sup> working day one month after the pre-payment profile has been published.
- For clarity if under any of the above proposed implementations a Shipper has raised a concern with DESC regarding the pre-payment profile then there will be no reconciliation until the query has been satisfactorily resolved by DESC.
- If the publication of the pre-payment profile is after 1<sup>st</sup> January 2015 then there should be no reconciliation under Modification 0451AV. The reasons for this is that 0451AV was originally raised to balance out the apportionment of gas over the winter and summer periods for pre-payment meters. Commencing the reconciliations after 1<sup>st</sup> January 2015 would mean that the re-apportionment would not be over a whole gas year and therefore would not fulfil the intent of 0451AV. Also with the UK Link Replacement due to commence 1<sup>st</sup> October 2015, 0451AV would not remain cost effective.

## 6 Legal Text

### Text

The following Text has been prepared by National Grid Distribution and no issues were raised by the Workgroup regarding its content.

#### Part 1

The following shall be added to the Transition Rules as a new Section 8:

#### **Section 8 – Pre-Payment and Smart Meter Reconciliation**

- 8.1 Until 1 October 2014 the following shall have effect:
- 8.1.1 The following provisions shall not apply:
- (a) UNC TPD Section E1.3.2(b);
  - (b) UNC TPD Section E6.1.1(b);
  - (c) UNC TPD Section E6.9; and
  - (d) UNC TPD Section M1.2.2(d)
- 8.1.2 UNC TPD Section E1.3.6(c)(i) shall be read excluding the words “or (as the case may be) Individual Eligible SSP Reconciliation Quantities”;
- 8.1.3 UNC TPD Section E7.2.1(b) shall be read excluding the words “and Individual Eligible SSP Reconciliation”

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## PART 2

In the event that the Transporter Agency has not provided the Eligible SSP Profile by 1<sup>st</sup> January 2015, the following changes shall be made:

UNC TPD Sections E6.1.1(b) and E6.9 shall be deleted.

UNC TPD Section E1.3.2 shall be deleted and replaced as follows:

"1.3.2 **Individual NDM Reconciliation**" includes a reconciliation and adjustment in respect of gas offtaken from the Total System and certain Transportation Charges, in relation to a Larger NDM Supply Meter Point, in respect of differences between:

- (a) where the Supply Meter Point does not have Daily Read Equipment installed:
  - (i) the quantities determined as offtaken by a User in accordance with Section H2;
  - (ii) the quantities subsequently determined to have been offtaken pursuant to Meter Reads (in accordance with Section M); or
- (b) where the Supply Meter Point has Daily Read Equipment installed:
  - (i) the quantities determined to have been offtaken by Meter Reads by such Daily Read Equipment; and
  - (ii) the quantities determined to have been offtaken pursuant to a DM Check Read.

UNC TPD Section M1.2.2 shall be amended as follows:

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

- (a) the "**Supply Meter Installation**" is the meter and associated equipment and installations installed or to be installed at a consumer's premises, including associated pipework, regulator filters, valves, seals, and mountings;
- (b) the "**Supply Meter**" is the meter comprised in the Supply Meter Installation.
- (c) A Smart Meter means:
  - (i) An energy meter that can both send and receive information using an external electronic communications network; or
  - (ii) An energy meter and a device which is associated with or ancillary to that meter and which enables information to be sent to and received by the meter using external electronic communications networkand the expression "**Smart Metering**" 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."~~

UNC TPD Section E1.3.6(c)(i) shall be amended as follows:

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

UNC TPD Section E7.2.1(b) shall be amended as follows:

- "(b) "**Annual Individual Reconciliation**" is Individual NDM Reconciliation in respect of Supply Points with Annual Read Meters; Individual NDM Reconciliation; DM Reconciliation for gas illegally taken under paragraph 3.5.1, Individual NDM Reconciliation in relation to adjustments pursuant to paragraph 7.7.2(ii) ~~and Individual Eligible SSP Reconciliation~~;"

## 7 Consultation Responses

Of the 3 representations received 1 supported implementation, and 2 opposed.

Organisation	Response	Relevant Objectives	Key Points
EDF Energy	Oppose	d – negative f - negative	<ul style="list-style-type: none"> <li>• Not enough evidence to demonstrate that implementation would better facilitate the relevant objectives</li> <li>• Whilst it would have been preferable for the pre-payment profile to be in place when UNC 0451AV was implemented in February 2014, all industry participants were made aware that a pre-payment profile would be developed and it was understood that invoices would apply from that date once the profile was agreed.</li> <li>• Evidence has been provided to indicate that pre payment meters may have a different profile to other customers 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. If the current profile creates a cross subsidy in allocation between credit and pre payment customers, this situation should be rectified at the earliest date.</li> </ul>
Winchester Gas	Supports	d – positive f - neutral	<ul style="list-style-type: none"> <li>• The implementation of Modification 0507 will ensure the reconciliation under the new profile is over a whole gas year.</li> <li>• The Implementation of Modification 0451AV in February 2014 before the pre-payment profile, to be used for billing was ready, has brought about considerable market uncertainty for any shipper that operates in the pre-payment market. This is because once the billing solution is ready shippers are going to be receiving an invoice based on a profiles they currently have no visibility of which makes financial planning very difficult.</li> <li>• When Ofgem directed 0451AV to be implemented 0451V was rejected due to the retrospective element within it. However by having no profile or solution ready an element of retrospection has been introduced which something the industry has always tried to avoid due to the market uncertainty it brings.</li> </ul>

Winchester Gas			<ul style="list-style-type: none"> <li>The February 2014 implementation date also goes against the original intent of 0451 for the new profile reconciliation to be based over a whole gas year as any over or under allocation of gas during the winter or summer months is netted off over the course of a year and so would result in an unbalanced reconciliation. This is also the reason Ofgem gave for rejecting iGT054, which would have introduced the pre-payment profile to the iGT pre-payment supplies.</li> </ul>
Wales & West Utilities	Oppose	f - negative	<ul style="list-style-type: none"> <li>The report doesn't contain persuasive reasons for implementation.</li> <li>Implementation would have detrimental effect on objective f).</li> </ul>

Representations are published alongside the Final Modification Report.

## 8 Panel Discussions

## 9 Recommendation

### Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0507 [should/should not] be made.