

**UNC Workgroup 0451 Minutes  
Individual Settlements For Pre-Payment & Smart Meters**

**Wednesday 29 May 2103**

**Consort House, 6 Homer Road, Solihull B91 3QQ**

**Attendees**

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Alex Ross-Shaw	(ARS)	Northern Gas Networks
Andrew Margan	(AM)	British Gas
David Addison	(DA)	Xoserve
Elaine Carr*	(EC)	ScottishPower
Fiona Cottam	(FC)	Xoserve
Hilary Chapman	(HCh)	Xoserve
Huw Comerford	(HC)	Utilita
Jon Dixon*	(JD)	Ofgem
Leanne Thomas	(LT)	RWE npower
Lorna Lewin	(LL)	DONG Energy
Trevor Clark	(TC)	E.ON UK

\* via teleconference

Copies of all papers are available at: [www.gasgovernance.co.uk/0451/290513](http://www.gasgovernance.co.uk/0451/290513)

**Urgent Timetable**

<b>Process</b>	<b>Date</b>
Workgroup Meeting	11 June 2013
Workgroup Meeting	02 July 2013
Workgroup conclude report	25 July 2013
Panel consider report, issue for consultation	15 August 2013
Consultation closes	09 September 2013
Panel provide recommendation and submit report to Authority	19 September 2013
Authority decision	By 01 October 2013

**1.0 Review of Minutes and Actions**

**1.1 Minutes**

The minutes were accepted.

**1.2 Actions**

**0451/01:** Shippers to provide to Xoserve evidence on the profile of credit and PPM/Smart meters – Xoserve to collate.

**Update:** Shippers confirmed that they were reviewing their data for indication of any difference between profiles and this should be available for the next meeting. To date no difference had been observed that mirrored that noted by Utilita. TD pointed out that factual evidence would need to be provided to corroborate (or not) Utilita's findings, and assist in Ofgem's eventual decision making.

Shippers were asked to provide their documentary evidence of differences (or otherwise) in prepayment meter profiles to : [xoserve.demand.estimate@xoserve.com](mailto:xoserve.demand.estimate@xoserve.com). **Carried forward**

**0451/02:** Xoserve and Transporters to support Proposer in producing Business Rules.

**Update:** Business Rules had been produced (in a revised version of the modification) for discussion at this meeting. **Closed**

## 2.0 Discussion

### 2.1 Business Rules

The Business Rules were reviewed and discussed. It was anticipated these would require further development and TD asked the group to consider if anything else was required to enable Xoserve to build the appropriate systems/processes in the shortest time and at the lowest possible cost. DA confirmed that Xoserve and the Proposer had reviewed the Modification 0270 rules and determined how things should be treated for Modification 0451; the Business Rules make the modification more explicit but not necessarily simpler.

#### 1 Scope

The use of meter type flags and constraints in their application was discussed. FC explained the reasons why PPM profiles could not be built - appropriate daily data is not available to be transposed across a wider field.

Expectations were discussed regarding changes in customer behaviours when a smart meter or PPM is fitted. LT had expected flatter profiles to be more evident. FC outlined various profiles that may be exhibited depending on levels of customer engagement. It was confirmed that nothing would be done to profiles this autumn to accommodate a minority of smart meters - the acquisition of 3 years of historic data would generally be expected before building a profile. A standard credit meter profile was being applied and would be settled in the same way as LSPs (relates to timing differences and balancing energy across the days).

DA pointed out that transition through one or more phases, depending on how soon parties register their sites, would require clarity. This may need more thought and closer monitoring.

Responding to questions from TC, HC confirmed the evidence that Utilita had gathered in relation to differences in profiles. FC confirmed that Xoserve will be holding a smart meter flag but will not be differentiating between pre-payment and credit meters.

A number of other questions were raised. Can you elect individual meter points, or is everything that you hold covered when elected? Would you need to send in a separate nomination/election for each SSP? What controls are in place to protect from inappropriate use of the mechanism?

Opportunities and incentives for inappropriate behaviours, as no controls or performance assurance framework appeared to be in place, were perceived and of concern. The instigation of reporting might give assurance and help to highlight any issues regarding poor behaviours. DA said that Xoserve would have to be very clear on what exactly it was to report on. LT suggested Suppliers who were picking up RbD charges required assurance that they would be billed fairly under this change.

A further concern was that excluding credit meters from the scope might raise issues of discrimination. HC explained the reasons for taking this line; the focus was on pre-payment meters because that was where Utilita's concern resided, given the evidence it had gathered.

Concerns were expressed regarding potential submission of significant volumes, and timings of any such submissions, especially if a 'first come, first served' regime were in place (the modification does not propose this), as this could disadvantage smaller parties. The ability to handle validation of large volumes, should the 'dash to Smart' be fuelled by this modification, might also be of concern. There may be processing capacity limitation issues. DA indicated that capacity could present a major problem as Xoserve was currently in the shadow of a system replacement programme and anything that adds significant

volumes was likely to cause a number of problems and potentially extra cost. JD suggested that Xoserve might look at providing some idea of what the capacity risk might be and what was affected (hardware/software constraints/other processes) so that any perceived need to 'ration' could be assessed. Numbers were briefly discussed; FC referred to 'bottle neck analysis' where the removal of a constraint at one point simply moves it further down the line, and can involve processes already under risk. TD noted that anything that restricts the capacity (by number or percentage) was not likely to be welcomed by Shippers. DA adding that monitoring use of quotas would add to the complexity and the costs. Shippers believed that information on potential capacity restrictions would be required before going any further.

DA confirmed that a broad implementation cost estimate had already been provided. The group's views on the cost/benefits of the modification would be very much welcomed, before further detailed analysis for a ROM was considered and requested. JD suggested that the group might look at the maximum number that could be accommodated. He would not want to rule out achieving something for some sites just because it could not be achieved for all. Assuming there was benefit, and if it were concluded that there was a need to invest in hardware to do whatever was deemed necessary, would this be bringing something forward that was already planned in, or would it mean jettisoning and starting again when the Nexus changes are implemented?

Considering the likelihood that part of the UK Link Replacement project could be brought forward (and at what cost), AM asked if there was an offline process that could achieve what was required without the complicated system development costs that have been put forward, bearing in mind that Modification 0432 (Project Nexus – gas settlement reform) and its associated modifications are likely to supersede Modification 0451 in the next couple of years.

## *2 Conditions for shipper election*

2.6 - DA confirmed that the UNC validation rules would still apply. A site would remain Opted In, unless it was elected to be Opted Out. DA explained how the process and reconciliation would work. Shippers highlighted different scenarios and these were briefly discussed. It was noted that changes to certain customer tariffs might offer the opportunity for Shippers to submit more frequent customer readings (increased allocation accuracy), but the actual submission might mean they are breaching read submission guidelines.

AM suggested it would be useful to see application of the rules in some example scenarios.

### **Action 0451/03: Business Rules - Xoserve to produce some example scenarios demonstrating how the election/reconciliation processes might work.**

Concerns expressed earlier, regarding submission and timings if a 'first come, first served' regime were in place and the potential disadvantage to smaller parties, were revisited. DA suggested that this would have to be applied at the 'Opted In' point and not at the submission point. It was suggested that greater capacity would be required and it was pointed out that large Shippers might be considered to be generally more 'aware' of regulatory changes at an earlier stage than smaller Shippers, and would therefore have perceived and be taking advantage of any 'benefits' in submission timings earlier on.

2.8 - The '9 month minimum period' was discussed, and 12 months was suggested as a preferred alternative to reduce opportunities for 'gaming'. Decisions to Opt In/Out would be driven by a party's own specific business priorities.

It was suggested that further clarification was required to make more explicit how a forced 'Opted Out' might be applied if certain criteria did not continue to be met. There were concerns that the 'Failure to Supply a Read' rules would create an inferred 'Opted Out' option. It was suggested that setting targets on read submission might enforce appropriate behaviour. There was a challenge as to what to do if a reading was not supplied (this might be for various valid reasons) – how would reconciliation/allocation be made in these cases? A potential penalty for failure to supply a read was suggested. There may be sanctions already in place that could be utilised and developed as a backstop. The Must Reads process was discussed; a change to the Must Read rules might be required.

FC indicated that Xoserve would want to avoid retrospective adjustments and gave some examples; 'elected' would not be unpicked, and RbD would not be reopened for reconciliations.

Everything hinges on submission of a read. It was reiterated that parties should not be able to benefit from inappropriate manipulation of any rules. There was agreement that more controls/sanctions should be included to prevent/reduce any perceived opportunities for inappropriate behaviour.

**Action 0451/04: Business Rules - All parties to consider control measures/sanctions to be included to prevent/reduce any perceived opportunities for inappropriate behaviour.**

2.10 – It was suggested that the rules might need to separate out Shipper actions driven by 'normal business' and may need to qualify how the rules would be applied in these instances. A set of scenarios might be useful to clarify what would happen, and this might help Shippers to understand what controls might then be required.

2.11 – It was questioned if certain terms, eg 'change of tenancy', would be recognised under UNC.

2.13 – HC confirmed there was no intention to create a separate group to oversee performance. Reporting was discussed and it was suggested that consideration be given to what a performance assurance framework should look like. It should be made very clear exactly what Xoserve would be expected to report on.

### *3 Energy and Transportation Reconciliation*

3.1 – The implications for the AUG process were discussed. Removing pre-payment meters from the AUG process gave AM cause for concern- it did not reflect reality – and how would this be rebalanced? The AUG is an independent expert and this will add increased complexity to its processes.

It was suggested a UNC change might be required to add an extra column to the AUG Table; a tight AUG timetable for incorporating any changes was drawn attention to.

DA suggested clarification to the wording of this section 3.1 ".....RbD and shall be subject to ....", ie not subject to any credits.

### *4 Meter Reading Submission and 5 Reconciliation*

These sections were reviewed, with similar concerns surfacing as have been noted in discussions above.

### *6 Reconciliation by Difference and 7 AQ Review*

These sections were reviewed, and concern was raised that costs were being borne by credit meter customers – was that unduly discriminatory?

FC explained how reconciliation smearing would occur under Project Nexus over a fixed 12 months sharing period and that it was made in market share terms rather than at meter point level. It may not necessarily apply to the same customers (or same numbers of customers) as were present at the time of actual

consumption. It was not very different to how RbD operates currently with 1,6 and 12 month pots (the 12 month RbD cut off was initiated to facilitate parties who wanted to exit the market).

Mod 0640 charges (End of Year Reconciliation – see UNC TPD E7.3 and 7.4) were explained and why an 'Opted In' meter point would be exempted.

### *8 Change of Shipper and 9 Charging*

These sections were reviewed. TD pointed out that to produce an Agency Charging Statement (ACS) amendment, a date would be required relating to market share. It was explained how User Pays might apply, and how a fair apportionment of costs might be made was briefly discussed. It was recognised a benefit may not be apparent to all parties and various ways of applying charges were suggested.

Asked, what were the numbers in each category, DA believed there were around 17 million credit meter customers. HC pointed out that currently (based on Utilita's evidence and perception) there was an argument to suggest that pre-payment meter customers were cross-subsidising credit meter customers. Evidence from other Shippers was needed to substantiate this view and give support to the principles behind this modification to correct this imbalance – HC believed any User Pays cost would be negligible compared to the potential benefit.

TD summarised the main consideration was, is the potential perceived benefit of an improvement in cost allocation outweighed by the cost and difficulties of changing to achieve it. There would be no net benefits, just a redistribution of costs.

### *10 Retrospection*

JD reiterated that Ofgem would need to see evidence that pre-payment customers were paying too much, and the case for including a retrospective element must be extremely strong. It was noted that retrospectivity makes it harder to consider implementation, and an otherwise sound modification has been known to fail on this point alone.

## **2.2 Legal Text**

The Business Rules will need to be translated into legal text. ARS confirmed this was under discussion with the lawyers and will need to take into account any changes made as a result of today's discussions.

The ROM will be produced once the Business Rules have been finalised and was likely to take a considerable period of time to develop. For the present the estimated implementation cost and timescale remains as being over £1m and over one year.

## **2.3 Alternative Solutions**

Developing a suggestion made by TD after the last meeting, FC presented and explained two alternative approaches, based on a redistribution principle rather than a reduction principle, for the Workgroup's consideration.

### *Alternative 1 - Fixed [Monthly] Correction based on Seasonal Normal Profiles*

Appropriate data sources would need to be established to develop this. It was noted that all the weather risk remains with the pre-payment market.

### *Alternative 2 - Variable [Monthly] Correction based on Actual Weather*

Weather sensitivity and a standard consumption pattern needs to be established to develop this.

These two Alternatives were then briefly discussed. There was no concept of 'opting in' at this point, and Xoserve would not need to build meter point reconciliation nor any other major system changes; how to establish a pre-payment meter profile and the dataset to use was the biggest problem. No major risk to the delivery of Nexus had been identified; it was potentially adding another billing solution and associated capability and testing.

### *Potential RbD Treatments for use with either Alternative*

FC indicated there were two ways of dealing with this; either the prepayment sites remain in, or are removed from, RbD. These Options were considered.

It was suggested that Option 1 might marginally dilute the benefit of the modification for pre-payment customers. DA observed that Option 1 was more capable of being an 'offline' solution, whereas Option 2 would require changes to a number of elements in UK Link functionality.

TD pointed out that the effects of the current issue on Utilita's business, being experienced as a small player, had lead them to propose retrospectivity, meaning a quick resolution was required to ameliorate the existing situation, until superseded through changes under Nexus. The industry needed to be convinced there was a problem. If there was solid evidence to support HC's view of cross-subsidy then it may be possible to devise a quick

solution to redress the overpayments position. Developing Business Rules to support the modification in its current form will take time to develop to the industry's satisfaction, and in view of the urgent nature of the problem time was a scarce element.

Looking at these Alternatives, HC inclined more to Alternative 2 and was happy to consider this. TD suggested RbD Option 1 may be preferable simply because it can be delivered quickly. JD agreed that these 'quick' alternatives were worthy of pursuit; if it was just a case of 'redistribution of charging' then perhaps the Invoicing or Credit rules might also be reviewed in case a simple solution is available.

## 2.4 Next Steps

HC will reconsider the modification and the Alternatives put forward and revise if appropriate.

At the next meeting (11 June 2013) the Workgroup will consider:

- performance assurance and the revised Business Rules
- views on the viability of the Alternatives put forward
- development of legal text.

## 3.0 Any Other Business

None raised.

## 4.0 Diary Planning for Workgroup

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Tuesday 11 June 2013, at Consort House, 6 Homer Road, Solihull B91 3QQ.

Tuesday 02 July 2013, at Consort House, 6 Homer Road, Solihull B91 3QQ.

Thursday 25 July 2013, at Consort House, 6 Homer Road, Solihull B91 3QQ.

### Action Table – Workgroup 0451

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0451/01	13/05/13	2.0	Provide to Xoserve evidence on the profile of credit and PPM/Smart meters – Xoserve to collate.	Shippers	Carried forward
0451/02	13/05/13	2.0	Support Proposer in producing Business Rules.	Xoserve/DNs	Closed
0451/03	29/05/13	2.0	<i>Business Rules</i> - Produce some example scenarios demonstrating how the election/ reconciliation processes might work.	Xoserve	To be provided for 11 June 2013

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0451/04	29/05/13	2.0	<i>Business Rules</i> - All parties to consider control measures/sanctions to be included to prevent/reduce any perceived opportunities for inappropriate behaviour.	All Parties	To be provided for 11 June 2013