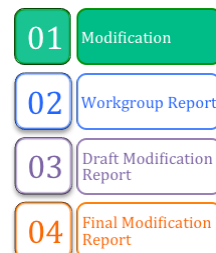


## Stage 01: Modification

# 0451

## 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 Proposer recommends that this modification should be:

- be treated as urgent and should proceed as such under a timetable agreed with Ofgem



High Impact:  
Small Suppliers



Medium Impact:  
Large Suppliers, Xoserve



Low Impact:

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## About this document:

This is an updated version of Modification 0451, with Business Rules that reflect discussions within the Workgroup that is assessing the modification.

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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.

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### 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.

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## 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.

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### 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.](#)

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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.](#)

[1.7 – 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.](#)

[1.8 – 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.](#)

[1.9 – 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.](#)

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#### 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.

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#### 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 30<sup>th</sup> September 2013 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 by the 31<sup>st</sup> October 2013 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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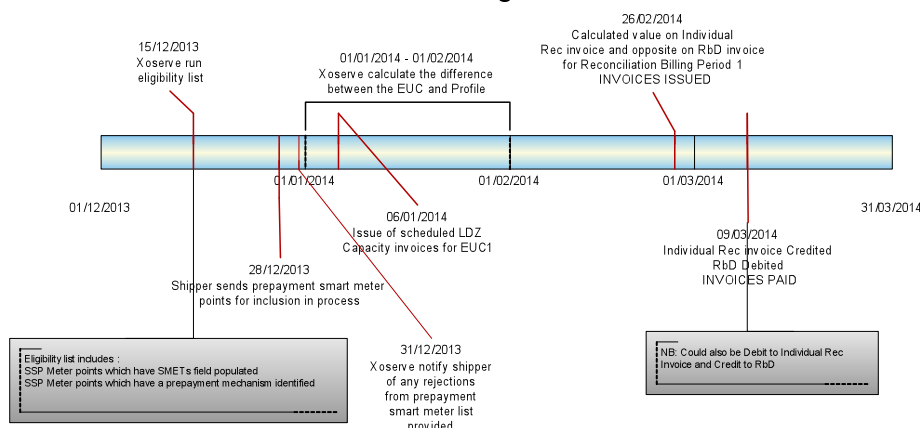
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## Timeline in Reconciliation Billing Periods for 0451 Transaction



### 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 £300k to £500k. Ongoing costs are expected to be under £20k 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.

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## 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

Legal Text is being prepared by Northern Gas Networks

## 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.

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