



The Joint Office, relevant Gas Transporters and other interested parties

Promoting choice and value for all gas and electricity customers

Our reference: Net/Cod/Mod/UNC451
Email: RetailMarket&ResearchDirectorate@ofgem.gov.uk

Date: 26 April 2013

Dear colleague,

UNC451: Individual Settlements for Pre-Payment & Smart Meters

We have received a request from Utilita Energy Limited ('Utilita') that modification proposal UNC451: '*Individual Settlements for Pre-payment and Smart Meters*' follows the urgent modification procedures¹; this letter confirms that we have agreed to that request.

Background

Reconciliation by Difference ('RbD') is the method of reconciling the difference between the initially allocated (estimated) measurements of gas and actual (metered) consumption. RbD was introduced in 1998 in order to facilitate competition in the Smaller Supply Point ('SSP') sector, as at the time it was not considered practical or economically efficient to individually reconcile all such supply points (which number in excess of 20 million) based on actual meter readings.

Once the metered consumption at Daily Metered and Larger Supply Points ('LSPs') sector is taken from the amount of gas known to have been put into a given Local Distribution Zone ('LDZ'), the remainder is allocated across the SSP sector based upon the Annual Quantity ('AQ') of each supply point. The AQ is an estimate of annual consumption based upon historic meter readings received by the Gas Transporter ('GT').

RbD was established to manage errors in the allocation of gas to shippers in the SSP market, to the extent that the residual amount of gas may differ from the initial SSP allocation. Such differences may be caused by issues including theft, unregistered sites, and erroneous meter readings.

UNC451 was raised by Utilita on 27 March 2013. UNC451 proposes that any Pre-Payment Meter ('PPM') or Smart meter that has had a read accepted in any given month would be reconciled against that read. Where no read has been submitted or submitted but not accepted, the meter would be reconciled under the RbD methodology as currently. Utilita requested that UNC451 be treated as urgent and that it should proceed as such under a timetable agreed with Ofgem. Utilita has also proposed that UNC should be a retrospective modification from 1 October 2012.

UNC Modification Panel View

In accordance with paragraph 10.1.1(b) of the Modification Rules², before making our decision on whether the modification proposal should follow the urgent procedure, we

¹ Modification Proposal UNC451 can be found on the Joint Office website: www.gasgovernance.co.uk/0451

requested the UNC Modification Panel's (the Panel) view on urgency for this particular proposal. At the Panel meeting on 3 April 2013³, the five Panel members present voted unanimously against recommending that the proposal follow urgent procedures. The Panel members did not consider that a case for urgent procedures had been demonstrated and that further assessment and development of the modification would help ensure a robust and appropriate solution is developed.

Whilst we recognised the UNC Panel's recommendation that UNC451 should not follow urgent procedures, we further requested that it provide a recommended timetable that the proposal could follow, should it be granted urgent status⁴. The UNC Panel subsequently agreed such a timetable at its meeting of 18 April 2013. This is set out below.

Authority decision

In reaching our decision, we have considered the details contained within the modification proposal, the Proposer's justification for urgency and the views of the Panel. We have assessed the request against the criteria set in Ofgem's published guidance⁵. We have considered in particular whether it is linked to "*an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholder(s)*".

We note Utilita's concern that under the existing RbD regime that their gas allocation may not be directly attributable to consumption at a given site. No absolute figures have been provided within the proposal and at the 3 April Panel Utilita was unable to provide any further financial information owing to commercial sensitivity. However, Utilita indicated that the differential between its allocated and metered volumes of gas increased by over 10% this winter. We agree that, if correct, this could represent a significant commercial impact.

In its proposal, Utilita stated that it would expect a decision on the modification proposal to be made as soon as possible and no later than 30 April 2013, though there was nothing in the proposal to indicate the relevance of this date. During the Panel discussion, Utilita suggested that October 2012 was the date related event, i.e. the completion of the 2012 AQ Review process. Utilita suggested that the commercial impact of what it considers to be an over allocation of gas costs had become particularly acute from that date.

As set out in our guidance, we do consider that urgency could be warranted by a current and ongoing issue rather than necessarily an upcoming event. To the extent the proposer considers that its gas volumes continue to be over allocated as a result of the 2012 AQ Review, we are satisfied that there is a current issue that if not addressed urgently may cause a significant commercial impact to the proposer, and potentially other UNC Parties.

We note that UNC451 also seeks to have retrospective effect from 1 October 2012. Our guidance sets out that the proposed retrospective application of a modification may negate the need for its development to follow an urgent or otherwise contracted timetable, and vice versa. However, we also consider that the complexity of the issue and potential impacts on consumers would warrant UNC451 undergoing full and rigorous development and assessment prior to any decision on whether or not it should be approved for implementation. This should include the potential benefits or constraints of the timetable initially set out in the proposal, and include an alternative fixed implementation date and a backstop lead time, in accordance with UNC Modification Rules 6.2.1 (e).

² The Modification Rules can be found here:

http://www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

³ See:

www.gasgovernance.co.uk/sites/default/files/Minutes%20and%20Voting%20Record%20Apr%2013%20v1.pdf

⁴ In accordance with 10.1.2(b) of the UNC Modification Rules

⁵ Ofgem's Guidance is published on our website:

<http://www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/Ofgem%20Guidance%20on%20Code%20Modification%20Urgency%20Criteria.pdf>

In conclusion, we therefore consider that the timetable proposed by the UNC Panel strikes an appropriate balance between ensuring a timely consideration of this issue while ensuring the proposal is developed and assessed with an appropriate degree of rigour. We therefore agree to the suggested timetable as set out below:

Process	Date
Workgroup meeting	13 May 2013
Workgroup meeting	29 May 2013
Workgroup meeting	11 June 2013
Workgroup meeting	2 July 2013
Workgroup conclude report	25 July 2013
Consider report and issue for consultation	15 August 2013
Consultation closes	9 September 2013
Panel provide recommendation and submit report to the Authority	19 September 2013
Authority decision	By 1 October 2013

For the avoidance of doubt, our decision on urgency should not be treated as any indication by us on the merits of modification proposal UNC451. The Authority will make a decision on UNC451 in due course and in accordance with the appropriate process and after taking account of all relevant considerations.

Yours sincerely

Maxine Frerk
Partner, Retail Markets and Research