

Stage 02: Workgroup 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 0451AV to 1st October 2014



The Workgroup recommends that this modification should now proceed to consultation.



High Impact: Shippers



Medium Impact: -



Low Impact: - Transporters

0507

Workgroup Report

01 August July 2014

Version 0.1

Page 1 of 7

© 2014 all rights reserved

Contents

- 1 Summary
- 2 Why Change?
- 3 Solution
- 4 Relevant Objectives
- 5 Implementation
- 6 Legal Text
- 7 Recommendation

About this document:

This report will be presented to the Panel on 21 August 2014.

The Panel will consider whether the modification should proceed to consultation or be returned to the Workgroup for further assessment.



Any questions?

Contact:
Code Administrator



enquiries@gasgovernance.co.uk



0121 288 2107

Proposer:
Huw Comerford
Winchester Gas



huwcomerford@utilita.co.uk



01962 891 150

Transporter:
National Grid
Distribution



chris.warner@nationalgrid.com

Systems Provider:
Xoserve



commercial.enquiries@xoserve.com

0507

Workgroup Report

01 August July 2014

Version 0.1

Page 2 of 7

© 2014 all rights reserved

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 1st February 2014 to the 1st 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, it rejected 0451V due to the retrospective element within it. However, by directing implementation of 0451AV to be 1st February 2014, with the pre-payment profile to be used not developed, Ofgem has added an element of retrospection.

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 September 2014. This will mean that when the system solution is implemented it will be performing a reconciliation backdated to the 1st February implementation date, which if the solution is delivered in January 2015, 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 considerable uncertainty within the market place for Shippers who operate within the pre-payment market. Market uncertainty along with retrospection is something that Ofgem 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 AUGER 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.

Solution

It is proposed that the reconciliation effective date of Modification 0451AV is changed to the 1st 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. The Proposer's 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 will not 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 either the Authority decision, or pre-payment profile is not delivered by 1st 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 1st 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. This would also be in line with Ofgem's decision on iGT054 where it 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

0507

Workgroup Report

01 August July 2014

Version 0.1

Page 3 of 7

© 2014 all rights reserved

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 1st October 2015, 0451AV would not remain cost effective.

Relevant Objectives

Some participants consider 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 they have no way of accurately predicting, this 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.

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 1st 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 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 1st 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 1st 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 considerable uncertainty within the market place for Shippers who operate within the pre-payment market. This along with retrospection is something that Ofgem has always sought to avoid and has been used as a reason for rejecting modifications previously. An

0507

Workgroup Report

01 August July 2014

Version 0.1

Page 4 of 7

© 2014 all rights reserved

example of this was Modification 0456, which sought to bring forward a more accurate AUGE 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 1st 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 either the Authority decision or pre-payment profile is not delivered by the 1st 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 1st 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 1st 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. [Should Mod 0451AV be rolled back and the system not implemented, would its sunk development cost be billed under this mod or Mod 0451AV?]
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 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 / 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 / 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 they have no way of accurately predicting 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. **However, other participants are concerned that the is insufficient evidence provided to demonstrate that this modification will improve competition, as 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

0507

Workgroup Report

01 August July 2014

Version 0.1

Page 6 of 7

© 2014 all rights reserved

5 Implementation

The following timescales for implementation are proposed by the Workgroup:

- If the prepayment profile is ready by 1st September and an Authority decision is made by 30th September 2014 then implementation should be 1st 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 1st October and an Authority decision is made after 30th September and by 31st October 2014 then the implementation date should be 1st November. If an Authority decision is made after the 31st October 2014 then implementation would be the on the 1st 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 1st 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 either the Authority decision or the publication of the pre-payment profile is after 1st 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 1st 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 1st October 2015, 0451AV would not remain cost effective.

6 Legal Text

Text

The following Text has been prepared by National Grid Distribution at the request of the Modification Panel; no issues were raised by the Workgroup regarding its content.

7 Recommendation

The Workgroup invites the Panel to:

- AGREE that this modification should be submitted for consultation.

0507

Workgroup Report

01 August July 2014

Version 0.1

Page 7 of 7

© 2014 all rights reserved