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Modification proposal:	**Independent Gas Transporter Uniform Network Code (iGT UNC): Alternative profile for pre-payment meters (iGT054/054A/054AA)**		
Decision:	The Authority[1] does not consent to these proposals		
Target audience:	Gemserv, Parties to the iGT UNC and other interested parties		
Date of publication:	2 July 2014	Implementation Date:	Not applicable

Background

Whilst the consumer is billed on the basis of their metered consumption, the daily allocation of gas to non-daily metered supply points, together with the subsequent reconciliation and settlement of charges to the relevant shipper is based on an estimated profile.

On 27 March 2013,Utilita raised a proposed modification to the Uniform Network Code ('UNC451')[2] which sought to change the way the gas allocation is calculated for certain supply points with pre-payment meters ('PPMs'). They were concerned that differences in consumption patterns between customers with PPMs and credit meters resulted in an over-allocation of gas to suppliers with an above average number of PPM customers.

Utilita initially proposed that any Supply Point with a PPM or Smart meter operating in pre-payment mode that has had a read accepted in any given month would be reconciled against that read. Utilita further proposed that UNC451 should have retrospective effect from 1 October 2012, when it considers the over-allocation of gas to have become particularly acute.

During the development of UNC451 the workgroup considered that it would not be practicable to introduce individual meter point reconciliation for Smaller Supply Points ('SSPs') ahead of Project Nexus[3], which is anticipated to be implemented 1 October 2015. The proposal was subsequently varied (becoming UNC451V) so that qualifying PPMs or smart meters would be reconciled against a newly developed profile rather than the standard EUC1 profile. An alternative proposal removing the retrospective element was raised by Eon ('UNC451AV').

On 31 January the Authority approved the alternative to UNC451V, UNC451AV.

The modification proposal

Utilita raised iGT054 on 5 July 2013 as a complementary proposal to UNC451V, seeking to ensure that those PPM supply points connected to iGT networks would be allocated gas on the same basis as proposal under UNC451V. Eon raised iGT054A to again provide an alternative which was identical but for the retrospective element.

Following concerns raised by the iGTs at the likely difficulty and costs of reporting on the smart meters operating in pre-payment mode, one of the iGTs, East Surrey Pipelines

[1] The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.
[2] This change proposal can be found here: www.gasgovernance.co.uk/0451.
[3] Nexus is the name of the project under which Xoserve will replace its aging UK Link systems. Further details are available at: www.gasgovernance.co.uk/nexus/2014

(ESP) raised iGT054AA in order to make the proposal specific to standard PPMs, excluding smart meters operating in PPM mode.

Whilst these proposals also seek to ensure that the iGT will pass information onto Xoserve, without new obligations on Xoserve they would not achieve the objective of changing the allocation of gas to PPM supply points. A further modification, UNC486,[4] has therefore been raised to the UNC which seeks to obligate the large GTs (and through them, Xoserve) to use the reports from the iGTs as part of the UNC451AV calculations.

iGT UNC Panel[5] recommendation

At its meeting of 21 May 2014 the iGT UNC Panel determined not to recommend the implementation of iGT054 or either of the two alternative proposals.

Whilst the Panel agreed that in theory the implementation of iGT054 or either of the alternatives would further facilitate relevant objective (d), it was concerned at the lack of supporting analysis.

The Panel also determined that if any of the proposals was accepted by the Authority, the implementation date should align with the first scheduled release to fall at least six months after that decision. The selection of an appropriate implementation date is a matter for the iGT UNC Panel's discretion, in accordance with the iGT UNC modification rules.[6] With the iGT UNC having three scheduled releases each year, this would mean that the implementation date would be 27 February 2015[7].

The Authority's decision

The Authority has considered its statutory duties and functions in reaching its decision. The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 28 May 2014. The Authority has considered and taken into account the responses to Gemserv's consultation on the modification proposal[8]. The Authority has concluded that implementation of the modification proposal or either of the alternatives will not better facilitate the achievement of the relevant objectives of the iGT UNC.[9]

Reasons for the Authority's decision

We agree with the iGT UNC panel and the majority of respondents that iGT054/A/AA should be considered against relevant objective (d). ESP considered that iGT054AA would also better facilitate relevant objective (f). We agree that both of these objectives are relevant, but also consider that these proposals should be assessed against relevant objective (a).

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[4] The change proposal can be found here: www.gasgovernance.co.uk/0486.
[5] The iGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the iGT UNC Modification Rules
[6] iGT UNC Section L 27.2(c)
[7] For iGT UNC future release dates see: www.igt-unc.co.uk/ewcommon/tools/download.ashx?docId=1069
[8] iGT UNC modification proposals, modification reports and representations can be viewed on the iGT UNC website at www.igt-unc.co.uk/
[9] As set out in Standard Condition 9 Gas Transporters Licence, see: https://epr.ofgem.gov.uk//Content/Documents/Gas_transporter_SLCs_consolidated%20-%20Current%20Version.pdf

Relevant Objective a) the efficient and economic operation of the pipe-line system to which this licence relates;

Several respondents raised concerns with the costs of implementing any of these proposals. Although no figures were provided, it was suggested that the requirement for iGTs to run reports and validate data before passing onto Xoserve would be resource intensive. Unlike the development costs associated with UNC451AV, it was also noted that the iGTs currently have no means of recovering these additional costs.

Although the likely costs to iGTs have not been confirmed, we note that this will require several iGT parties to use manual intensive processes to provide and validate the necessary reports. The number of PPMs on iGT networks is known to be low relative to the larger networks, with the FMR providing a figure of 30,000 PPMs, or 2% of the circa 1.5 million iGT supply points. This compares with over 3 million PPMs connected to the larger gas networks and covered by UNC451AV. Given the above, we consider that the costs to iGTs of administering iGT054 or either of the alternatives is likely to be disproportionate to any benefits that shipper's may receive. We therefore consider that iGT054 and both of the alternatives would have a negative impact upon relative objective (a).

We agree that iGT054AA has the potential to mitigate the administrative costs to iGTs, but not to a sufficient extent to address our concerns about proportionality. Several respondents suggested that it would be inappropriate to treat smart meters operating in PPM mode differently to standard PPM meters for charging purposes. We agree that consumers should be treated on an equivalent basis unless there are clear mitigating reasons which warrant different treatment.

Relevant Objective (d) - the securing of effective competition between relevant shippers and between relevant suppliers.

All respondents considered iGT054 and its alternatives against Relevant Objective (d), though views were mixed on whether it would have a positive or negative impact. Some respondents suggested that to the extent that the PPM profile developed under UNC451AV targets energy costs more accurately; this principle could appropriately be extended to those PPM supply points on iGT networks. However, other respondents felt that there was insufficient analysis to conclude that such an alternative profile would be more accurate. Some felt that it could in effect create a cross-subsidy between different categories of SSP consumer.

We accepted UNC451AV on the basis that it would lead to the more accurate allocation of costs and therefore further effective competition. However, in accepting UNC451AV we noted that the net effect would be largely subject to prevailing weather conditions and SAP. We also note that if any of these proposals are accepted, it would be implemented with effect February 2015. UNC451AV came into effect 1 February 2014.

As noted by some respondents, it is anticipated that Project Nexus will be implemented in October 2015, at which time we expect that UNC451AV will be superseded and that the iGTs will be incorporated into Single Service Provision by Xoserve.[10] 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

[10] Subject to acceptance of UNC440:'Project Nexus – iGT Single Service Provision' and associated modification proposals.

alternative profile to be used for less than a whole year. We also consider that even if the alternative profile was to be in place for a full year, given the relatively low impacts on charges (as set out in our UNC451AV analysis) and the small number of supply points involved, it is unlikely that the implementation of iGT054/A/AA would have any discernible impact upon competition.

Whilst we generally agree with those respondents who suggested that there should be a consistent approach between iGT connected supply points and those on other networks, this may not be appropriate in all circumstances. We note that iGT054 does not affect the basis on which consumers are charged, while shipper charges for iGT networks is already significantly different to those on larger GT networks.

We therefore have concluded that neither the modification nor any alternatives will further facilitate relevant objective (d).

Relevant Objective (f) - the securing of effective competition between relevant shippers and between relevant supplier so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.

Whilst we agree that iGT054AA has the potential to mitigate the administrative costs to iGTs, we set out above why we do not consider that it does so to a sufficient extent to address our concerns about proportionality. We also consider that relevant objective (f) is more appropriately considered in the context of a proposal that would introduce efficiencies to the existing baseline. Therefore, whilst the potential efficiency gains of iGT54AA may differentiate it from the original proposal or the other alternative, we do not consider that consideration in its own right of iGT054AA against relevant objective (f) is appropriate, and could not of itself mitigate issues set out above sufficiently to justify its implementation.

Conclusion

Given the anticipated short shelf life of this proposal and the relatively low numbers of PPMs on iGT networks, we consider it is likely that the costs of implementing any of these proposals would outweigh the benefits. We therefore conclude that none of the proposals should be implemented.

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Signed on behalf of the Authority and authorised for that purpose.