Representation

Draft Modification Report

0451 0451A (Urgent): Individual Settlements for Pre-Payment & Smart Meters

Consultation close out date: 09 September 2013

Respond to: enquiries@gasgovernance.co.uk

Organisation: E.ON

Representative: Colette Baldwin

Date of Representation: 15 August 2013

Do you support or oppose implementation?

0451 - Not in Support

0451A - Qualified Support

If either 0451 or 0451A were to be implemented, which would be your preference?

Prefer **0451A**

Please summarise (in one paragraph) the key reason(s) for your support/opposition.

Suppliers and Shippers are commercial organisations operating for profit, within the market rules of the industry in which they have chosen to compete. All companies have to factor into their business strategy and their tariff setting the risk of operating in their chosen market.

The UNC establishes the process for SSP energy allocation, and whilst it is "reflective" of customers' consumption (to the degree that a customer's AQ and Profile is reflective of consumption), is not necessarily based on the actual consumption at each single meter or group of meter points in any shipper's portfolio, but is profiled based upon the evidence of daily metered volumes, weather corrections, etc.

The limited evidence made available to Xoserve during the development of this modification has suggested that in one LDZ, customers' profiled shape is slightly different to the standard EUC 1 band for SSP sites, and that limited data demonstrated a smoothing of the EUC1 profile shape for PPMs. Despite this we are concerned that changes are being proposed to all Prepayment Meter allocations based upon a very small subset of one Shipper's evidence of interval meter readings – which wouldn't be acceptable to DESC for the development of profiles more generally (at least daily readings would be required).

Equally, we are uncertain to what degree the difference between the behaviours of smart PPM customers might be different to that of more traditional PPM customers. Since the drivers for these types of customer behaviours may be quite different. It is also unclear to what degree the behaviour of the customers in the proposer's sample is reflective of early smart meter adopter's higher level of engagement in their consumption patterns or whether the smoothing is a feature of customers on fixed/limited incomes behaving more cautiously.

Nevertheless, if there is sufficient evidence to supports the claims of an imbalance in the allocation of energy to the customers in this market sector, the proposal creates a simple mechanism to adjust the allocation to reflect this smoothing of the profile shape until new arrangements for energy allocation are introduced by Project Nexus and should therefore facilitate effective competition between suppliers. This adjustment will allow parties to reflect the impact of the smoothing of the profile shape within their tariff prices.

We do not support the application of this "allocation adjustment" retrospectively to the previous gas year (Mod 451). The test for retrospective changes should be set very high, as it undermine decisions taken in the past by all market participants, and whilst it might be appropriate if the modification was seeking to correct any "manifest error" in the allocation rules (where those errors have created a material impact on the market) but in this instance there is no error in the allocation process or in the profile shape of the EUC1 band. The proposer is simply seeking to change the allocation rules so that prepayment customers are treated differently, this is not an error but stems from the consequences of a supplier's inadequate forecasting of the financial risk of being settled under the code's allocation rules and not against actual metered consumption. It is not appropriate, nor does it facilitate effective competition if other suppliers have to bear the burden of retrospective application of costs as a consequence. Finally, it is not clear how customers would benefit from the retrospective application of the adjustment - were it allowed, it may simply create a windfall for suppliers.

Are there any new or additional issues that you believe should be recorded in the Modification Report?

No

Relevant Objectives:

How would implementation of these modifications impact the relevant objectives?

Cost reflective settlement improves competition by allowing suppliers to set cost reflective tariffs.

Impacts and Costs:

What analysis, development and ongoing costs would you face if either of these modifications were implemented?

We would see very minimal impact from this modification other than a monthly invoice adjustment. The financial consequence of any adjustment would be borne by the RbD credit customers, and therefore any credit or debit for the PPM customers would be offset against RbD making us relatively neutral, since we operate with both types of metering.

Implementation:

What lead-time would you wish to see prior to either of these modifications being implemented, and why?

The lead time for the modification is determined by Xoserve's ability to implement the proposals by 1st October 2013 as we wouldn't expect to make any changes if the modification were implemented.

Legal Text:

Are you satisfied that the legal text and the proposed ACS (see www.gasgovernance.co.uk/proposedACS) will deliver the intent of the modifications?

We have not seen Legal Text, and we have only seen an early indication of the high level assessment of costs and therefore cannot comment on their appropriateness.

Is there anything further you wish to be taken into account?

Please provide any additional comments, supporting analysis, or other information that that you believe should be taken into account or you wish to emphasise.

No