

**From:** Bill Bullen [BillBullen@utilita.co.uk]  
**Sent:** 24 October 2012 11:53  
**To:** industrycodes  
**Cc:** Nigel Nash  
**Subject:** Appeal Regarding MAP CP 130

We have corresponded at length with Ofgem on this issue, but the sake of completeness we respond to the key questions raised in the notice sent out 1st October 2012 as follows:

*(a) Does the formula to re-distribute PPMs unallocated transactions better facilitate competition in electricity supply, in accordance with Standard Licence Condition 23 of the Electricity Distribution Licence?*

No. A key cause of unallocated payments is a Change of Supplier (CoS) event, so a formula based purely on market share will under-allocate payments to suppliers that have been actively competing for customers that use pre-payment meters. The formula therefore penalises new entrant suppliers and rewards incumbent players - this is entirely contrary to the facilitation of competition.

The absence of any regulatory controls or industry accreditation standards on operators of PPMIP services has clearly allowed inefficient and inaccurate services to be retained over a long period of time, rather than forcing the level of accuracy required in other industry wide processes. For example there is no way the Big 6, or generators, would accept this level of accuracy from the wholesale settlement process.

We would point out that PPMIPs are operated by Big 6 supply businesses, NOT distribution business, so any distribution licence condition seeking to control the way they operate is unlikely to be the most effective tool.

*(b) Is there a more efficient and economical way to re-distribute these unallocated transactions, which would better facilitate competition in the supply of electricity?*

Yes. All supply points with pre-payment meters that have not experienced a CoS event during the period in question could be excluded from the sharing of unallocated payments. This would takeaway the dis-incentive on operators of PPMIP services to allocate payments correctly in the first instance.

*(c) Is the industry trying to find other ways of solving the issue of unallocated PPMs transactions?*

Some attempt has been made, but without a clear commercial or regulatory incentive it is quite clear that there has been insufficient effort to improve the current PPMIP systems. Since Utilita has been actively engaged in this issue over the last 6 months far more progress has been made than in the preceding 10 years. The fundamental problem is that PPMIP systems are designed around meter serial numbers (which are not unique, and the relationship between the meter and the supply point is subject to considerable error) rather than supply points (MPANs, that are directly related to households and which the settlement process uses to determine the supplier responsible for the energy). This flaw has not been adequately addressed and could be eradicated with a relatively minor system change.

*(d) Do you consider that this change aims to introduce an incentive on parties and, if so, do you think that the effect of this incentive would be retrospective?*

This change incentivises PPMIPs operated by the Big 6 to continue to build up unallocated payments, to the detriment of competing suppliers both in absolute and in timing terms, so that they will gain a larger than fair proportion of pre-payment revenues in the longer term and in the shorter term they will benefit from cashflow.

Unallocated payments have previously been shared out on the basis of market share (as proposed in MAP CP 130), but at that time no new entrant had a significant number of pre-payment customers so there was no objection. The effect was that the PPMIPs were allowed to remove the spotlight off the wider quality and accuracy issues around legacy pre-payment systems. In reality the unallocated payment issue is the tip of the iceberg of wrongly allocated pre-payment transactions, or Miss-Directed Payments (MDPs). MDPs amount to at least 10 times the value of unallocated payments, and these are not adequately resolved by the manual process that is supposed to correct them. Directly relating pre-payment transactions to MPANs, rather than meter serial numbers, at the earliest point, and using a common source for the relationship, would address both the MDP and unallocated problem, and give clarity to suppliers as to where the problem is should they find they have a registered MPAN, with a pre-payment meter, but no revenue.

Regards,

Bill Bullen  
Managing Director, Utilita

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