

Modification proposal:	Supply Point Administration Agreement (SPAA) Change Proposal (CP): CP16/329 – Introduction of Schedule 38 and a new defined term in Schedule 29		
Decision:	The Authority ¹ has decided to approve ² this modification ³		
Target audience:	SPAA Parties, SPAA Panel and other interested parties		
Date of publication:	5 September 2016	Implementation date	3 February 2017

Background

Calorific Values (CV) are a measure of the energy contained within a volume of gas when completely combusted under specified conditions, and are dependent upon the composition of the gas. As CV can vary, suppliers convert metered volume units into energy units when calculating customers' bills. Consumers who receive gas with higher CV typically pay a higher price per unit of volume of gas consumed than those who receive gas with lower CV. This is designed to be cost-neutral for consumers, because the greater level of energy contained in the gas they receive means that they require fewer units of gas to heat their homes, for example.

In 2014 we set out guidance⁴ for all domestic gas suppliers on how to calculate CV for domestic consumer billing. We noted that the regulations⁵ on calculating CV exist to ensure domestic suppliers calculate CV in the same way in order to charge consumers in a consistent and fair way for the energy they consume. We also noted that there is a risk consumers will be overcharged for gas if suppliers are not complying with these regulations. In addition, we set out that there is a further risk to competition in the gas supply market if suppliers are calculating CV in different ways.

Suppliers then raised specific issues they had on CV miscalculation in relation to gas prepayment meters, which we asked them to look into with a view to introducing robust end-to-end assurance measures under Supply Point Administration Agreement (SPAA) governance to prevent it from occurring.

In light of this the SPAA initiated and completed a review group which has put forward this modification proposal.

The modification proposal

The proposal seeks to put a number of assurance measures into place to promote an efficient and effective gas prepayment process. These measures include:

- suppliers to put in place commercial arrangements with Meter Asset Providers⁶, Meter Asset Managers and Network Service Providers to ensure prepayment meters are fit for purpose (by for example ensuring they are appropriately tested and conform to necessary specifications);

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. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ 'Change' and 'modification' are used interchangeably in this document.

⁴ [Supplier guidance on CV calculation](#), August 2014

⁵ Standard Licence Condition 22.7 (Calculation of kilowatt hours) of the gas supply licence, Regulations 3(2) of the Gas (Calculation of Thermal Energy) and Regulations 1996 set out how domestic suppliers should calculate the CV used for consumer billing purposes.

⁶ Capitalised terms not otherwise defined in this decision document are defined in the Gas Supplier Standard Licence Conditions.

- agreements from suppliers to ensure prepayment meters are capable of returning customer's Standard Transaction Data Items, that all suppliers have access to these items, and that there are equivalent records of these items between customers' meters and suppliers' internal systems;
- implementation of assurance measures to ensure issues in relation to prepayment systems or software which might be detrimental to customers are resolved (including, for example in relation to CV, debt and emergency credit amongst other things);
- requirements on suppliers related to reporting, issue management, and annual self-certification of compliance to underpin assurance measures.

These measures aim to clarify the definitions, references, roles and responsibilities detailed within Schedule 25 and ensure Suppliers have sufficient information to mitigate the risk of CV miscalculation.

Change Board⁷ recommendation

At the SPAA Change Board meeting on 16 June 2016, the Change Board voted on the proposed modification. The outcome of the weighted vote is set out in the table below:

CP 16/329	WEIGHTED VOTING (%)					
	Domestic Supplier		I&C ⁸ Supplier		Gas Transporter	
	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	100%	0%	-	-
IMPLEMENTATION DATE	100%	0%	100%	0%	-	-
IMPLEMENTATION TECHNIQUE	100%	0%	100%	0%	-	-

In accordance with the weighted vote procedure⁹, the Change Board considered that CP16/329 would better facilitate the relevant objectives of the SPAA therefore recommended its approval.

Our decision

We have considered the views of the Change Board and the Change Report dated 11 July 2016 and have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the SPAA;¹⁰ and
- consenting to the modification being made is consistent with our principal objective and statutory duties.¹¹

Reasons for our decision

We have assessed CP16/329 against relevant objectives (c) and (d). We consider this modification proposal will better facilitate both objectives and has a neutral impact on the other relevant objectives.

⁷ Change Board is established and constituted pursuant and in accordance with the SPAA.

⁸ Industrial and commercial.

⁹ The threshold for a change proposal being accepted by relevant SPAA parties is 65%, as set out in clause 9 of the SPAA.

¹⁰ As set out in Standard Licence Condition (SLC) 30.6 of the Gas Supplier Licence.

¹¹ The Authority's statutory duties are wider than matters which the Change Board must take into consideration and are detailed mainly in the Gas Act 1986.

(c) the promotion of efficiency in the implementation and administration of the supply point administration arrangements

We agree with the proposer that this modification should promote an efficient and effective gas prepayment process by clarifying the definitions, references, roles and responsibilities detailed within Schedule 25, ensuring Suppliers have information to mitigate the risk of CV miscalculation, and ensuring that assurance measures are introduced to underpin this. Without these additional measures in place, the possibility of CV miscalculations is more likely.

(d) so far as is consistent with sub-paragraphs (a), (b) and (c), the efficient discharge of the licensee's obligations under this licence

We consider that this modification facilitates the efficient discharge of:

- Gas Supplier Standard Licence Condition (SLC) 25C.3 by supporting the fair treatment of domestic customers, i.e. preventing actions that may significantly favour the interests of the licensee, and/or give rise to a likelihood of detriment to the domestic customer, and
- Gas Supplier SLC 22.7 by better enabling charges for supplying gas (to domestic premises) to be related to the amount of gas supplied.

Additional comments

Suppliers are responsible for achieving accurate CV calculation. We therefore encourage suppliers to look into and put into place any other measures, outside of this modification that may be required to ensure the accuracy of CV.

Decision notice

In accordance with Standard Licence Condition (SLC) 30 of the Gas Supplier licence, the Authority hereby approves modification proposal SPAA CP 16/329 – *'Introduction of Schedule 38 and a new defined term in Schedule 29'*.

Rob Salter-Church

Partner – Consumers and Competition

Signed on behalf of the Authority and authorised for that purpose