

UNC Supplemental Report

0664 – Transfer of Sites with Low Read Submission Performance from Class 2 and 3 into Class 4

This Supplemental Report is made pursuant to Rule 9.5.4 of the Modification Rules.

The purpose of Modification 0664, is to create an obligation for Shippers to move Supply Points with low Valid Meter Reading submission performance from Classes 2 and 3 into Class 4, following a consecutive period of poor performance. The CDSP will automatically move any Supply Points not moved by the Shipper in such a scenario (after an allowed period of time).

Reasons for Inviting Further Consultation

Following consultation in March 2020, 11 representations were made, 3 supported implementation, 1 provided comments and 7 opposed.

Members determined unanimously during the UNC Panel meeting, that due to the concerns raised on a number of areas within the Final Modification Report (FMR), that this should be referred back to the UIG Workgroup requesting further analysis.

The following questions were provided by Panel during discussion requesting a Supplemental Report is produced for UNC Panel in July 2020, a subsequent request was made to UNC Panel in July to extend reporting until August 2020.

Workgroup discussed each of the questions raised independently during the April, May, June and July UIG Workgroup meetings. The following outlines the questions raised, a summary of the key areas discussed from the FMR and the analysis and conclusions:-

Costs and Benefits

- 1. The costs and benefits have not been demonstrated, these should be reviewed and might have an associated impact on the Rough Order of Magnitude (ROM) or delivery of the change.**

Workgroup reviewed the details of the ROM which had identified that the change costs for an enduring solution would cost at least £140k but not more than £220K to implement noting that these costs did not include for Market Trials.

The following issues relating to the costs were raised by representatives during consultation and discussed by Workgroup:-

Representative	Issue	Conclusion
<p>E.ON</p>	<ul style="list-style-type: none"> • Believes the associated cost and effort required to deliver the solution within the CDSP's systems outweigh any potential benefits that could be bought forward in UIG costs; with payback for the CDSP's developments taking an unknown number of years for the UIG benefit to be realised. • Feels that enabling the CDSP to force class changes where a Shipper fails to do so in a timely fashion does not act as an incentive to meet this obligation, therefore E.ON concludes that this part of the proposed change is over engineering the solution. • Believes that a much more effective and cost-efficient solution would be to set an incentive on Shippers to ensure that class changes are invoked in a timely fashion through the Performance Assurance Framework (PAF) currently under development as part of UNC 0674. • Believes that the costs associated to the solution that EON are unable to quantify the benefits and believe that the solution should be focussed on compliance/incentives rather than addressing non-compliant shippers who fail to act. <p>Feels E.ON are not able to quantify development costs as they do not have the systems insight into impacts because XRN 4990 has not yet been sufficiently developed.</p> <ul style="list-style-type: none"> • Does not believe that the costs outlined in the ROM will decrease but have concerns it will increase and would then have further impacts on E.ON costs to deploy the solution. 	<p>The CDSP advised workgroup, that the costs in the ROM included elements of class change, that they were an estimate and that once the exact system changes were known, that the costs could slightly reduce but it is not known at this stage. Workgroup wanted further clarity on these costs and timeframe.</p> <p>EON workgroup representative, advised that they do not believe that the costs outlined in the ROM will decrease but have concerns it will increase and would then have further impacts on E.ON's costs to deploy the solution.</p> <p>Also believes under the proposed solution that the largest portion of costs will be against systems impacts based on the CDSP's solution rather than E.ON costs.</p> <ul style="list-style-type: none"> • Understands that this element of the solution can only be considered once the XRN's solution becomes clear which is typically after the Modification has been approved. • Believes the CDSP develops in detail once the principles have been agreed, however on this occasion the delivery of the detail of XRN 4990 has resulted in E.ON being unable to completely assess how this will impact on E.ON, because they believe the detailed solution is overengineered which has resulted in E.ON being unable to support the principle <p>In order to address the above concerns, the proposer provided an analyse of the volumes and how quick the costs could be realised.</p> <p>Details of this analysis are detailed on Page 5 of this report.</p> <p>EON and the Workgroup where satisfied that this addressed the concerns.</p>

<p>Gazprom (oppose)</p>	<ul style="list-style-type: none"> • Has not identified any significant costs associated with this modification however Gazprom would note that the cost for implementing the solution in central systems are estimated to be between £140-£220k but no details of the actual financial benefits are provided. • Believes that these proposals will require substantial changes to internal processes and higher costs in managing sites to address short term issues with intermittent meter reading provision. 	<p>The Proposer noted in their consultation rep, that the large numbers of sites that are spuriously placed into these categories send incorrect signals to the CDSP, who has to ramp up its systems and processes to meet this indicated higher meter reading processing demand, even though, in reality, the levels will not reach those indicated, resulting in industry work and costs to mitigate for scenarios which may never occur, but which look possible from the number of sites put into product classes 2 and 3.</p> <p>The analysis provided by the Proposer on Page 6 of this report addressed these concerns.</p>
<p>N-Power (oppose)</p>	<ul style="list-style-type: none"> • would need to consult with their third parties to understand the development costs, but costs would be significant compared to the benefits for the solution. 	<p>The analysis provided by the Proposer outlined above satisfied this issue.</p>
<p>OVO Energy and OVO (S) Gas Limited (Oppose)</p>	<ul style="list-style-type: none"> • Appreciates that there is a potential consideration that the solution indicates “over engineering”, noting it has fairly significant costs associated with the implementation within the CDSPs systems without a clear indication of benefits realisation. <p>Feels the Modification consultation does not seem to address how Shippers would manage the Lock-down period, where it is moving from being able to re-register classes within 2 months (current process) to 3 months.</p> <ul style="list-style-type: none"> • Notes this could include manual intervention and monitoring – that addressing this scenario could contribute to additional costs in the implementation. 	<p>The analysis provided by the Proposer outlined above satisfied this issue.</p> <p>In addition the concerns raised relating to the Lockout Period have been addressed in the Variation Request to 0664 and in this report.</p>
<p>Scottish Power (Support)</p>	<ul style="list-style-type: none"> • Cannot quantify development and ongoing costs at present as XRN 4990 is not fully developed and is at “initial review stage”. 	<p>As detailed above and outlined in this report.</p>
<p>Total Gas & Power Ltd (Comments)</p>	<ul style="list-style-type: none"> • Believes there would be an impact on ‘business as usual; (BAU) operational costs of minor significance and potentially some customer contractual impacts 	<p>As detailed above</p>

<p>Utility Warehouse (Oppose)</p>	<ul style="list-style-type: none"> • Has concerns that the Rough Order of Magnitude (ROM) could increase as the scope of change is developed, which in turn could have an impact on the implementation costs faced by other parties. 	<p>As detailed above, further clarification has been provided on Page 7 of this report.</p>
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As summarised above, Some workgroup participants felt that the costs identified outweigh the Benefits and that the modification, does not act as an incentive, some workgroup participants felt that the XRN Solution should be clearer.

The purpose of this Modification 's purpose is to ensure that Shippers meet the higher read submission obligations in order to benefit from:-

- Lower UIG weighting factors by moving sites into Classes 2 and 3.
- Lower AUG Allocation

In order to address the costs and benefits, the proposer SSE, provided some estimated volumetrics during the May Workgroup to demonstrate how quickly the cost benefits would be realised, highlighting that costs could be recompensed in one or two months on a circa of 100,000 sites, explaining that putting more into class 4, would allow for better forecasting for NDM allocations. Some workgroup members felt that this needed to be demonstrated further and requested further modelling to be available for the June Workgroup.

The following table provides a holistic view of the current and proposed read submission target levels, CDSP advised that there is approximately 3.9m sites in Class 3 and 170,000 approximately 3.8 TWh of AQ that no reads have been

submitted. 500 in Class 2 as at the 10th June 2020. Only 40 of Class 2 have not had a read.

Product Class	Current Read Submission Target Level	Proposed Read Submission Target Level for Small Supply Points - not subject to validation.	Minimum Percentage requirement over each performance period	The Initial Time Period for each Performance Measure derived *	Poor Performing Supply points must be registered by Shipper into Class 4
Class 2	97.5% per day	25%	90%	Consecutive **3 months	Within 20 days of receipt of reports by Shippers, the CDSP will reclassify.
Class 3	90% per day	25%	90%	Consecutive **3 months	Within 20 days of receipt of reports by Shippers, the ***CDSP will reclassify.

*reviewed annually by PAC and will consult with UNCC no later than 31st August in the preceding year which will then be applied for 1st October Gas Year.

Note: During the PAC meeting in June, PAC confirmed it agreed a 25% target for read performance for 90% of a Shippers Portfolio was suitable as an initial value, recognising this can be reviewed and amended on an annual basis. CDSP confirmed that PAC reporting requirements have been considered.

** Supply meter must be classified as Class 2 or 3 for the entire calendar month (if outside for any part of month, or change of shipper after the first calendar day, will not be considered as part of shipper portfolio and not contributed to portfolio.

***Lock-out period begins on the day of re-registration into Class 4 and ceases if there is a change of Shipper at the supply point Suggesting is to Where a Supplier change occurs that the Lock out period will not apply. This would be

a change to the Modification, the Legal Text and Business would not change.

Scottish Power commented during consultation on how this Modification benefits UIG in the short or even medium term. By giving the CDSP powers to move sites into class 4 noted that it does not necessarily translate to shippers improving their performance. Some shippers may take immediate action to have the supply point reclassified as Class 2 or 3 or again accept the supply meter points have moved back and continue to perform poorly in PC4.

The proposer in their response highlighted that SSE feels that customers, who should in reality be meeting the much higher stated UNC targets, should not be benefitting from the lower UIG which these product classes are allocated.

The following Analysis was provided by the Proposer during the June 2020 Workgroup Meeting.

SSE Analysis of Costs and Benefits

Table of Unidentified Gas Weighting Factors for Gas Year 2020/21

Supply Meter Point Classification	Class 1	Class 2	Class 3	Class 4
EUC Band 1	0.22	5.28	45.30	120.98
EUC Band 2	0.22	5.28	13.68	117.79
EUC Band 3	0.22	4.93	9.17	15.29
EUC Band 4	0.22	3.87	9.17	11.76
EUC Band 5	0.22	2.47	8.56	8.04
EUC Band 6	0.22	1.13	6.30	4.79
EUC Band 7	0.22	0.33	5.14	2.47
EUC Band 8	0.22	0.22	0.42	1.55
EUC Band 9	0.22	0.22	0.22	0.22

Assumptions

UIG of 4% which equates to a 6% allocation on Class 4 in EUCs 1 & 2.
 EUC1 usage is 400 therms (approx.12,000 kWh).
 EUC2 usage is 3,500 therms (approx.100,000 kWh).
 Price of Gas Is 40p / therm.

Potential UIG Avoidance Calculations Based on the above Assumptions

Multiplying the avoided UIG based on the table by the above assumptions gives the below results:

1. Avoidance of UIG from Class 4 to Class 3 in EUC1 is £6.15 per site. 100,000 sites = £615,000
2. Avoidance of UIG from Class 4 to Class 2 in EUC1 is £9.40 per site. 100,000 sites = £940,000
3. Avoidance of UIG from Class 4 to 3 in EUC2 is £72.38 per site. 10,000 sites = £723,800
4. Avoidance of UIG from Class 4 to Class 2 in EUC2 is £78.32 per site. 10,000 sites = £783,200

A workgroup participant felt that the analysis does demonstrate the costs and appreciates that there could be more detailed modelling that could be achieved, however believes that this has addressed the concerns raised during the consultation. CDSP confirmed that there are 3.9m sites in Class 3 and confirmed that the AQ at risk there is 170,000 sites in class 3 where no reads have been provided. Noting that the analysis provided is modest and that these costs could be greater.

These costs could increase to approximately £130,000 per year, and benefits could be realised in a couple of months. CDSP provided an update on the ROM, highlighting that another element of this change in relation to the Supplier and shipper element will need to be addressed during the lockout period and linking this to the Centralised Switching Service (CSS). This would change the Supply Point confirmation process. CDSP advised that they believe that the magnitude of costs provided in the ROM is still correct. This was £140k - £220k (with a potential additional £30k added to the higher end to take into account the last bullet point below) and will need to:

- *Workout how best to implement the lock out phase of the functionality, taking into account that the lock out period is now being proposed for the same Shipper / Supplier combination only, as it is likely that this would not be implemented until relatively close to the CSS Implementation, and changing the process that will be obsolete post CSS makes little sense.*
 - o *We expect that the SPC and Confirmation processes may need to be changed to take account of the Supplier identity described above.*
- *work out the costs to incorporate the lockout functionality into CSS as since the ROM was produced the CSS Design has been baselined and progressed, so will need to be undertaken as a Change Request to the Programme.*
- *work up options for implementation which might include a transitional phase to minimise change pre CSS which will be effective for a small effective period, this level of detail is probably best determined in a detailed assessment in Capture for the DSC Change Proposal (XRN4990). We need ChMC to help us determine whether we do this now (in advance of the Mod decision) or wait for the Mod decision.*
- *Advised, If this transitional approach is not agreed then the costs of double implementation (once pre CSS and once into CSS processes) will push the cost of this to the top end of the ROM – and possibly higher (say additional £30k).*
 - o

A participant agreed that they appreciate it is a rough cost but concerns where raised if these costs could escalate above this amount.

Operational Impacts

- 2. Issues were raised in representations about the potential impact on operation processes, is there evidence or information available to clarify this view.**

The following issues raised by representatives during consultation were discussed by Workgroup:-

Representative	Issue	Conclusion/Evidence
ICoSS (Oppose)	<ul style="list-style-type: none"> • Noted that a significant lead-in period would be required prior to implementation to allow the significant amount of work to change any arrangements with third party suppliers, in order to reverse existing operational processes to guarantee read submissions. • Believes that these proposals will require substantial changes to internal processes and higher costs in managing sites to address short term issues with intermittent meter reading provision. 	<p>A Variation Request 0664V has been raised to address the Lockout Period, addressing the change of supplier which has addressed these concerns?</p>
Total Gas & Power Ltd (Supports)	<ul style="list-style-type: none"> • Appreciates operational issues on specific meters can take time to be resolved and in small portfolios this can significantly affect aggregate portfolio performance, which means this Modification could adversely affect small, shippers more than larger shippers. • Believes they would face BAU operational costs of minor significance and potentially some customer contractual impacts. 	<p>As above</p>
Engie (oppose)	<ul style="list-style-type: none"> • Does not believe the customer impact of this change has been considered. Understands many customers in Class 2 will be on contractual products that rely on their consumption being settled daily. Moving them into Class 4 would mean they couldn't access these products anymore and may result in contracts needing to be requoted. Customers will not understand the need for this action. • Proposes there would be a Customer Service impact in explaining Class changes and the contract amendments that come out of that. 	<p>As above</p>

Governance

Some workgroup participants felt that these concerns were captured in the justification of authority direction and the impact on competition and contractual obligations for Shippers and Suppliers. One Workgroup participant, felt that the contractual obligation is not a relevant Shipper driven activity, instead it is the relevant Supplier who is the key party who has direct contractual relationship with the consumer and accordingly undertakes meter reading activities primarily for billing purposes.

Third Party Contracts and SMART Meters

3. Consider potential impacts on remote reading meters. Modification 0664 went out for consultation in March

Workgroup discussed during May UIG Workgroup, the issues raised around Smart Meter communications around the intermittency issues, connectivity and reliability and the risk around DCC operational performance with SMART/AMR meters and where this is managed by third party suppliers.

Workgroup participants agreed to direct these concerns direct to the Proposer so further analysis could be put together for the June UIG meeting. No concerns or additional comments were raised outside of the workgroups, however during workgroup discussion the conclusion of this discussion is captured on page 12 and 13 of this report.

Representative	Issue	Conclusion/Evidence
ICoSS (Oppose)	<ul style="list-style-type: none"> • Does not support the proposal as feels it is inflexible creating fixed performance targets and does not take into account the many potential issues which a shipper may encounter in submitting meter reads, such as intermittency issues with Smart/AMR meters or problems with third party suppliers. • Believes the proposal is discriminatory between Shippers and will not achieve the resolution of the root causes of poor performance. Understands 	The conclusion of concerns raised were discussed and captured in the paragraph below.
Total Gas & Power Ltd (Comments)	<ul style="list-style-type: none"> • Understands that AMR and smart meters can have connectivity and reliability issues and there is also a risk around DCC operational performance. • Appreciates operational issues on specific meters can take time to be resolved and in small portfolios this can significantly affect aggregate portfolio performance, which means this Modification could adversely affect small shippers more than larger shippers. 	The conclusion of concerns raised were discussed and captured in the paragraph below.

<p>Utility Warehouse (Oppose)</p>	<ul style="list-style-type: none"> • Believes one of the contributing factors to this is the inability to obtain meter reading due to Smart meter communication issues, which may be caused by technology and continued energy supply or infrastructure instability. The SMETS2 technology is still in its infancy with suppliers experiencing multiple issues. <p>Believes one of the contributing factors to this is the inability to obtain meter reading due to Smart meter communication issues, which may be caused by technology and continued energy supply or infrastructure instability. The SMETS2 technology is still in its infancy with suppliers experiencing multiple issues.</p> <ul style="list-style-type: none"> • Suggest the performance levels of 25% and 90% should be reviewed to ensure they accurately reflect achievable levels of performance given the Smart Technology challenges. • Provided a comment on the impact on Shippers who whip for other parties Suggesting the change of profile class is often driven by supplier activity and interactions with the customer and not the shipper, such as following and installation of Smart meter. As such there may be instances in which a supply point is locked-out due to shipper, not supplier activity or there may be agreements whereby a shipper limits the ability of a supplier to amend the profile class. In these instances, whilst the supplier has made efforts to increase read performance and subsequently change the profile class, they are prevented from doing so by factors outside of their influence. As such, these factors should be considered as part of the proposal. 	
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The Proposer whilst understands the arguments that have been put forward during workgroup discussions, still believes that the 90% portfolio target for

achieving daily meter reading allows, that these sites should be moved by the Shipper concerned into product class 4 for better forecasting.

Some participants felt that if there were genuine issues that can be resolved, that SPC4 would not be allowed back into Class 2 or Class 3 which could reduce the number of reads into settlement. Some felt that the SMETS2 technology was still in its infancy with suppliers experiencing multiple issues and felt the performance levels should be reviewed to ensure they reflect achievable levels of performance.

Noting that the Obligations under the UNC in relation to shippers are the responsibility of the shipper, and so if a shipper effectively outsources any aspect of its obligations to a supplier, or to any other agent for that matter, then the shipper is still the party responsible for its own performance under the UNC.

In order to guard against performance being deficient in any way, shippers should put in place proper commercial contracts with those parties to incentivise them so that expected UNC performance standards are always met.

Lock-out after Change of Supplier with Existing Shipper

Having considered this concern further, the proposer will be raising a Variation request to Modification 0664 (See attached with this Report) to exclude shipper lock-out where a change of supplier has occurred, in order to avoid suppliers being potentially penalised due to the performance of previous suppliers. The proposer also thinks that this will prevent the modification potentially being at odds with the Ofgem Switching Programme which puts the supplier rather than the shipper at the heart of the switching process.

Revised Text

The proposer submitted a revised Variation Request to Modification, 0664 which Workgroup reviewed during the July and August UIG Workgroup as a result, and is due to change the solution, business rules and Legal Text to address:

- The Costs and Benefits in providing analyse of benefits by moving to Class 4 to NDM Forecasting
- Lock out period where Shipper/Supplier changes

Addressed Performance with Performance Assurance Committee on Smart Meter/AMR Meters

Summary of representations received

Refer to FMR for Modification 0664 at <https://www.gasgovernance.co.uk/0664>

Workgroup recommendations:-

Workgroup recommend that after addressing the concerns raised during March 2020 consultation, and further Workgroup discussions of Modification 0664, that a further consultation is required, and that UNC Panel should follow the sequential steps below

- Review the recommendations and analysis of the Supplemental Report
- Determine if the Variation Request to 0664V is Material
- Agree that the 0664V Modification meets the requirements set out in the Variation Request and Supplemental Report and associated Legal Text.
- Proceed to Consultation
- Proceed to Authority Direction

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For and on behalf of the Relevant Gas Transporters:

Penny Garner
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