

Modification proposal:	Uniform Network Code (UNC) 202: "Improvement to More Frequent Reading Provisions to allow benefits of AMR" (UNC202)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office ³ , Parties to the UNC and other interested parties		
Date of publication:	08 September 2008	Implementation Date:	To be confirmed

Background to the modification proposal

Currently the UNC mandates that a User must secure and provide meter readings for Non-Daily Metered (NDM) sites to the relevant gas transporter at various timescales depending on the size and nature of the meter point. The UNC also allows the shipper to send meter reads more frequently than is mandatory under UNC although there is no requirement for such reads to be accepted by the relevant transporter.

The existing UNC provisions allow Users with Larger Supply Points (LSPs) to submit meter reads on a weekly basis for Monthly Read sites and fortnightly for Annual Read sites. For Users with Smaller Supply Points (SSPs) the UNC permits Users to submit meter reads on a quarterly basis (63 days).

With the greater use of Automatic Meter Reading (AMR) on Industrial & Commercial (I&C) meters that fall into the SSP category there is an opportunity for Users to provide meter reads to the relevant transporter on a more regular basis.

The modification proposal

This modification proposal seeks to allow a User to elect that an SSP be treated as a Monthly Read site (current provisions of the UNC restrict the ability to make such an election to LSPs with an Annual Quantity (AQ) below 293,000kWh). It is proposed that in making such an election the User will warrant that AMR is installed, is operational and readings periodically obtained from such will be issued to the Transporter (subject to the prevailing read frequency provisions for Monthly Read Meters). Designation as a Monthly Read site will effectively provide for the User to submit a meter reading up to once every 7 days. The relevant Supply Point Administration (SPA) validation processes should therefore be changed to allow SSPs to be nominated as Monthly Read. All other UNC provisions relevant to Monthly Read Meters will apply.

UNC Panel⁴ recommendation

At the Modification Panel meeting held on 19 June 2008, of the nine Voting Members present, capable of casting ten votes, eight votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommended implementation of Modification UNC202.

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

³ Joint Office of Gas Transporters, www.gasgovernance.com

⁴ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) received on 4 August 2008. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁵. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁶; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

Whilst noting the views of respondents against several of the UNC relevant objectives, we consider that this proposal will have a largely neutral impact other than on relevant objective (d), which it can be expected to further facilitate.

Relevant objective (a) - the efficient and economic operation of the pipe-line system to which this licence relates.

The Proposer considers that increased numbers of AMR reads provided by shippers to transporters would be likely to improve the accuracy of AQs as it is more likely that accurate, timely reads will be available. It also considers that AMR data could also be used in the future to produce an SSP I&C profile. More accurate profiles, it argued, would improve the transporter's ability to accurately forecast network usage.

However, other respondents suggested that it was unlikely that there would be any improvement to the data accuracy of AQs resulting from the submission of additional reads to the transporter. One transporter clarified that the Annual Load Profile for an End User category (EUC) is derived within the Demand Estimation process by use of the NDM Sample and does not rely on historic Meter Reads. Another transporter said that the Modification Proposal was unlikely to have any significant impact on the four million Supply Points that failed to have their AQ's recalculated each year, and it would not decrease the number of Supply Points that are unregistered within the Supply Point Register.

Ofgem does not consider that the Modification Proposal better meets this relevant objective. Instead we consider that the impact is neutral. As noted by the modification proposer we consider that the quality of AQs may be improved for those SSP sites that have elected to be treated as Monthly Read where it increases the likelihood that an AQ can be revised (as part of the Annual AQ review process) using meter read information provided by the User. However, it is not clear that this will lead to improvements in the efficient and economic operation of the transporter's pipeline. We note that National Grid Distribution has clarified that the Annual Load Profile for an EUC is derived within the Demand Estimation process by use of the NDM Sample and does not rely on historic

⁵ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁶ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

⁷The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

Meter Reads. We therefore do not consider that the Modification Proposal will lead to an improvement in profiling at this point in time.

Several respondents highlighted concerns over the current ability of the UK Link system to process a potentially large increase in meter reads as it may compromise systems and/or require significant investment. Some views were expressed that it may be more appropriate to consider the scheduled UK Link rebuild in 2012 to accommodate the increased flow, rather than risk the UK Link system at this point in time. However, we note that National Grid has confirmed that xoserve will not be required to make further investment to support the additional volume of reads expected from the election of I&C SSPs with AMR to be treated as Monthly Read sites. Instead, sufficient capacity has become available following a UK Link Refresh exercise that took place in February 2008. We therefore consider that the development and capital cost implication for transporters are likely to be very small. The operating costs for SSP sites should be no different than any other monthly read sites.

Relevant objective (c) - so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

One respondent noted that Standard Special Condition A5.5 (a) requires the transporters to develop a charging methodology so that: "compliance with the charging methodology results in charges which reflect the costs incurred by the licensee in its transportation business". As part of this cost reflective methodology, the respondent states that the transporters all impose different customer charges to NDM sites consuming between 73,200kWh to 732,000kWh depending on whether or not they are monthly read supply points. This respondent considers that although SSP sites with AMR technology installed will be treated the same as monthly read sites they will be charged as SSP sites. Therefore their charges will not be cost reflective and so implementation of the proposal would not meet this relevant objective.

We note that xoserve have confirmed that they will not be required to make further significant investment to support this change and therefore there is no specific requirement to amend the charging methodology to reflect systems costs. Instead, systems capacity to allow it to process additional meter reads has been freed up through a UK Link Refresh exercise that took place in February 2008. To the extent that the site retains the same characteristics as an SSP in all other aspects, the costs imposed on the transporter are not expected to alter as a result of this proposal. Furthermore, it is the capacity and consumption threshold that drives the cost band for sites and not the frequency of meter reads. For these reasons, we disagree with the respondent who suggested the charges to these sites will no longer be cost reflective, and we consider that the impact on relevant objective (c) will be neutral.

Relevant objective (d) - the securing of effective competition;

The proposer considers that the modification will improve the accuracy of the invoices for all NDM supply points and the Reconciliation by Difference (RbD) process would be improved through the use of more accurate profiles in invoicing. Additionally, it argues that the change would encourage the provision of a monthly read for all I&C NDM supply points that have AMR equipment attached and have elected to be treated as Monthly Read. This in turn should lead to an improvement in the accurate allocation of energy between the market sectors.

One respondent suggested that this relevant objective will not be better achieved as any reads submitted will not be used for settlement purposes as the sites affected will be subject to RbD. As noted above, the transporters have confirmed that the proposed modification will not of itself lead to a change in the settlements process through for example improved profiling.

However, we consider that the modification will better meet relevant objective (d) by contributing to the securing of effective competition between suppliers and shippers. The modification allows for an increased number of meter reads to be processed for elected Monthly Read sites. The increased submission and processing of meter reads for these sites should allow for more accurate AQOs to be calculated for these sites during the annual AQ review process. This may potentially lead to some improvement in the allocation of charges.

We note that the modification will also allow Users to potentially reduce their costs of managing the provision of meter reads to the transporters by giving them greater flexibility in integrating their submission of these reads to the transporter with the collection of reads from AMR devices.

Whilst use may not currently be made of the additional data for settlement purposes, its provision may allow Users and transporters to better understand the implications and possible impact of such data for potential future changes to settlements systems. We note that one of the main areas of discussion in relation to the roll-out of smart meters to I&C customers and potentially to domestic customers has been the use of such reads in the settlements process to more accurately apportion costs to customers.

One respondent expressed the view that shipping/supply businesses may have associated or subsidiary businesses engaged in the provision of meter reading services, which may or may not involve AMR. It argued that the creation of industry business rules that favour certain of these businesses, would appear to conflict directly with the relevant objective. Ofgem does not consider this issue to be relevant to this Modification Proposal. Modification UNC202 does not seek to prevent parties providing associated meter reading services. It is a facilitatory modification in relation to a defined set of customers with AMR installed. If a User wished to elect that an SSP should be treated as Monthly Read then they would need to make sure that they had in place the appropriate metering functionality whether this is provided in house or procured from the market.

The respondent also raised a concern that the Proposal seeks to mandate the use of AMR as a means of providing additional consumption information, and stated that they do not believe that it is the role of the UNC to mandate the means by which these reads are obtained. We do not consider this to be of sufficient concern at present to affect our view of the modification. We note that we are only able to assess the Modification Proposal that has been raised. UNC parties are free to bring forward proposals for alternative means for obtaining meter reads if they feel that they are cost effective. Were further modifications raised that suggested alternative mechanisms for certain sites were to be elected and treated as Monthly Read then Ofgem would need to give them consideration.

We note that one respondent argued that "AMR" meters have not been properly defined, particularly in relation to interoperability of such meters. Whilst we do not disagree with this statement, we do not consider that it is of sufficient concern to warrant the rejection of the proposal, particularly as it could be addressed through a further modification if considered necessary. Notwithstanding this, we consider that the term AMR meter is generally understood to be an Automatic Meter Reading meter, i.e. capable of being read

remotely. We also consider it likely that such terms will shortly be defined in legislation⁸, with which we would expect all industry codes will need to be made consistent.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 202: "*Improvement to More Frequent Reading Provisions to allow benefits of AMR*" be made.

PP.



Ian Marlee

Director, Trading Arrangements

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

⁸ BERR Consultation Document <http://www.berr.gov.uk/energy/environment/smart-metering/index.html>