Modification proposal:	**Uniform Network Code (UNC) 258/258A: Facilitating the use of Remote Meter Reading Equipment (UNC258) and the procurement of data from a third party for the purposes of demand estimation forecasting techniques (UNC258A)**		
Decision:	The Authority[1] directs that the alternative proposal, UNC258A, be made[2]		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	22 December 2009	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

Section H of the Uniform Network Code (UNC) sets out the requirement for the estimation of gas demand at Non Daily Metered (NDM) Supply Points. These demand estimates are used by Gas Transporters (GTs) for the purposes of deriving capacities and allocating demand to shippers. In particular, they are used for determining: NDM Supply Point capacities, NDM nominations and daily offtakes, and NDM Supply Point Annual Quantities (AQs).

In order to estimate NDM demand, each NDM Supply Point is allocated to a specific End User Category (EUC) for which a Demand Model is established. In order to develop the EUCs and Demand Models for use in the demand estimation process, UNC Section H sets out the obligations on GTs to obtain daily offtake data from NDM Supply Points contained within a sample, for each Local Distribution Zone (LDZ).

UNC Section H sets out two distinct groups for demand estimation sampling: Supply Points with AQs greater than 2,196,000 kWh (Group 1); and Supply Points with AQs equal to or less than 2,196,000 kWh (Group 2). The UNC stipulates that, for all LDZs, approximately 1,600 Supply Points should be designated in Group 1 and approximately 3,900 Supply Points should be designated in Group 2. Further, the UNC requires that, of the 3,900 Supply Points in Group 2: 2,700 Supply Points must be fitted with Data Recorders; and 1,200 Supply Points must have Daily Read Equipment installed. The UNC does not specify the type of recording equipment to be used within the Group 1 sample.

While Data Recorders can only be read on demand at Supply Point premises[3], Daily Read Equipment is more advanced and can be read remotely at set intervals[4]. Under the current arrangements, however, it is not permitted to install Daily Read Equipment (and consequently any form of an advanced meter) on the 2,700 sites within Group 2.

[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] A Data Recorder, as defined in UNC, is a "device which captures Meter Readings at the start of each Day, but is capable of being read only at the Supply Point Premises".
[4] Daily Read Equipment, as defined in UNC, is "equipment of design and standard of manufacture specified (consistently with any Legal Requirement) by the Transporter for the purposes of this Section, which enables Meter Readings to be obtained by the Transporter remotely at set intervals". It is further specified that Daily Read Equipment comprises: (a) a device for capturing from the supply meter, and/or (where installed) a convertor, data which constitutes or permits the derivation of a meter reading; and (b) a telephone or radio transmitter and/or such other equipment as shall be required for transmitting such data to Transporter in accordance with the relevant requirements of the UK Link Manual".

Xoserve has been considering methods to improve the quality of data currently captured at the Supply Points in Group 2 where Data Recorders are installed. This is because, given that Data Recorders (historically installed by GTs at smaller sites in this group) can only be read on demand at Supply Point premises, any loss of data due to equipment failure or premises becoming vacant, is often not realised until xoserve's contractor makes a site visit. This can be months after the data stream has effectively been terminated. This loss of data could potentially affect the development of EUCs and Demand Models and, in turn, the accuracy of NDM Supply Point demand estimation. This, in consequence, may affect GTs ability to accurately allocate demand to shippers, hence exposing shippers to financial penalties (through cash-out prices) due to potential imbalances.

Supply Licence Obligation

On 6 April 2009, the government implemented a new supply licence condition placing an obligation on all gas suppliers to ensure that where they newly install or replace a gas meter at premises with an AQ over 732,000 kWh, the meter should be an advanced meter[5]. The licence condition also states that, subject to certain qualifications, gas supplied after 6 April 2014 should not be provided other than through an advanced meter.

In light of this licence condition, there is a difference in requirements placed on GTs under the UNC to install Data Recorders on 2,700 sites with an AQ equal to or less than 2,196,000 kWh for the purposes of demand estimation, and the requirements placed on suppliers under their supply licences to install advanced meters at all premises with an AQ above 732,000 kWh. Therefore, the current arrangements, as specified under Section H of the UNC, are not in line with the objectives of the supply licence condition.

The modification proposal

UNC258

UNC258 (the original proposal) seeks to provide GTs with the option to install remotely read equipment on all sites considered for data sampling. In particular, UNC258 proposes to amend Section H as follows:

- Remove the requirement on the 2,700 Supply Points with an AQ equal to or less than 2,196,000 kWh to have a Data Recorder fitted;
- Make relevant amendments allowing for the Remote Meter Reading Equipment to be an alternative to Data Recorders; and
- Replace the narrowly defined term of "Daily Read Equipment" with the more up-to-date "Remote Meter Reading Equipment"[6].

Extending the option of installing remotely read equipment to all demand estimation sample sites within Group 2 would, in the proposer's view:

[5] An advanced meter, either on its own or with an ancillary device, must be capable of storing measured gas consumption data for multiple time periods (at least hourly), and of providing remote access to such data by the supplier.

[6] Remote Meter Reading Equipment could be considered as a more advanced form of meter than Daily Read Equipment. It is, as defined in the UNC, an "equipment which enables Meter Readings to be obtained remotely at set intervals and which comprises a device for capturing from the Supply Meter, and/or (where installed) a convertor, data which constitutes or permits a derivation of a Meter Reading and suitable equipment as shall be required for transmitting such data".

- Reduce the occurrence of data loss from recorders malfunctioning; and
- Improve the quantity and quality of data available for demand estimation purposes.

The proposal would also provide further clarification, by specifying the type of recording equipment to be used within Group 1 samples.

The proposer of UNC258 considered that the original proposal would better facilitate the achievement of relevant objectives (d) and (f) most significantly.

UNC258A

UNC258A (the alternate proposal) incorporates all elements of the original proposal but, in addition, proposes to allow GTs to procure, for the purpose of demand estimation, meter reading data from third parties who may or may not be users (e.g. shippers, suppliers, end consumers). In particular, the alternate proposal introduces the possibility for GTs to procure data from any type of Supply Point considered for demand estimation.

These additional elements, in the proposer's view, recognise the growth of Automated Meter Reading (AMR) and its potential for providing a source of robust and suitable data. The proposer believes that this, as opposed to the obligation to fit own data loggers, can represent a more cost efficient solution for some GTs. Additionally, it is believed that having one less device attached to the meter installation would simplify administration for Meter Asset Management (MAM) and reduce the complexity of some meter installations.

The proposer of UNC258A considered that the alternate proposal would better facilitate relevant objectives (a), (b), (c) and (d) most significantly.

UNC Panel[7] recommendation

At the modification Panel meeting held on 15 October 2009, of the 10 Voting Members present capable of casting 10 votes, 10 votes were cast in favour of implementing UNC258 and 10 votes were cast in favour of implementing UNC258A.

The Panel then voted on which of the two Proposals would better facilitate achievement of the Relevant Objectives. Of the 10 Voting Members present capable of casting 10 votes, 0 votes were cast in favour of implementing the original proposal in preference to alternate proposal and 9 votes were cast in favour of implementing the alternate proposal in preference to the original proposal. Therefore, the Panel determined that, of the two Proposals, alternate proposal UNC258A would better facilitate the achievements of the UNC Relative Objectives than the original proposal and therefore the alternate proposal should be implemented.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 24 November 2009. 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 FMR[8]. The Authority has concluded that:

[7] The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.
[8] UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

1. implementation of the modification proposal UNC258A will better facilitate the achievement of the relevant objectives of the UNC[9]; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties[10].

Reasons for the Authority's decision

We consider that UNC258 and UNC258A impact upon the facilitation of relevant objectives (a), (d) and (f) most significantly. We have set out below our consideration of both proposals against these objectives and also why we expect UNC258A to better facilitate the achievement of these relevant objectives than UNC258.

The proposer of UNC258A also considered that the alternate proposal would better facilitate the achievement of relevant objective (b)[11] as the additional benefits accruing from the implementation of the alternate proposal would afford all GTs the same opportunities and allow for them a better, and more efficient, management of their networks. While we acknowledge this view, we do not consider that this point is relevant in respect of whether UNC258A *better facilitates* the efficient and economic operation of the combined pipeline system over and above the current arrangements. We therefore do not consider that the proposal is likely to have a significant impact on relevant objective (b).

The proposer of UNC258A also considered that the alternate proposal would better facilitate the achievement of relevant objective (c)[12] since allowing GTs to procure the relevant data could reduce their costs thus making the discharge of licensee's obligations more efficient. While we agree with this view, we have addressed this point under relevant objective (a) below.

We note that both UNC258 and UNC258A have been welcomed by the industry, with all eight respondents supporting the intentions of both proposals. One respondent, however, offered qualified support as it had some concerns over the legal drafting of UNC258. We note that these comments referred to an earlier version of the legal text and have been sufficiently addressed and clarified in the final legal text included within the FMR.

Relevant objective (a) the efficient and economic operation of the pipeline system;

As outlined above, both UNC258 and UNC258A seek to allow GTs to use Remote Meter Reading Equipment as an alternative to Data Recorders on the 2,700 Supply Point sites with an AQ equal to or less than 2,196,000 kWh. Both proposals seek to improve the quality of sample data available to GTs by potentially reducing the occurrences of data loss resulting from the late identification of data flow termination (from equipment failure or from premises becoming vacant). We consider that improvements in the quality of NDM sample data is likely to improve the quality of analysis forming the basis of the development of EUCs and associated Demand Models, in turn, improving the overall

[9] 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
[10] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.
[11] The coordinated, efficient and economic operation of (i) the combined pipeline system, and/or (ii) the pipeline system of one or more other relevant gas transporters.
[12] The efficient discharge of the licensee's obligations under the licence.

quality of the demand estimates. These improvements should enhance GTs ability to derive capacities and allocate demand to shippers.

We also note that enhancements in the demand attribution process should lead to improvements in the accuracy of NDM gas flow nominations. This, in turn, should allow shippers to better manage their portfolios, leaving NGG, in its role as System Operator, better placed to operate the system in an economic and efficient manner by reducing the need to take residual balancing actions (which can be more costly and less efficient than those undertaken by shippers balancing their positions themselves).

In addition, the proposer of UNC258A considered that, by allowing GTs to procure data from third parties, the alternate proposal could also reduce transporters' costs associated with the collection of NDM Supply Point sample data[13]. We note that this, together with improved flexibility in collecting the relevant data offered by UNC258A, allows for cost benefits available to all GTs, thereby increasing their ability to operate the system in an economic and efficient manner (hence also making the discharge of their license obligations more efficient).

We consider that both UNC258 and UNC258A better facilitate the achievement of relevant objective (a). However, we agree with the proposer of the alternate proposal that the proposed change to allow GTs to procure sample data from third parties has the potential to facilitate the economic and efficient operation of the pipeline system by all GTs (through a reduction in their costs). Therefore, on balance, we consider that UNC258A is likely to better facilitate the achievement of relevant objective (a) than UNC258.

Relevant objective (d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers;

Increased accuracy in demand estimation

Both UNC258 and UNC258A allow for installation of remotely read equipment on all sites considered for the purpose of demand estimation. This, in the proposers' view, could reduce the impact of a potential data loss by earlier recognition (hence earlier relocation) of Supply Points with faulty/disconnected equipment and/or those becoming vacant/ceasing gas offtakes. It was argued that improved quality of the relevant data would improve GTs accuracy in demand allocation volumes.

While most respondents supported this view, one respondent questioned the claimed improvements to data quality stated by both proposers. This respondent noted that Remote Meter Reading Equipment does not send daily reads but requires reads to be 'collected' from the device. As a consequence, it argued, any malfunction or disconnection of Remote Meter Reading Equipment would also only be realised when GTs collected the reads.

While we agree that there is still a risk associated with data loss due to the disconnection of Remote Meter Reading Equipment, we nonetheless consider that both the original and alternate proposals enhance the opportunity to efficiently access Supply Point data over

[13] This is because data procurement may be less costly compared to GT's fitting their own data loggers (especially in cases where suitable third party owned read equipment is already available).

and above the current arrangements. This, in turn, will likely increase the accuracy of the EUCs allowing GTs for more precise NDM demand allocations. This, in our view, is likely to secure effective competition between relevant shippers in two ways. Firstly, more accurate NDM demand allocations would enable shippers to better manage their own risks in terms of volume and price, hence reducing their exposure to cash-out charges. Secondly, we consider that more accurate allocations of gas would likely reduce the potential for cross subsidies, amongst shippers, through the use of RbD[14].

We consider that both UNC258 and UNC258A better facilitate the achievement of relevant objective (d).

Relevant objective (f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

Further clarification within the UNC code

Both proposals remove the current definition of Daily Read Equipment from UNC TPD section H, replacing it with Remote Meter Reading Equipment. Confining the definition of Daily Read Equipment to UNC TPD sections G and M clarifies, in the proposers' view, the specific areas within the code where the two definitions should be used.

We agree with the proposers noting that both UNC258 and UNC258A clarify the obligations placed on Users and GTs for the purposes of sections M and H of the UNC. Additionally, we note that UNC258A, by allowing for the procurement of the relevant data, not only recognises recent market developments with respect to AMR technology but also promotes flexibility and efficiency in fulfilling the obligations of the UNC with respect to demand estimation. We therefore consider that, on balance, UNC258A is likely to better facilitate the achievement of relevant objective (f) than UNC258.

Decision notice

We consider that both UNC258 and UNC258A better facilitate the achievement of relevant objectives (a), (d) and (f) against the current baseline. We also consider that, for the reasons set out above, UNC258A to a greater extent facilitates the achievement of relevant objective (a) than UNC258. Therefore, overall, UNC258A better facilitates the achievement of the relevant objectives compared to UNC258.

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC258A: *Facilitating the use of Remote Meter Reading Equipment and the procurement of data from a third party for the purposes of demand estimation forecasting techniques* be made.

Ian Marlee
Partner, Trading Arrangements
Signed on behalf of the Authority and authorised for that purpose.

[14] Reconciliation by Difference (RbD) is the method of reconciling the difference between actual (metered) and deemed (estimated) measurements of gas allocated to Small Supply Points (SSPs). These are used in the calculation of energy and transportation charges to shippers.