

**CODE MODIFICATION PROPOSAL No 0270**  
**Aggregated Monthly Reconciliation for Smart Meters**  
**Version 1.0**

**Date:** 30/10/2009

**Proposed Implementation Date:** As directed by Ofgem

**Urgency:** Non Urgent

**Proposer's preferred route through modification procedures and if applicable, justification for Urgency**

(see the criteria at [http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700\\_Urgency\\_Criteria.pdf](http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/11700_Urgency_Criteria.pdf))

**1 Nature and Purpose of Proposal (including consequence of non implementation)**

The purpose of this proposal is to allow shippers to elect, on a voluntary basis, supply points with smart meters installed to be reconciled with settlement so that settlement is based on actual consumption for these sites.

For smaller Non Daily Metered (NDM) supply meter points (i.e. those consuming <2,500 therms per annum), there is no incentive for the supplier to enter into energy efficiency initiatives with their customers to help them reduce their energy consumption because the supplier is charged for its entire costs based on the customers' AQ whereas its income from the customer will be based on its actual consumption.

To resolve this issue a shipper could choose to have all sites registered with a gas smart meter to be reconciled using "Individual NDM Reconciliation", so that monthly or annual reads can be sent to settlement.

In doing so shippers would opt out of the NDM profiling process and instead submit an aggregated monthly meter read for all smart meter points in a relevant GTs area for use in balancing and settlement. There would need to be a supporting agent role to validate the aggregated monthly reads.

Smart meters are increasingly being installed at NDM supply points, a trend which is set to increase further once the mandate from Government to roll-out smart meters to all households and small businesses by 2020 is established.

The current process of allowing NDM sites to voluntarily become part of the DM regime is not economically viable at the household level (where costs are approximately £800/yr) and shippers that have installed smart meters in this sector are faced with disproportionate charges under the Reconciliation by Difference (RbD) mechanism.

Shippers have found that they are exposed to higher charges under RbD

when compared with what they are able to bill customers for based on their actual use. As smart meter deployment increases (even in the absence of a Government mandate) the current RbD system discriminates against shippers providing these services as the selling point is often that such installations assist customers to reduce their usage, but shippers can only allow decrease their liability yearly (via the AQ) during the AQ review.

Without being able to utilise actual consumption information from installed smart meters in the balancing and settlement process shippers are unable to provide a truly cost reflective supply offer to customers with these meters.

This is in contrast to Government energy policy aims with regard to smart meter deployment which states: ‘The Government believes smart meters will both change our energy habits in the short term ... They will provide a step-change in the information available to consumers helping them to save money on their bills and to reduce their carbon emissions’<sup>1</sup>.

The Low Carbon Transition Plan stated that: ‘Rolling out smart meters in every home by the end of 2020, which will enable people to understand their energy use, maximise opportunities for energy saving, and offer better services from energy companies.’<sup>2</sup>

Supporting documentation to the DECC smart meter consultation of May 2009 also noted that, ‘The deployment of smart meters will improve the settlements process given the availability of actual readings.’<sup>3</sup>

As actual smart meter reads are not used for balance and settlement purposes it is not possible to maximise opportunities for energy savings as the energy element of the transportation part of the consumers bill will be set annually on a profile based figure and hence remain fixed regardless of the customer consumption behaviour.

The issue is particularly acute for smaller shippers and prospective new entrants who either offer or wish to offer smart metering solutions as part of their supply offerings. Despite metering competition being introduced to encourage innovation in meter deployment (and associated tariff offers) to encourage demand side response and a clear policy steer in this direction shippers without a diverse customer profile (by consumption) are penalised by facing transportation costs which do not reflect actual volumes being transported and which can not be smeared across a wide portfolio.

This proposal would effectively create a linkage between demand

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<sup>1</sup> ‘Energy metering—A consultation on smart metering for electricity and gas.’ DECC, May 2009. Pg. 5

<sup>2</sup> ‘Low carbon transition plan’. DECC, July 2009. Pg. 12

<sup>3</sup> ‘Smart meter roll out: Market model definition & evaluation project’. Baringa & RedPoint, April 2009. Pg. 13

variations to billed energy such that the benefits of consumption variations can be taken into account in settlement. This should enable shippers to manage their own risks in terms of volume and price, thereby promoting competition between and amongst shippers and suppliers. Smart metering in balancing and settlement should promote more accurate allocations of gas, reducing the potential for cross subsidies through the RbD process and therefore also promote competition.

This approach would also encourage switching and if all shippers start to nominate smaller sites as needing Individual Reconciliation rather than Aggregate Nominations as they acquire new customers, there is an added benefit that this will produce a gradual transfer of customers away from RbD over several years in preparation for the mass roll out of smart metering technology and the switch of the entire industry to DM.

Alongside these concerns the ongoing code governance review<sup>4</sup> being undertaken by Ofgem is, among other things, seeking to consider whether industry parties should have wider responsibilities to assess environmental impacts of modification proposals.

In June 2008 last year, Ofgem published its guidance<sup>5</sup> on the treatment of greenhouse gas (GHG) emissions under the current industry code objectives. The guidance set out Ofgem's view that industry should assess and take into account the impacts on GHG emissions which a code modification proposal would have or be likely to have, if implemented, on the efficient and economic operation of the relevant system.

Although not yet finalised the regulator has stated that it proposes 'to consult on a series of potential licence amendments which make clear the requirements on industry and code panels to consider GHG impacts where relevant.' The impact assessment<sup>6</sup> accompanying the May 2009 smart meter consultation considered that smart meter deployment in the domestic sector could deliver 2% gas savings. To realise this customers will want to see that changes in behaviour which reduces consumption will be reflected in the volume related charges they pay for their gas.

### **Consequence of non-implementation**

If the modification is not implemented new entrants and smaller shippers offering smart metering solutions will not be able to grow their businesses (and hence deploy smart meters) at a rate which would be achievable if this modification was implemented. This puts this sector of the market at a competitive disadvantage and would stymie attempts to offer customers

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<sup>4</sup> <http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Pages/GCR.aspx>

<sup>5</sup> <http://www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/Open%20letter%20response-%20final%20version%20of%20letter%2030%20June.pdf>

<sup>6</sup> [http://www.decc.gov.uk/Media/viewfile.ashx?FilePath=Consultations\Smart Metering for Electricity and Gas\1\\_20090508152831\\_e\\_@@\\_smartmeteriadomestic.pdf&filetype=4](http://www.decc.gov.uk/Media/viewfile.ashx?FilePath=Consultations\Smart Metering for Electricity and Gas\1_20090508152831_e_@@_smartmeteriadomestic.pdf&filetype=4)

with innovative tariffs to reward efficient gas use based on actual use charges. It would represent a lost opportunity to lock-in behaviour change resulting in earlier carbon emission reductions than if the proposal was not implemented.

**2 User Pays**

**a) Classification of the Proposal as User Pays or not and justification for classification**

This proposal should be classified as a Users Pays proposal as it would introduce a voluntary mechanism which would be adopted by Users who saw a benefit in doing so.

This may have to be reviewed in the longer-term as the roll-out of smart meters to all gas customers (bar the odd exception) will result in a situation where the service would be universal.

**b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification**

**c) Proposed charge(s) for application of Users Pays charges to Shippers**

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**d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve**

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**3 Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 and 2 of the Gas Transporters Licence**

*(a) the efficient and economic operation of the pipe-line system to which this licence relates;*

The proposals would increase the level of information available to GTs relating to daily gas flows on their networks. This in turn should improve the GTs ability to forecast loads, planning and operational activities.

*(b) so far as is consistent with sub-paragraph (a), the coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.*

This proposal would apply to all GT areas and so benefits would be seen nationwide.

*(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient*

*discharge of the licensee's obligations under this licence;*

As smart meters are likely to be mandated for all households and small businesses the development costs should be spread across all eligible supply points to whom this proposal would be targeted, as they would be potential beneficiaries of the service. This would ensure that sites that currently (or elect to do so in the absence of a Government mandate) participate in the regime do not face the full upfront development costs which other users would subsequently gain the benefit of at a later date. This approach would avoid inter-temporal cross-subsidies and deliver a non-discriminatory approach.

*(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.*

The proposal would facilitate better competition between shippers and between suppliers by increasing the range of tariffs and contracts to encourage efficient use of gas by customers. It would also encourage greater new entrants into the market, particularly those based on an energy service company (ESCO) model where customers would be charged for heat (including payback of any financing as a result of the installation of energy efficiency measures or less carbon intensive heating systems) rather than gas and be rewarded for responding to price signals.

Consumers would also see the benefit of paying for actual use in a timely fashion which would improve service levels and encourage greater consumer engagement in the market.

The use of smart meter data in the balancing and settlement process should lead to more accurate allocations of gas and hence reduce the potential for cross subsidies through the RbD mechanism.

*(e) so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;*

No impact

*(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.*

This would benefit new entrants and smaller suppliers and encourage greater diversity of signatories to the codes.

4 **Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text**

Policy considerations and specifically a smart meter mandate will result in the need to account for smart meter reads into settlement to ensure a more effective market.

5 **Code Concerned, sections and paragraphs**

- a) Uniform Network Code
- b) Transportation Principal Document

**Section(s)**

**Proposer's Representative**

Rob Hill (first:utility)

**Proposer**

first:utility