

Stage 04: Final Modification Report

0344:

Removal of the D+1 11am meter read liabilities regime for DM voluntary (DMV) Supply Points

This Modification Proposal removes Shipper elected Daily Metered (DMV) sites from the day after the day 11am meter read liability regime. For the purposes of UNC TPD M 5.2.1, DMV Supply Points would no longer be classed as Performance Relevant Supply Meters.



The Panel recommends implementation of 0344, Removal of the D+1 11am meter read liabilities regime for DM voluntary (DMV) Supply Points



High Impact:



Medium Impact:



Low Impact:

Low Impact: Minor impacts on Shippers and DN Operators

What stage is this document in the process?

01

Proposal

02

Work Group Report

03

Draft Modification Report

04

Final Modification Report

0344

Final Modification Report

25 March 2011

Version 4.0

Page 1 of 17

© 2011 all rights reserved

Contents

1	Summary	3
2	Why Change?	4
3	Solution	5
4	Legal Text.....	6
5	Impacts and Costs	8
6	Implementation	11
7	The Case for Change	12
8	Consultation Responses	13
9	Panel Discussions	15
10	Recommendations	17

About this document:

This document is a Final Modification Report. The Authority will consider the Panel's recommendation, and decide whether or not this change should be made.

Any questions?

Contact:
Bob Fletcher

bob.fletcher@gasgovernance.co.uk

0121 623 2115

Contact:
Simon Trivella

Simon.trivella@wwutilities.co.uk

07813 833174

Proposer:
Richard Pomroy

richard.pomroy@wwutilities.co.uk

029 2027 8552

0344
Final Modification
Report

25 March 2011

Version 4.0

Page 2 of 17

© 2011 all rights reserved

1 Summary

Why Change?

Shipper elected Daily Metered (DMV) sites are subject to the day after the day 11am liability regime. The liability approach may be appropriate to encourage efficient delivery of a monopoly service, but is not appropriate when a service is being provided that could equally be procured for a competitive market. Many of these sites have very low daily volumes and may not be material to Users' daily balancing data requirements. The liability should therefore no longer apply to DMV Supply Points due to the introduction of the elective Daily Metered (DME) regime.

Solution

To exclude Daily Metered voluntary (DMV) Supply Points from the definition of Performance Relevant Supply Meters for the purposes of the day after the day 11am read provision to Users (UNC TPD Section M 5.2.2).

Impacts & Costs

There will be a minor impact on the DN Operator's service providers as they will have to change the way that DM liabilities are calculated. We do not believe that there will be any material cost of this change; any such cost would be borne by the relevant Transporter.

There are not expected to be any cost impacts on Users or other third parties and this is not a User Pays Modification Proposal as it does not create or amend any User Pays Services / Charges.

Implementation

This Modification Proposal can be implemented shortly following a direction by Ofgem.

The Case for Change

This Modification Proposal will facilitate achievement of relevant objective (a) "the efficient and economic operation of the pipe-line system to which this licence relates". The removal of DMV Supply Points from the day after the day 11am liability regime will further incentivise DN Operators to attend any faults at mandatory DM sites rather than at present providing an equal incentive to attend faults at DMV sites. Since mandatory DM sites can play a material part in the efficient operation of the pipe-line system, a regime that further incentivises attendance at faults at mandatory DM Supply Points will facilitate the achievement of this relevant objective.

Implementation of this Modification Proposal will also be good for efficient administration and implementation of the UNC by having a service which is regulated and incentivised by competitive pressures rather than liabilities. This will therefore help to facilitate achievement of relevant objective (f) "Promotion of efficiency in the implementation and administration of the Code".

Recommendations

The proposer believes that this proposal should proceed to Consultation as the basis and content of this Modification Proposal has already been discussed at Distribution Workstream meetings in June and August 2010.

Liability Regime

The day after the day (D+1) 11 am liability regime is based on the requirement for Transporters to supply Valid Meter readings for Daily Metered sites by 11am on the following day that the read relates to. Liabilities are paid where a Transporter provides less than 97.5% of reads to any User.

2 Why Change?

Uniform Network Code (UNC) Transportation Principal Document (TPD) Section G 1.5.6(c) allows Users to request that any supply point over 73,200kWh but below the mandatory DM threshold of 2,196,000kWh has Transporter Daily Read Equipment installed and becomes a DM Supply Meter Point. These sites are commonly referred to as DM voluntary (DMV).

Many of these sites have very low daily volumes and may not be material to Users' daily balancing data requirements. These sites are classified as Performance Relevant Supply Meters and are therefore included with mandatory DM (DMM) Supply Points¹ for the calculation of liabilities in accordance with UNC TPD Section M 5.2. The liability calculation depends on various factors that relate to the delivery of reads for that User's sites over the last month but can result in liabilities of £30 for each failure rising to £75 for continuous failures of over 4 days.

It is expected that over time the number of DMV sites will dramatically reduce as alternative services become available (e.g. The Daily Meter elective (DME) regime)² and with the transition from Interruptible to Firm in October 2011. With a reduced number of Performance Relevant Supply Meters the 97.5% performance criteria becomes more stringent. It is the Proposers view that by removing all DMV sites from the liabilities regime will allow Transporters to focus their attention and efforts on the remaining DMM Supply Points where it can be argued that the daily read may have a material impact on the daily balancing and settlement regime.

The removal of the liabilities regime for DMV will also allow the Transporters to effectively manage any DRE (e.g. data logger) replacement programme in an economic and efficient manner.

Useful Links

UNC TPD Section G

<http://www.gasgovernance.co.uk/sites/default/files/20%20August%202010%20TPD%20Section%20G%20-%20Supply%20Points.pdf>

UNC TPD Section M

<http://www.gasgovernance.co.uk/sites/default/files/20%20August%202010%20TPD%20Section%20M%20-%20Supply%20Point%20Metering.pdf>

0344

Final Modification Report

25 March 2011

Version 4.0

Page 4 of 17

© 2011 all rights reserved

¹ DMM Supply Points are where the Daily Read Requirement applies (UNC TPD G 1.5.3)

² DME introduced by Modification Proposal 0224 on 21 November 2010

3 Solution

The proposed solution is to remove DMV Supply Points from the day after the day 11am provision of meter reads liabilities regime. This liability is detailed within UNC TPD Section M 5.2.1 and 5.2.2.

For clarity, implementation of this Modification Proposal will not remove the requirement to provide 97.5% of DM reads to Users by 11am, it only removes the liabilities associated with DMV Supply Points.

There are additional liabilities detailed within UNC TOD Section M 5.2.3 that require a daily payment of £75 for each consecutive failure day after 4 days for any DM Supply Point. This liability would not change as a result of Implementation of this Modification Proposal and would therefore still include all DMV Supply Points (i.e. DMV Supply Points will remain as Performance Relevant Supply Meters for the purposes of UNC TPD M 5.2.3).

4 Legal Text

This text has been prepared based upon UNC text as of 25th March 2011. If this were to be implemented with (or after) Modification Proposal 0345 then changes would be required.

UNC Transportation Principal Document – Section M

Amend paragraph 5.1.1(c) as follows:

- (c) where a single item of Daily Read Equipment is installed and has become operational (in accordance with paragraph 4.1.6) in connection with more than one Performance Relevant Supply Meter:
 - (i) subject to paragraph (iii), the Transporter will be treated as providing Valid Meter Readings only where it provides a Valid Meter Reading in respect of each such Supply Meter;
 - (ii) without prejudice to paragraphs (i) and (iii), for all other purposes of this paragraph 5 all of such Supply Meters collectively shall be counted as a single Performance Relevant Supply Meter, and all of the Valid Meter Readings for a Day in respect thereof shall be counted as a single Valid Meter Reading; and accordingly payments made by reference to a Performance Relevant Supply Meter or the number of such Supply Meters shall be made by reference to an item of Daily Read Equipment or the number of such items;
 - (iii) for the purposes of paragraph 5.2.3 the Transporter will be treated as providing Valid Meter Readings in respect of all such Performance Relevant Supply Meters in respect of which an election made by the User pursuant to Section G 1.5.7 for the purposes of Section G 1.5.6(c) is in force, only where it provides a Valid Meter Reading in respect of each such Supply Meter;

Amend paragraphs 5.2.1 and 5.2.2 as follows:

- 5.2.1 The Transporters will provide not less than 97.5% of the required number of Valid Meter Readings to each User, in respect of each month in each case not later than 11:00 hours on the Day following the Day to which the relevant Meter Reading relates; and for the purposes of this paragraph, the required number of Valid Meter Readings in respect of a User in a month is the sum of the numbers of the Performance Relevant Supply Meters of the User on each Day of such month less the sum of the numbers of the Performance Relevant Supply Meters of the User on each Day of such month in respect of which an election pursuant to Section G 1.5.7 for the purposes of Section G 1.5.6(c) is in force.

5.2.2 Subject to paragraph 5.2.3, if in respect of any month the Transporters do not comply with the requirement in paragraph 5.2.1, the aggregate amount payable to the User shall be an amount calculated as:

$$\frac{((0.0975 * A) - B) * £30}{((0.0975 * (A - E)) - B) * £30}$$

where for the relevant month:

- A is the sum for all Days in the month of the number of the User's Performance Relevant Supply Meters;
- E is the sum for all Days in the month of the number of the User's Performance Relevant Supply Meters in respect of which an election pursuant to Section G 1.5.7 for the purposes of Section G 1.5.6(c) is in force;
- B is the sum for all Days in the month of the number of Valid Meter Readings which the Transporters provided by 11:00 hours on the following Day in respect of the User's Performance Relevant Supply Meters which shall be invoiced and payable in accordance with Section S (Users) in relation to which there is no election pursuant to Section G1.5.7 for the purposes of Section G 1.5.6(c) in force,

which amount shall be invoiced and payable in accordance with Section S (Users).

5 Impacts and Costs

Costs

There will be a minor impact on the DN Operator's service providers as they will have to change the way that DM liabilities are calculated. We do not believe that there will be any material cost of this change; any such cost would be borne by the relevant Transporter.

There are not expected to be any cost impacts on Users or other third parties.

User Pays

This is not a User Pays Modification Proposal as it does not create or amend any User Pays Services and/or Charges.

Impacts

Impact on Transporters' Systems and Process	
Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> None
Operational Processes	<ul style="list-style-type: none"> None
User Pays implications	<ul style="list-style-type: none"> None

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> DM read errors likely to be addressed earlier by DN Operators
Development, capital and operating costs	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> None
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> Could be benefit if mandatory DM read performance improves
Development, capital and operating costs	<ul style="list-style-type: none"> None
Recovery of costs	<ul style="list-style-type: none"> None
Price regulation	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> Avoids potential increase in liabilities due to reduced population of Performance Relevant Supply Meters (PRSMs), however, the 97.5% performance threshold could be breached with fewer failures (due to the smaller number of PRSMs) and

Impact on Transporters	
	therefore increasing the likelihood of incurring liabilities for DMM Supply Points
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> None
Standards of service	<ul style="list-style-type: none"> Change in DM liabilities regime

Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565**

Transco Proposal for Revision of Network Code Standards of Service at the following

location:

<http://www.gasgovernance.com/networkcodearchive/551-575/>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> None
UNC Committees	<ul style="list-style-type: none"> None
General administration	<ul style="list-style-type: none"> None

Impact on Code	
Code section	Potential impact
UNC TPD Section M 5.2	Changes to the liabilities in 5.2.1 / 5.2.2 to exclude DMV Supply Points as Performance Relevant Supply Meters

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None

0344

Final Modification Report

25 March 2011

Version 4.0

Page 9 of 17

© 2011 all rights reserved

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None

Impact on Core Industry Documents and other documents	
Gas Transporter Licence	None
Transportation Pricing Methodology Statement	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	None
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	Minor impact on DN Operator's DM service provider

6 Implementation

This Modification Proposal can be implemented shortly following a direction by Ofgem.

7 The Case for Change

In addition to that identified the above, the Proposer has identified the following:

Advantages

None other than those identified above

Disadvantages

None

The Proposer believes that this modification will better facilitate the achievement of

Relevant Objectives (a)

Proposer's view of the benefits of 0344 against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Yes
b) 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.	No
c) Efficient discharge of the licensee's obligations.	No
d) 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.	No
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	No
f) Promotion of efficiency in the implementation and administration of the Code	Yes

Achievement of Relevant Objective (a)

This Modification Proposal will facilitate achievement of relevant objective (a) "the efficient and economic operation of the pipe-line system to which this licence relates". The removal of DMV Supply Points from the day after the day 11am liability regime will further incentivise DN Operators to attend any faults at mandatory DM sites rather than at present providing an equal incentive to attend faults at DMV sites. Since mandatory DM sites can play a material part in the efficient operation of the pipe-line system, a regime that further incentivises attendance at faults at mandatory DM Supply Points will facilitate the achievement of this relevant objective; and

Achievement of Relevant Objective (f)

Implementation of this Modification Proposal will also be good for efficient administration and implementation of the UNC by having a service which is regulated and incentivised by competitive pressures rather than liabilities. This will therefore help to facilitate achievement of relevant objective (f) "Promotion of efficiency in the implementation and administration of the Code".

EDF Energy believes from figures produced this modification could have a detrimental impact on the allocation of energy to the NDM market. They therefore do not believe that

this proposal will facilitate any of the relevant objectives, and there is a risk that this proposal could have a negative impact on the allocation of energy and so in turn have a detrimental impact on competition.

8 Consultation Responses

Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
E.ON UK	Not in Support
EDF Energy	Not in Support
Gazprom	Supports
National Grid Distribution	Supports
Northern Gas Networks	Supports
Scotia Gas Networks	Supports
SSE	Supports
Wales & West Utilities	Supports

Of the eight responses received six representations supported implementation of the modification and two were not in support.

Summary Comments

E.ON UK were concerned about the removal of liabilities for an existing service as long as that service is still offered. They believed that until the DME service is established and the regulated DMV service becomes redundant then the liabilities should remain.

Gazprom considered the implementation should be aligned with the full roll out of the Daily Metered Elective (DME) service.

EDF Energy considers the allocation of energy to the DMV regime has a direct impact on the allocation of energy to the NDM regime. From the information provided by the proposer, the DMV regime accounted for 20.8% of the energy allocated to the DM sector in the period 1 December 2009 to 30 November 2010. They believe that this represents a material volume, and so the submission of these reads should continue to be incentivised to ensure the accurate allocation of energy.

EDF Energy considers implementation of this proposal could remove the incentive to resolve issues at a DMV site in a timely and prudent manner. Whilst the proposer ascertains this will not have an impact on the system, EDF Energy are concerned that the supporting information provided suggests that this is not the case and that a worse service at these sites would be delivered, which would not be in the interest of consumers or Shippers.

EDF Energy notes that Modification 0345 "Removal of the Daily Metered Voluntary Regime" seeks to remove the DMV regime with DMV sites moving to the DME or NDM regime. They note that the DME regime has a similar liability to incentivise Shippers to submit readings by D+1 11am. They consider that this may be a more appropriate solution than removing the DMV liability regime as this will ensure that meter reading standards and so energy allocation are maintained. In addition, they were concerned that implementation of 0344 alongside 0345 could provide a competitive advantage to the GDNs as DMV Suppliers as they are able to avoid the liability regime, unlike Shippers at DME sites.

Wales & West Utilities have considered reducing the liability from £30 to £2 to be aligned with the DME regime. They took the decision to retain the intent to remove the liability entirely. The basis of this is that the £2 performance charge was introduced during the

development of Modification Proposal 0224 and was a Shipper requirement, as this was to offer some level of protection to other, non-participating, Shippers.

0344
Final Modification Report

25 March 2011

Version 4.0

Page 14 of 17

© 2011 all rights reserved

9 Panel Discussions

The Panel considered Modification 0344 on 20 January 2011.

The Panel Chair summarised that the Transporters provide a regulated daily read service. As a means of incentivising reads to be provided efficiently, liabilities are payable in the event of standards being below a target level. Following the implementation of Modification 0224 - Facilitating the use of AMR in the Daily Metered Elective Regime – natural competitive pressures can be expected to ensure standards are maintained and hence it may be considered inappropriate for a liabilities based regime to continue. Removal of liabilities may also have the benefit of encouraging the Transporters to focus on their remaining regulated obligations in preference to seeking to operate efficiently in areas where the market can provide the required services.

Some Members felt that implementation of the modification would encourage the Transporters to focus on mandatory DM sites, and that any improvement in performance in this area would be expected to facilitate efficient system operation. These are the largest loads connected to the system and are likely to have a significant impact on how the system is operated. Any improvement in the available information would therefore be consistent with facilitating efficient system operation.

Some Members also felt that reliance on competitive pressures in preference to a liability regime would be consistent with efficient administration and implementation of the UNC, with a general presumption that market based approaches are more efficient than regulated arrangements.

Other Members were concerned that the incentive to maintain standards for the sites concerned should not be undermined, and at least be in line with those for Modification 0224. Significant volumes of energy are accounted for by these sites and any inaccuracy could therefore have an impact on the allocation of costs between Shippers. Any deleterious impact on cost allocations would be detrimental to facilitating the securing of effective competition. This was likely to be a particular problem in the immediate future since the competitive DME market is in its infancy and may not yet drive appropriate behaviours, such that liabilities should be maintained.

Six Members voted in favour of implementation. Therefore the Panel recommended implementation of this modification.

Panel's view of the benefits of implementation against the Code Relevant Objectives

Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Focussing on mandatory DM sites may provide improved information which can support system operation
b) 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.	None
c) Efficient discharge of the licensee's	None.

0344
Final Modification Report

25 March 2011

Version 4.0

Page 15 of 17

© 2011 all rights reserved

obligations.	
d) 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.	Misallocation of energy and costs may adversely impact completion.
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code	Reliance on market mechanisms to incentivise behaviour is expected to be efficient.

10 Recommendations

Panel Recommendation

Having considered the 0344 Modification Report, the Panel recommends:

- that Modification 0344 should be made