

Modification proposal:	Uniform Network Code (UNC) 441: Continuation of Daily Metered (Voluntary) service until the implementation of Project Nexus (UNC441)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	18 July 2013	Implementation date:	To be confirmed by the Joint Office

Background to the modification proposal

It is a mandatory requirement of the Uniform Network Code ('UNC') that any gas supply point with an Annual Quantity ('AQ')³ of over 58,600,000kWh must be read on a daily basis. These supply points are commonly referred to as Daily Metered Mandatory ('DMM') sites. Currently, the relevant Gas Transporter ('GT') is responsible⁴ for obtaining these reads and will do so through the installation of its own Daily Read Equipment ('DRE').

GTs are also currently required to install DRE for supply points below the DMM threshold but with an AQ greater than 73,200kWh, where requested to do so by the relevant shipper⁵. These supply points are commonly referred to as Daily Metered Voluntary ('DMV') sites.

The combined charge for the provision of DRE and daily reads for a supply point is around £1000 per annum. These charges are published in the relevant GT's metering charging statements⁶.

On 28 August 2009 the Authority directed the implementation of UNC224⁷. UNC224 allowed shippers to elect eligible supply points at which Automated Meter Reading ('AMR') equipment was installed to become Daily Metered Elective ('DME'). In nominating a site as DME, shippers would opt out of the non-Daily Metered (NDM) profiling process and instead submit DM reads. By using AMR equipment, shippers would not require the GT to install DRE and could avoid the associated DM charges.

Following the implementation of UNC224, Wales and West Utilities ('WWU') raised UNC345⁸, which sought to remove the obligation of GTs to offer a DMV service on the basis that DME would provide an effective substitute. WWU considered that it would be more efficient for these services to be procured competitively rather than through a regulated offering. UNC345 will come into effect on 1 October 2013⁹.

UNC345 follows the same phased approach as UNC224, with the shippers responsible for any existing DMV supply points having a set date to transition them to DME or NDM status, as follows:

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 The AQ is the estimated annual consumption for a supply point.

⁴ Section M, paragraph 4.1.4 of the UNC.

⁵ Section G, paragraph 1.5.9 of the UNC.

⁶ GTs are obligated under their licences (Standard Special Condition A4) to provide any charging methodologies to Ofgem for approval and once approved, publish them in such a manner as will, in its reasonable opinion, secure adequate publicity for it.

⁷ UNC224: 'Facilitating the use of AMR in the Daily Metered Elective Regime' – see:

<http://gasgovernance.co.uk/0224>

⁸ UNC345: 'Removal of Daily Metered Voluntary regime' – see: <http://www.gasgovernance.co.uk/0345>

⁹ UNC345 notice of implementation:

www.gasgovernance.co.uk/sites/default/files/Notice%20of%20implementation%200345.pdf

- AQ greater than 5,860,000 kWh by 1 April 2014;
- AQ greater than 2,196,000 kWh by 1 July 2014;
- AQ greater than 732,000 kWh by 1 October 2014.

The modification proposal

UNC441 seeks to replace the phased dates currently prescribed for the removal of the DMV service with a single later date of 1 October 2015.

The proposer considers that the DME service does not provide a viable alternative to DMV as the deadlines required for the submission of reads cannot currently be matched by any commercial offering in the market. They also suggest that at the time UN345 was progressed there was an expectation that Project Nexus¹⁰ would have been available in order to support a wider range of settlement products, including a viable daily read alternative. Project Nexus is not now expected to be implemented until Q4 2015¹¹.

The proposer considers that moving the withdrawal date for DMV services to 1 October 2015 will allow for a seamless transition between current arrangements and those being brought in under Project Nexus. They also consider that maintaining the existing withdrawal dates would result in current DMV sites reverting to NDM status, which would be detrimental to settlement accuracy.

UNC Panel¹² recommendation

At its meeting of 20 June 2013 the UNC Modification Panel voted by a majority of ten votes to one in favour of recommending the implementation of this proposal.

The Authority's decision

The Authority has considered its statutory duties and functions in reaching its decision. The Authority has considered the issues raised by the modification proposal, the Final Modification Report ('FMR') dated 20 June 2013¹³ and responses to the Joint Office's consultation. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC¹⁴; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties¹⁵.

Reasons for the Authority's decision

We note that, of the nine respondents to the Joint Office consultation on UNC441, all but WWU were in support of its implementation. We agree with the proposer and the UNC Panel that this proposal should be considered against relevant objective d). We consider that it is neutral with respect to all other relevant objectives.

¹⁰ The Xoserve led project to replace the GTs UK Link IT system

¹¹ See: UK Link programme Update - www.gasgovernance.co.uk/Nexus/170613

¹² The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

¹³ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹⁴ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/index.php?pk=folder590301>

¹⁵ 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.

Relevant Objective d): the securing of effective competition between relevant Shippers

Metering service provision

We consider that competitive pressures are likely to provide greater incentives to innovate and drive efficiencies to reduce the costs of metering services. Indeed this was part of the rationale for UNC224 being implemented. Although there is a tariff cap on how much the GTs may charge for the DMV service and liabilities within the UNC to incentivise performance, this is only a proxy for competition. We are therefore sympathetic to the views expressed by WWU that the implementation of UNC441 may undermine the intent of the earlier UNC345, which seeks to replace the regulated DMV offering with a competitive one.

DME meters are not classified as Performance Relevant Supply Meters¹⁶, though UNC224 included a similar incentive provision. UNC224 set out that if a DME meter is not read by 11am on the day after the settlement day the shipper must pay £2 to the relevant GT. In our decision to accept UNC345 we noted that a shipper's exposure to these meter reading liabilities may act as a disincentive to move away from the DMV regime. However, we considered that they would be free to enter into contractual terms with providers to meet these service standard requirements and potentially back off any associated liabilities.

Our decision on UNC345 recognised the as yet unproven nature of the DME service. We therefore suggested that should evidence arise that, for example, shippers were unable to procure metering services at a similar or lower cost than DMV, a further modification could be raised to address this issue. Several respondents considered that DME has not proven to be viable¹⁷, though we share the views of WWU that there has been little evidence to support these assertions. It would have been preferable for the FMR to demonstrate that some procurement exercise or other form of market testing had taken place and, to the extent commercial sensitivities allow, to set out the results. Given the 1 October 2013 implementation date of UNC345, we consider that it would now be impractical to conduct such an exercise and for shippers to respond in a meaningful way ahead of that date.

We also note that several respondents suggest that DME will shortly be replaced by the revised settlement products being developed under Project Nexus, in particular 'Product 2'¹⁸. We agree that the proximity of Project Nexus reduces the impact that deferring DMV withdrawal may have on metering competition, but also lessens the benefit of pursuing any interim alternative. However, we would note that at this time both the final nature of any revised settlement products and the timing of their introduction remain uncertain. We further note the comment of one respondent that whilst 'Product 2' appears similar to DME, service standards are anticipated to be lower and it is not expected to be subject to an incentive mechanism.

UNC441 seeks only to defer to 1 October 2015 the withdrawal of the DMV service from existing sites. It does not unwind the changes UNC345 will make to UNC Section G1.5.9, which removes the shippers right to request that the GT install DRE equipment and replaces it with a right to install their own. This may prevent any new DMV sites

¹⁶ Both DMM and DMV supply points are classified as Performance Relevant Supply Meters. This means that the GT must read 97.5% of these meters by 11am on the day after the settlement day. If the meter has not been read by this time, the GT faces a penalty, payable to the shipper, of £30 per day. If the meter has not been read four days after the settlement date, this penalty increases to £75 per day.

¹⁷ The most recent '[DME take up report](#)' confirms that to date there has been zero take up.

¹⁸ UNC432; '[Project Nexus - gas settlement reform](#)' proposes that there will be four settlement 'products' available to shippers once it and the rest of Project Nexus are implemented. Product 2 offers shippers the option of the supply point being treated as DM for the purposes of gas allocation, but does not treat the submission of meter readings as being time critical. There will be no liability payment for missed reads.

being created from 1 October 2013. This suggests that UNC441 is a short term stop gap only, and does not undermine the intent of UNC345.

Settlement accuracy

Several respondents noted that, in the absence of a viable DME service, the withdrawal of DMV would mean that the previously daily read sites will revert to NDM. Some went on to state that daily metering at a site ensures that the supplier is charged for daily consumption based on actual meter reads and not estimates, resulting in more accurate cost allocation. We share the concern that restricting the availability of daily reads that enter into settlement may lead to a less accurate cost allocation and be detrimental to competition.

Other issues

We note that some shippers had voiced concerns with the prescription of fixed dates for the removal of DMV under UNC345, stating that it should only be removed when there had been sufficient take up of DME to prove that it is effective. The dates prescribed under UNC345 have proven to be impracticable, in part due to delays in the anticipated implementation of Project Nexus. However, UNC441 again sets a specific DMV service withdrawal date of 1 October 2015. We are concerned that as this date draws near there may again be uncertainty regarding the provision of DM services if, for instance, Project Nexus were to be further delayed or there remained a perceived shortage of alternative service providers. We consider that it would be helpful if this issue is brought within scope of the transitional planning for Project Nexus.

Should the need arise to again reconsider the DMV service withdrawal date, we would expect to see some evidence of market testing and if appropriate a greater exploration of the issues that may be acting as a barrier to Meter Asset Managers providing a substitute service.

Conclusion

We remain of the view that the withdrawal of regulated DMV services will, in due course, further facilitate metering competition with anticipated consumer benefits and are therefore disappointed that greater efforts have not been made towards this aim. However, at this stage we do not consider that it will be practicable for shippers to appoint alternative service providers within the timescales originally set out in UNC345. We also consider that there could be a tangible detriment to settlement accuracy and associated cost allocation if thousands of sites revert to being NDM. We therefore consider that, on balance, a deferral of DMV withdrawal is in the best interest of competition between shippers and that the implementation of UNC441 would better facilitate relevant objective (d).

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC441: 'Continuation of daily Metered (Voluntary) service until the implementation of Project Nexus' be made.

Maxine Frerk
Partner, Retail Markets and Research

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