

Modification proposal:	Uniform Network Code (UNC) 570: Obligation on Shippers to provide at least one valid meter reading per meter point into settlement once per annum (UNC570)		
Decision:	The Authority ¹ directs this modification be made ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	31 August 2017	Implementation date:	To be confirmed by the Joint Office

Background

In its energy market investigation, the Competition and Markets Authority (CMA) found that, amongst other things, the then system of gas settlement for non-daily metered customers gives rise to an Adverse Effect on Competition (AEC) through the inefficient allocation of costs to parties and the scope it creates for gaming. The CMA considered that this reduces the efficiency and, therefore, the competitiveness of domestic and microbusiness retail gas supply.

The CMA subsequently decided on a package of remedies to be implemented in order to remedy, mitigate or prevent the Gas Settlement AEC. These are set out in paragraph 20.27 of the CMA's final report. In addition to recommendations to Ofgem to ensure the timely implementation of Project Nexus and the establishment of a gas performance assurance regime, the CMA set out its intention to require that more frequent meter reads be obtained and submitted to Xoserve for gas settlement purposes. In the case of supply points with legacy (non-smart) meters, reads should be submitted at least once a year. For all supply points with a smart or other remotely read meter, the expectation was that meter reads would be submitted at least once per month.

These meter reading requirements were given effect through an Order³, which modified the following licence conditions:

- Gas Supply Standard Licence Condition 21B;
- Gas Shipper Standard Licence Condition 11;
- Gas Transporter Standard Licence Condition 5; and,
- Gas Transporter Standard Special Licence Condition A50.

The Order came into force on 15 December 2016, except Article 3.3 which shall come into force on 1 April 2018 (or any other later date pursuant to a direction issued by the CMA no later than 1 September 2017). Article 3.3 applies to supply meters that are able to remotely transmit Valid Meter Readings⁴ (i.e. smart or other remotely read meters).

The modification proposal

UNC570 seeks to create a condition in the UNC to correspond with the requirement on Suppliers under the Standard Licence Condition (SLC) 21B of their licence to take a meter

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ The Energy Market Investigation (Gas Settlement) Order 2016

⁴ Conditions for a valid meter reading from a non-daily read supply meter are set out in the Transportation Principal Document Section M of the UNC.

reading at least once every year for billing purposes. In the case of the UNC this would be for use within gas industry settlement and relate to non-daily metered sites.

It is noted that UNC570 would discharge the licence requirements only in respect of meters that are not able to remotely transmit Valid Meter Readings. Review group UNC594R⁵ is currently considering what, if any, implications a requirement to take a monthly reading from remotely read meters may have on the UNC.

UNC Panel⁶ recommendation

At its meeting of 17 August 2017, the UNC Panel voted unanimously to recommend that UNC570 be implemented.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 17 August 2017. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR⁷. We have concluded that:

- implementation of UNC570 will better facilitate the achievement of the relevant objectives of the UNC;⁸ and
- directing that the modification be made is consistent with our principal objective and statutory duties.⁹

Reasons for our decision

We note that there was a strong level of support for UNC570, with nine of the eleven respondents supporting its implementation, and the final two offering qualified support. We agree with the respondents who considered that UNC570 should be considered against relevant objective d), but also against relevant objective c). We agree that it would have a neutral impact on the other relevant objectives.

Relevant objective c) - efficient discharge of the licensee's obligations

Whilst recognising that the CMA Order was focused primarily on Gas Suppliers' obligations, to the extent that the Order also modified the standard and standard special conditions of the Gas Transporters licence as set out above, we consider that the implementation of UNC570 will also facilitate the efficient discharge of the Gas Transporters' licence conditions.

Relevant objective d) - the securing of effective competition between relevant shippers;

⁵ See: www.gasgovernance.co.uk/0594

⁶ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁷ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

⁸ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk//Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

⁹ 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 as amended.

As noted by some respondents, whilst Gas Suppliers have since 2014 been obligated under the conditions of their licence to obtain a meter reading at least once each year for each of their customers, this was for billing purposes. As such, the obligation did not extend to pre-payment meter customers and in particular did not require the meter readings obtained to be entered into the gas settlement process.

Now that smaller supply points are individually reconciled¹⁰, each valid meter reading submitted will allow for a reconciliation between the amount of energy allocated and that actually consumed. We therefore agree with respondents that the implementation of UNC570 should ensure that more frequent meter readings are entered into the settlement process, and that this will improve the accuracy of cost allocation in the form of transportation and energy invoicing. We also agree with those respondents who noted that given the availability of meter reads and existing systems capability that this improvement would come at very little marginal cost.

Further, the requirement for a meter reading at least once each year should ensure that energy is not 'timed out' from being reconciled by the 3-4 year Code Cut-Off date. Any energy that is not reconciled by this date may contribute to the socialised costs of Unidentified Gas. We consider that the increased accuracy of cost allocation, and in particular that reduction in socialised Unidentified Gas costs, will allow efficient operators to further differentiate themselves from their competitors based on price. The implementation of UNC570 should therefore further effective competition between relevant gas suppliers and gas shippers.

We note the comment of one respondent who, whilst in favour of UNC570, suggested that it represented a minor improvement upon current baseline, and that efforts should be made by the industry to substantially increase the number of meter readings submitted above this annual minimum. They went on to suggest that industry should look to move to a six monthly read requirement as soon as possible. We have sympathy with this view and where suppliers have more regular reads they submit them into settlement to improve accuracy, but note that UNC570 does not apply to smart meters. Whilst we await the outcome of UNC594R for any recommendation on whether further UNC modifications may be appropriate, Gas Suppliers should already be obtaining meter readings from smart and other remotely read meters on at least a monthly basis and submitting these reads into the gas settlement processes, pursuant to the conditions of their licence. Given the functionality of smart meters and the new UK Link, we would like to see an increase in the submission of meter reads and move towards using settlement classes 2 and 3 to improve the accuracy of settlement.

The two respondents who offered only qualified support pointed out that the meter reading requirements under UNC570 may be more stringent than those imposed by SLC21B. In particular, they noted that whilst the licence required that the licensee 'take all reasonable steps' to provide a Valid Meter Reading, UNC570 places an absolute requirement on Gas Shippers to submit at least one such reading. Those respondents noted that there may be circumstances where a meter reading cannot be procured and/or entered into settlements, such as where the supply point is a long-term vacant property or there are issues with the central systems. Whilst we acknowledge these concerns, we consider it appropriate and proportionate for the UNC to set a requirement of at least one Valid Meter Reading from each live supply point annually. However, we also recognise that occasionally there may be legitimate circumstances which make it

¹⁰ Prior to the implementation of the UK Link replacement (Project Nexus) systems, only larger supply points were individually reconciled, with smaller supply points being subject to Reconciliation by Difference.

impracticable and/or unreasonable to obtain and/or submit a Valid Meter Reading for some supply points. We agree with the respondent who suggested that the UNC Performance Assurance Committee should take such circumstances into account when monitoring the absolute and relative performance of shippers and in considering what, if any, remedial action is appropriate.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC570: *'Obligation on Shippers to provide at least one valid meter reading per meter point into settlement once per annum'* be made.

Rob Salter-Church

Partner, Consumers and Competition

Signed on behalf of the Authority and authorised for that purpose