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Modification proposal:	**Uniform Network Code (UNC) modification proposals 466 and 466AV: Daily Meter Reading Simplification (UNC466/466AV)**		
Decision:	The Authority[1] directs that UNC466AV be made[2]		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	26 March 2015	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposals

Whilst metering and meter reading services have been unbundled from transportation activities for the vast majority of supply points for over a decade, Daily Metered (DM) supply points remain an exception. The UNC requires that any supply point with an Annual Quantity (AQ)[3] above 58,600,000 kWh must be DM, and that the meter readings will be procured by the relevant Gas Transporter (GT)[4] utilising its own Daily Read Equipment (DRE). The UNC also allows for a Larger Supply Point[5] below this threshold to be DM on a voluntary basis (DMV).

For non-mandatory DM supply points, Shippers are able to competitively procure their own reads and/or utilise their own Automated Meter Reading (AMR) equipment rather than the DRE of the GT. Supply Points which utilise competitively procured DM services are classified as DM elective (DME).[6]

In December 2011 we accepted UNC345[7], which provided for the removal of the DMV regime, as we agreed with the GTs that it would be more efficient for non-mandatory DM services to be procured competitively, rather than through the regulated GT offerings. No new DMV supply points are being created and, further to the implementation of UNC514[8], the DMV service is expected to be withdrawn entirely six months from the implementation of Project Nexus. This is scheduled for 1 October 2015.

The population of DM supply points (whether mandatory or voluntary) has fallen significantly since the DM regime was established within the original network code in 1996.

As a monopoly activity, the DM read service is subject to a tariff cap as part of the GT price control. Shippers currently pay £515 for the DM read service, and a further £500 for the provision of the DRE. GTs publish these tariffs in their metering charging statements, which are available on their respective websites.

The modification proposals

[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 Annual Quantity (AQ) is an estimate of the quantity of gas that will be consumed in the relevant Gas Year, which commences 1 October.
[4] UNC Section M, paragraph 4.1.4
[5] A Larger Supply Point (LSP) has an AQ greater than 73,200kWh
[6] However, to date no supply point has been registered to the DME service
[7] UNC345: '*Removal of Daily Metered Voluntary regime*'.
[8] UNC514: '*Extending the Daily Metered 'voluntary' service to Project Nexus Implementation Date plus six months*'

National Grid Distribution (NGD), the proposer of UNC466, considers that the withdrawal of the DMV service will continue this decline, with the number of DM supply points falling from around 25,000 nationally to just a few hundred today. NGD also confirms that the importance of DM read data to GTs has reduced significantly. Given the increased marginal costs of servicing a decreasing number of DM supply points and the constraints of the existing price control mechanism, NGD considers that it is necessary to simplify the current DM regime in order for it to remain cost-effective and fit for purpose.

UNC466 therefore proposes to simplify DM read procurement and provision. In particular, it seeks to:

- relax GT obligations to provide DM reads to shippers, such that they may be submitted one hour later and on a "reasonable endeavours" basis; and
- revise the liabilities associated with a failure to meet the required standards.

The UNC currently requires that the GT will, on request of the shipper, provide a read for each hour of the day at no more than four hourly intervals. UNC466 also seeks to exclude such within-day data from the regulated service and require the shipper to enter into separate commercial terms.

The alternative proposal, UNC466AV, also seeks to relax the standards and liabilities of DM read provision, as set out above, but additionally seeks to require that the GTs provide within-day read data upon request. UNC466AV also stipulates that these will be communicated via the UK Link system rather than, for instance, an emailed spreadsheet.

Following consideration of the proposals at the November 2014 meeting of the UNC Panel (the Panel), the alternative proposal was sent back to the workgroup and subsequently varied in order to clarify that its scope did not extend to telemetry equipment operated by the National Grid National Transmission System. At that point the alternative proposal was renumbered from UNC466A to UNC466AV. At its meeting of February 2015 the Panel agreed that the variation was not material and that it should proceed to a recommendation without further consultation.

UNC Panel[9] recommendation

At its meeting of 19 February 2015 the Panel voted by a majority to recommend the implementation of UNC466AV.

The Panel had earlier voted, at its 20 November 2014 meeting, not to recommend the implementation of UNC466, with only the five GT Panel members voting in favour.

The Panel considered that UNC466AV would facilitate relevant objective (f) of the UNC by removing requirements which inhibit the GTs from offering an efficient and cost-effective service to shippers.

The Authority's decision

We have had regard to our statutory duties and functions in reaching this decision. We have considered the issues raised within the Final Modification Report (FMR) dated 19

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

February 2015 and the consultation responses published alongside and summarised within the FMR[10]. We have concluded that:

1. implementation of UNC466AV will better facilitate the achievement of the relevant objectives of the UNC[11]; and
2. directing that UNC466AV be made is consistent with our principal objective and statutory duties[12].

Reasons for the Authority's decision

We note that the eleven responses to the consultation on UNC466/AV were divided. Three respondents considered that either proposal would further the relevant objectives; three respondents supported only the original proposal; two supported only the alternative proposal and the remaining three opposed implementation of either proposal.

We agree with the proposer and the UNC Panel that UNC466/AV should be assessed against relevant objective (f). However, we also consider that it should be considered against relevant objectives (a) and (d). We agree that the proposal would have a neutral impact against the other UNC objectives.

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

While the DM read service remains a GT price-controlled activity we consider that changes to this service may appropriately be considered against relevant objective (a).

We note that the DM population has reduced considerably in recent years, primarily due to reforms to the interruption regime. Previously, all DM customers were able to avoid capacity charges in exchange for providing the GT with the option of interrupting their supply if required. These arrangements changed with the implementation of UNC090[13] which allowed the GT to determine the amount and location of interruption that may be required. We note that recent auctions have resulted in only a handful of supply points being subject to interruptible arrangements, with the vast majority of former interruptible supply points now having firm capacity rights.

AMR is being rolled out to all supply points with an AQ above 732,000 kWh.[14] Therefore, to the extent that GTs still require DM data for their own operational purposes, we see no obvious reason why this could not be more efficiently procured in the medium- to long-term by placing a UNC obligation on relevant shippers to provide it. As with interruption reforms, this could be based on wider characteristics such as supply point location, rather than simply capacity.

However, we recognise that UNC466/AV are focused on the shorter term issue of how to make the existing DM service more cost-efficient. Until such time as a more thorough

[10] UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com
[11] As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: https://epr.ofgem.gov.uk//Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf
[12] 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.
[13] UNC090: '*Revised DN interruption arrangements*'
[14] In April 2009, the Government introduced a new licence condition requiring suppliers to roll-out advanced gas and electricity meters to their larger non-domestic consumers by 6 April 2014.

review of GT DM read requirements is available[15], we consider that the implementation of either UNC466 or UNC466AV would be marginally beneficial to the efficient operation of the network and therefore further relevant objective (a).

Relevant objective (d): the securing of effective competition between relevant shippers and suppliers

As noted above, DM read provision remains a monopoly activity of the relevant GT, and as such remains subject to a tariff cap to act as a proxy for the cost discipline that would be driven by effective competition. We acknowledge that with the number of supply points taking the DM service reducing and much of the GT cost in providing those services being fixed, the current DM liabilities regime is an appropriate place to look for cost efficiencies. We are therefore sympathetic to the original intent of UNC466.

We are also sympathetic to the suggestion that UNC466AV may require further investment by GTs in a service which they have little interest in providing. However, while shippers are paying around £1000 per year and have no opportunity to avoid those costs, it is appropriate that they have a say in the required standards of service. This is particularly important given the gas suppliers also have obligations in this area.

As noted by some respondents, gas suppliers have a licence obligation[16] to ensure that any site consuming more than 732,000 kWh has an advanced meter installed, which is capable of providing consumption data for multiple time periods, at least hourly. Whilst the provision of DRE goes some way to fulfilling that that requirement, the licence goes on to require that the meter (or ancillary device) must be able to provide the gas supplier with remote access to that data. The supplier must in turn ensure that a relevant customer or their nominated agent also has access to that data.

We appreciate that GTs have sought to allow multiple connection ports on their DRE in order to facilitate the use of secondary equipment which may facilitate these requirements. This is reflected in the UNC466 legal text. However, having already paid in excess of £1000 for the DRE and reads provided by the GT, it does not seem efficient (or appropriate) for shippers to require secondary, largely duplicate, equipment to be installed at further cost. Nor is such a connection guaranteed under UNC466; the GT retains discretion over whether it is feasible for a shipper to have either access to within-day data, or to a connection port (presumably determined by site specific circumstances) and makes them subject to agreed commercial terms.

We have some sympathy with this suggestion, as the provision of within-day data is a value-added option that will only be provided and charged for on request of a shipper. However, given the current monopoly on DRE provision, we consider that such value-added services must be available to all shippers on equivalent terms and charged for cost-reflectively. It would be appropriate for such terms to be governed through the UNC as a User Pays service, as envisaged under UNC466AV rather than as a bilateral contract. We also note that UNC466AV does not provide for GT discretion over the feasibility of the service.

In our decision to accept UNC345 we noted that a further continuation of DMV provision by the GT may hinder competition in that area of metering services. Similarly, we think that the provision of within-day data may dissuade shippers from seeking alternative

[15] We consider that this may be some time after the implementation of Project Nexus, when the likely take up of settlement Product 2 is better known.
[16] Gas Suppliers Licence Standard Condition 12: Matters relating to gas meters

service providers. This would be of particular concern if alternative service providers found it to be prohibitively expensive to also utilise UK Link network, as GTs would do under UNC466AV.

Given the above, we consider that UNC466AV may be marginally detrimental to the longer term prospects for metering competition at mandatory DM supply points, whereas UNC466 would be neutral to this aim. However, as noted above, there are a relatively small number of DM supply points and we are not aware of any specific push for this sector to be contestable. We therefore consider that at this time, the interests of metering competition are outweighed by the near-term benefits to shippers of being able to discharge their licence obligations in a cost-efficient manner and utilise within-day data to provide a better service to their customers. We therefore consider that on balance, UNC466AV would better facilitate competition between relevant gas shippers and suppliers, furthering relevant objective (d).

Relevant objective (f): the promotion of efficiency in the implementation and administration of the UNC

The common theme amongst respondents was that the implementation of either UNC466 or UNC466AV would reduce unnecessarily restrictive UNC provisions and therefore promote efficient administration of the UNC. The proposed relaxation of the deadline for submission of reads to the shipper, together with a reduction of the amounts payable, will reduce the GTs' exposure to liability payments, though the anticipated cost-reduction has not been quantified and/or published.

To the extent that both UNC466 and UNC466AV would reduce the administrative burden upon GTs, we agree that either proposal would better facilitate relevant objective (f). Given that UNC466AV would extend the GTs' obligations beyond those set out in UNC466, we consider that of the two, UNC466 would best facilitate this objective.

Conclusion

Whilst either UNC466 or UNC466AV would meet the proposer's original intention of reducing the administrative burden and cost of providing a DM read service, which we have assessed against relevant object (a) in addition to (f), we consider that UNC466 would offer the greater efficiencies to GTs. However, UNC466AV would offer additional benefits to gas shippers and their customers, and therefore best facilitate relevant objective (d). Having regard to the fact that any additional costs of providing within-day date through the UK Link will be recoverable through a cost reflective User pays service, we consider that on balance the benefits of UNC466AV outweigh those of UNC466.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters' Licence, the Authority hereby directs that modification proposal UNC466AV: '*Daily Meter Reading Simplification'* be made.

Angelita Bradney
Head of Smarter Markets
Signed on behalf of the Authority and authorised for that purpose.