

Modification proposal:	Uniform Network Code (UNC) Inclusion of data items relevant to smart metering into existing industry systems (UNC430)		
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:	26 April 2013	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

The Smart Metering Implementation Programme (the 'SMIP') is a major energy infrastructure project that is being led by the Department of Energy and Climate Change ('DECC') for the replacement or upgrade of over 50 million domestic and non-domestic electricity and gas meters by the end of 2019. The SMIP has defined two phases for the rollout of smart meters, the:

- Foundation Phase³; and
- Mass Rollout Phase⁴.

As part of the SMIP, DECC has established working groups to assist with the detailed assessment of specific parts of the smart metering implementation proposals. Working Group 4 of SMIP's Smart Metering Regulation Group (the 'SMIP Working Group') considered the consequential changes needed to existing industry codes (including the Uniform Network Code ('UNC') and the Independent Gas Transporter UNC) to facilitate the delivery of the SMIP. The SMIP Working Group recommended more detailed consideration of adding requirements to the UNC (the 'Requirements') to:

- Place an obligation on Shippers to provide Transporters with specific, additional data items in respect of a meter point where smart metering is installed by the Supplier; and
- Grant permission for a Transporter to release (where required) specific meter point data to the Data and Communications Company⁵ ('DCC') after the appropriate licence has been granted.

The SMIP concluded that consequential changes to the UNC to meet the Requirements should be considered in accordance with normal UNC governance arrangements.

The modification proposal

Northern Gas Networks (the 'Proposer') raised UNC Modification Proposal UNC430 in July 2012. This proposal was intended to achieve the Requirements. The UNC Modification Panel (the 'Panel') established a Workgroup (the 'UNC430 Workgroup') to assess and further develop Modification Proposal UNC430.

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 Foundation Phase began in March 2011 and is intended to assist industry's preparation for the Mass Rollout.

⁴ The Mass Rollout Phase (also referred to as the Enduring Phase) is proposed to start in late 2014 and be complete by end 2019.

⁵ The SMIP proposals include establishment of a new Data and Communications company which would be required to provide data and communications services for smart metering nationwide.

The UNC430 Workgroup assessed changes to the UNC which could facilitate the Requirements. Modification Proposal UNC430 would:

- Place an obligation on Shippers to provide additional data items to Transporters when smart metering is installed at a meter point. The Shipper would need to obtain this data from the relevant Supplier;
- Require Transporters to capture and store the new data items in UK Link and ensure that data was available to other UNC Parties as required by the UNC; and
- Permit Transporters to share specific data items with the DCC when requested.

The UNC430 Workgroup considered changes to the associated centralised gas industry databases⁶ ('UK Link') that would be required to enable Transporters to collect and store additional data items relevant to smart metering. This assessment did not consider options for new data transfers from UK Link.

Xoserve⁷ (acting as the central system provider) carried out an analysis of the changes to UK Link that would be required to facilitate the implementation of the Requirements. Xoserve provided a Rough Order of Magnitude ('ROM') estimate of UK Link development costs to the UNC430 Workgroup for its consideration. The ROM presented estimated development costs to facilitate the implementation of the SMIP change requirements within the range of £0.6 – £1 million.

The UNC430 Workgroup considered options for funding the required development work. The majority of UNC430 Workgroup members agreed that funding should be through a User Pays modification as the changes to UK Link will allow suppliers to meet their obligations to facilitate smart metering arrangements, making them the beneficiaries of the changes. Agency Charging Statement ('ACS') change proposals were prepared to include a new one-off charge that would be funded by Shippers. Two options were developed to provide for:

- Charges to be split between all registered meter points, or
- Charges to be split between registered meter points where a change to a smart meter will be mandated as part of SMIP.

The UNC430 Workgroup provided views to inform the development of each of the ACS change proposals for a new Shipper charge for the recovery of the total Xoserve development costs that would be incurred to facilitate the implementation of the UNC430 Modification Proposal.

Before Modification Proposal UNC430 was submitted to the Panel for consideration, the ACS change proposals were modified to reflect funding arrangements for UK Link development costs available to Transporters under the price control arrangements applicable from 1 April 2013. Transporters advised that UK Link development costs associated with Modification Proposal that are incurred from 1 April 2013 would be recovered via Transporter charges. The scope of the proposed additional ACS charge is now limited to User Pays funding for development costs incurred before 1 April 2013 which are estimated to be within the range of £42.7k - £282k⁸.

⁶ Transporters hold the centralised gas industry databases, which are known as UK Link. Various information about each supply meter point is held in UK Link.

⁷ Xoserve provides centralised information and data services for Transporters and Shippers in GB as the Gas Transporters' Agent.

⁸ Information was presented to the UNC430 Workgroup meeting – minutes of UNC430 Workgroup meeting on 12 October 2012 <http://www.gasgovernance.co.uk/sites/default/files/Minutes%200430%20121012%20v1.pdf>

In the absence of agreement of a single basis for the proposed new charge for Shippers, the UNC430 Workgroup recommended that two separate ACS change proposals should be submitted for the Authority's consideration. Each of the ACS change proposals that were submitted was developed assuming that one of the options would not be implemented as a consequence of an Authority direction.

Six of the seven respondents to the UNC430 Modification Proposal consultation supported the proposed changes to UNC and UK Link. The other respondent's support for these proposed changes was qualified pending clearer definition of the baseline for security of the overall smart metering system which that respondent anticipates will be provided as part of the more detailed definition of the SMIP proposals.

UNC Panel⁹ recommendation

Modification Proposal UNC430 was discussed at the Panel meeting held on 21 February 2013. At this meeting, the Panel members unanimously decided to recommend that Modification Proposal UNC430 should be implemented.

Subsequent to the 21 February Panel meeting, the Proposer identified a need for a small change to the legal text which clarified that the Implementation Date would be designated by the UK Link Committee. This change to Modification Proposal UNC430 was discussed at the Panel meeting on 21 March 2013. The Panel members considered that the changes to the proposed legal text were not sufficiently material to justify further consultation on Modification Proposal UNC430.

The Panel unanimously decided to recommend that the revised version of Modification Proposal UNC430 should be implemented.

The Authority's decision

The Authority has considered its statutory duties and functions in reaching this decision. The Authority has considered the issues raised by the modification proposal, the Final Modification Report (FMR) dated 18 March 2013 (which included the revised legal text) and has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR¹⁰. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC¹¹; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties¹².

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

¹⁰ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk.

¹¹ As set out in Standard Special Condition A11(1) of the Gas Transporter Licence, see: <http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.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 (as amended).

Reasons for the Authority's decision

We have assessed the proposed modification against the UNC relevant objectives. The proposer considered that it would better facilitate relevant objectives (d) and (f). We have also assessed the modification proposal against these relevant objectives and agree that it would better facilitate relevant objectives (d) and (f)). We consider that the modification proposal has no impact or is neutral against the remaining relevant objectives.

We note the consultation respondent's comment about the on-going development of proposed baseline arrangements for the security of the overall smart metering system and acknowledge that requirements may be proposed in the future that have a consequential impact on the UNC. We recognise that other types of modification proposals (within and outside of the scope of SMIP) may have consequential impacts on the UNC. We consider that in accordance with existing governance arrangements, industry parties would be able to ensure that possible consequential impacts identified are properly assessed and where required, bring forward further UNC modification proposals.

Relevant objective (d): 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

We note that UNC430 would increase the scope of information that is held in UK Link to identify if a smart metering system is installed at a property. This is consistent with the scope of the Requirements identified as necessary to facilitate the implementation of the SMIP.

We consider that the availability of additional data stored on UK Link to an incoming Supplier could improve the customer experience during the change of supplier process. We agree with the views set out in the UNC430 FMR that there would be advantages if an incoming Supplier is better able to identify and offer terms that are appropriate to the customer's supply meter point.

We consider that measures that facilitate improvements to the effectiveness of the change of supplier process should improve customer experience and therefore would be expected to promote more effective competition in gas supply.

Relevant objective (f): Promotion of efficiency in the implementation and administration of the Code.

Modification Proposal UNC430 includes changes that have been identified as necessary for both the Foundation and Mass Rollout Phases of the SMIP. We acknowledge that the legal text for Modification Proposal UNC430 was, necessarily, developed in advance of fully defined arrangements for DCC and other substantive industry code changes needed for SMIP.

We have concerns about the level of clarity in the proposed changes to the UNC in respect of the:

- Scope and structure of the new Shipper obligations to provide data items to the Transporter when a smart meter is installed; and

- Definition of DCC that is used to describe the scope of the permission for the Transporter to share specific UK Link data items.

However, we note that the UNC is subject to review and consider that UNC change proposals to improve the clarity and consistency of the obligations will be developed in future, particularly when more is known of the DCC arrangements.

The Authority acknowledges that the combined consideration of the Requirements relevant at each of the Foundation and Mass Rollout Phases within a single Modification Proposal is likely, on balance, to facilitate a more efficient approach to the required UK Link amendments and therefore Modification Proposal 430 can be expected to better facilitate relevant objective (f).

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporter Licence, the Authority hereby directs that Modification Proposal UNC430: 'Inclusion of data items relevant to smart metering into existing industry systems' be made.

ACS decision

Two ACS change proposals that define a new one-off charge for Shippers which would be used to recover the Xoserve development costs (incurred up to 31 March 2013)¹³ to facilitate the implementation of Modification Proposal UNC430 were submitted for the Authority's consideration which were:

- Costs targeted to all "mandated" Shippers
- Costs targeted to all Shippers.

We note that either of these two ACS change proposals if implemented would introduce an additional, one-off charge to Shippers. Notwithstanding the similarities between the two ACS change proposals, in accordance with the requirements of standard special condition A15 of the Gas Transporter Licence, the Authority has assessed each ACS change proposal separately.

Option A¹⁴: Costs targeted at all "mandated" shippers

If the Option A ACS change proposal was implemented, the calculated charge for each Shipper would be based on:

- The total Xoserve development costs incurred for works up to end 31 March 2013;
- The total number of supply meter points within the scope of the smart meter rollout proposals¹⁵ at the time that the UNC modification proposal is implemented; and
- That Shipper's proportion of the total number of supply meter points within the scope of the smart meter rollout proposals at the time that the UNC modification proposal is implemented.

¹³ Xoserve development costs to facilitate the implementation of Modification Proposal 430 incurred from 1 April 2013 will be recovered as part of Transporter charges that are applicable to all supply meter points.

¹⁴ A copy of the ACS change proposal is available on the Joint Office of Gas Transporters website at http://www.gasgovernance.co.uk/sites/default/files/AgencyChargingStatement_draft_Jan13_mod430_mscandc_apacity%20v2.pdf.

¹⁵ The SMIP proposals to rollout smart meters apply to domestic supply meter points and non-domestic supply meter points where annual consumption is less than 732 MWh. The DECC mandate to use DCC only applies in respect of domestic supply meter points.

Implementation of the Option A ACS Change Proposal would introduce a new one-off charge to be paid by Shippers that does not apply in respect of all supply meter points. We note that Transporter charges that are payable by Shippers do not make a similar type of distinction between supply meter points. We are concerned that the possible impacts of this type of change to the basis of allocation of charges have not been properly assessed. In the absence of justification for the proposed different treatment, we do not consider that this ACS change proposal is consistent with the relevant objectives of the ACS¹⁶.

We have therefore decided to direct the relevant licensees not to make this modification to the ACS.

Option B¹⁷: Costs targeted at all shippers

If the Option B ACS change proposal was implemented, the calculated charge for each Shipper would be based on:

- The total Xoserve development costs incurred for works up to end 31 March 2013;
- The total number of supply meter points at the time that the UNC modification proposal is implemented, and
- That Shipper's proportion of the total number of supply meter points at the time that the UNC modification proposal is implemented.

Implementation of the Option B ACS Change Proposal would introduce a new one-off charge to be paid by Shippers that applies in respect of all supply meter points. We note that Transporter charges that are payable by Shippers would also apply on a similar basis to the Option B ACS Change Proposal. Noting that for the Option B ACS Change Proposal, charges would be calculated based on actual costs that have been incurred and would be applied on a consistent basis to Shippers, we consider that this ACS change proposal is consistent with relevant objectives of the ACS¹⁸.

We have therefore decided not to issue a direction to the relevant licensees that this modification to the ACS should not be made.

Maxine Frerk

Partner Retail Markets & Research

Signed on behalf of the Authority and authorised for that purpose

¹⁶ The relevant objectives of the Agency Charging Statement, as contained in paragraph 11 of Standard Special Condition A15 of the Gas Transporter Licence are that:

The charges for user pays services should, as far as reasonably practicable, reflect the costs of providing the service. In setting the charges for the user pays services the licensee, together with the other relevant gas transporters, shall not unduly discriminate between or unduly prefer any person or class of persons.

¹⁷ A copy of the ACS change proposal is available on the Joint Office of Gas Transporters website at http://www.gasgovernance.co.uk/sites/default/files/AgencyChargingStatement_draft_Jan13_mod430_all_1.pdf.

¹⁸ The relevant objectives of the Agency Charging Statement, as contained in paragraph 11 of Standard Special Condition A15 of the Gas Transporter Licence are that:

The charges for user pays services should, as far as reasonably practicable, reflect the costs of providing the service. In setting the charges for the user pays services the licensee, together with the other relevant gas transporters, shall not unduly discriminate between or unduly prefer any person or class of persons.