

Modification proposal:	<b>Uniform Network Code (UNC) 514: Extending the Daily Metered 'Voluntary' Service to Project Nexus implementation date plus six months (UNC514)</b>		
Decision:	The Authority <sup>1</sup> directs that UNC514 be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	4 February 2015	Implementation Date:	To be confirmed by the Joint Office

## Background to the modification proposals

The UNC currently requires that any supply point with an Annual Quantity (AQ)<sup>3</sup> above 58,600,000 kWh will mandatorily be Daily Metered (DM). However, the UNC also allows for a Larger Supply Point<sup>4</sup> below this threshold to be DM on a voluntary basis (DMV). In both cases the meter reading services are provided by the relevant Gas Transporter (GT)<sup>5</sup>, facilitated through the installation of the GTs own Daily Read Equipment (DRE).

UNC224<sup>6</sup> was implemented in November 2010 in order to allow shippers 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).

Subsequent to the implementation of UNC224, UNC345<sup>7</sup> was raised in order to phase out DMV by the end of 2013. The proposer and other GTs argued that it was no longer necessary or efficient for them to continue providing DM reads for supply points which did not meet the mandatory DM requirements. The Authority agreed that it would be more efficient for non-mandatory DM services to be procured competitively rather than through a regulated offering and therefore directed the implementation of UNC345.

Due to concerns that DME did not provide an effective substitute for DMV, UNC441<sup>8</sup> then deferred the date by which DMV is phased out to coincide with the Project Nexus implementation date, which has subsequently been determined to be 1 October 2015. However, UNC441 did not reinstate the shippers a right to request that the GT install DRE upon request, which had been removed as part of UNC345. Therefore, no new DMV supply points are now being created and, as things stand, upon implementation of Project Nexus any existing DMV supply points will need to be migrated to the appropriate Supply Point 'Class'.

Rather than consumption (AQ) based classifications for the purpose of energy settlement etc, following the implementation of Project Nexus shippers will have a choice of four settlement products. The key exception to this is that sites which currently meet the mandatory DM requirements must continue to use settlement Product 1, and therefore be

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority

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

<sup>3</sup> 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.

<sup>4</sup> A Larger Supply Point (LSP) has an AQ greater than 73,200kWh

<sup>5</sup> UNC Section M, paragraph 4.1.4

<sup>6</sup> UNC224: 'Facilitating the use of AMR in the Daily Metered Elective Regime'

<sup>7</sup> UNC345 - Removal of Daily Metered voluntary regime

<sup>8</sup> UNC441 - Continuation of Daily Metered (Voluntary) service until the implementation of Project Nexus

a Class 1 supply point. Classifications 2 – 4 also correspond to the relevant settlement product as follows:

- Product 1 – DM. Time critical, with reads required by 10am. This is mandatory for supply points with an AQ above 58.6MWh only;
- Product 2 – 'DM-lite', submission of reads is not time critical and can be submitted at any time of day. Available to any supply point;
- Product 3 – daily readings submitted in batches. Available to any supply point;
- Product 4 – periodic meter readings, with existing standards for read submission and timing. Available to any supply point.

Some shippers have expressed concern that withdrawing the DMV service at the same time as the implementation of Project Nexus does not facilitate a seamless transition between DMV and Product 2, given the need to carry out site visits in order to remove GT DRE and/or reconfigure the AMR installation. Whilst shippers currently have the option of migrating DMV supply points to DME, as envisaged by UNC224, DME does not directly map to the settlement products that will be available under Project Nexus and it is not seen as a practicable interim solution. There is therefore a high likelihood that the existing DMV supply points will default to a NDM service, which is considered to be a retrograde step for those customers.

### **The modification proposal**

In order to ensure that existing standards of service are maintained for those customers at DMV supply points, UNC514 proposes to extend the GT provision of the DMV service for a further six months beyond the implementation of Project Nexus. This will require such supply points to be deemed Class 1 for an interim period, notwithstanding they do not meet the Project Nexus Product 1 criteria.

Shippers will be expected to reclassify the former DMV supply points, utilising any of settlement Products 2 – 4 within the six month interim period. In the event that the registered shipper has failed to reclassify any supply point by the end of the six month interim period, the relevant GT will deem it to be a Class 4 supply point.

### **UNC Panel<sup>9</sup> recommendation**

At its meeting of 18 December 2014 the UNC Panel voted unanimously to recommend the implementation of UNC514. The Panel considered that UNC514 would better facilitate relevant objective (f) of the UNC by assisting shippers and GTs to migrate to the new Project Nexus systems whilst reducing the possible impacts to certain customers.

### **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 18 December 2014 and the consultation responses published alongside and summarised within those FMRs<sup>10</sup>. We have concluded that:

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<sup>9</sup>The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>10</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

1. implementation of UNC514 will better facilitate the achievement of the relevant objectives of the UNC<sup>11</sup>; and
2. directing that UNC514 be made is consistent with our principal objective and statutory duties<sup>12</sup>.

### **Reasons for the Authority's decision**

We note that all eight of the respondents to the Joint Office's consultation supported the implementation of UNC514. All respondents considered that it would better facilitate relevant objective (f).

We agree with the proposer and the UNC Panel that UNC514 should be assessed against relevant objective (f). However, we also consider that it should be considered against relevant objective (d). We agree that the proposal would have a neutral impact against the other UNC objectives.

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

We agreed to the UNC change that sought to phase out DMV (UNC345) on the basis that competitive DM services are likely to provide greater incentives to reduce cost and to innovate than the regulated DMV service. It is therefore arguable that a further continuation of DMV provision by the GT hinders competition in this area of metering services. However, our decision on UNC345 also recognised the unproven nature of the DME service and its imminent replacement under Project Nexus. We 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.

To date, not a single DME single supply point has been registered to the DME service.<sup>13</sup> The scheduled implementation of Project Nexus later this year means this figure is unlikely to change. We are therefore sympathetic to the disappointment expressed by one respondent that a move away from the DMV service had not already occurred. However, that respondent also acknowledged that extending the service beyond the Project Nexus implementation date would avoid transitional problems at that time. This view was shared by the other respondents.

We remain of the view that the withdrawal of regulated DMV services will, in due course, further facilitate metering competition with anticipated consumer benefits as mentioned above. However, we do not at this stage consider that it will be efficient or practical for shippers to appoint DME service providers for the period before Project Nexus implementation, or for all existing DMV supply points to migrate seamlessly to Class 2 on the same day. In the absence of this, we are concerned that the withdrawal of DMV may cause some hitherto DM sites to become NDM, albeit for an interim period. This would be detrimental to the accuracy of cost allocation and quality of service to the affected customers. Therefore, to the extent that UNC514 would negate these risks, we consider

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<sup>11</sup> 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>

<sup>12</sup> 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.

<sup>13</sup> [www.xoserve.com/wp-content/uploads/DME\\_Uptake-Report-December-14.pdf](http://www.xoserve.com/wp-content/uploads/DME_Uptake-Report-December-14.pdf)

that its implementation would be better for competition between relevant gas shippers and suppliers, further facilitating 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 UNC514 would facilitate an effective transition to the new settlement arrangements. Several commented that there was otherwise a real prospect that existing DMV customers would default to Class 4 and lose the benefits of daily settlement, at least for a period until they could be re-classified. We agree that this is a practical solution to avoid the potential customer detriment caused by the transition from the DMV regime.

We also agree with those respondents who suggested that UNC514 would help facilitate an orderly transition to the Project Nexus arrangements overall. As we have previously acknowledged, the scale, scope and timing of system changes to be made as part of Project Nexus is a challenge to both Xoserve and the shippers with whom they interact. However, we consider that this effort is fully justified by the significant benefits that are expected to accrue once the replacement systems are implemented. We therefore welcome pragmatic proposals such as UNC514 that go some way to lessening the burden of these necessary systems changes, whilst facilitating the established 1 October 2015 implementation date and without undue detriment to the overall benefits case.

For the reasons above, we consider that UNC514 enables efficient implementation and administration of the UNC, and as such will further relevant objective (f).

**Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC514: *'Extending the Daily Metered 'Voluntary' Service to Project Nexus implementation date plus six months'* be made.

**Rob Church**  
**Partner, Retail Markets**

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