

Stage 04: Final Modification Report

0441:

Continuation of Daily Metered (Voluntary) service until the implementation of Project Nexus

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This modification proposes to continue the Daily Metered (Voluntary) service until the implementation of Project Nexus.



Panel recommended implementation of Modification 0441



High Impact: Customers



Medium Impact: Transporters and Shippers



Low Impact: N/A

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About this document:

This Final Modification Report will be presented to the Panel on 20 June 2013.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.



Any questions?

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1 Summary

Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

Why Change?

Daily Metered Voluntary (DMV) services are due to be phased out from 01 April 2014, following the implementation of UNC Modification 0345 (Removal of Daily Metered voluntary regime). When this change was implemented, it was expected that Project Nexus would be ready in time to provide a viable daily read alternative. It is now apparent that Project Nexus will not be implemented until early 2015, leaving a period where the majority of customer sites capable of providing daily reads will be forced to be Non-Daily Metered and so settled on estimates.

Solution

The proposed solution is to alter the timetable for phased implementation of the changes outlined in UNC Modification 0345. As the intention is to provide a seamless transition between current arrangements and the new process to be brought in by Project Nexus, it proposed that the new end date of the DMV service for all sites be set at 1 October 2015.

Relevant Objectives

Implementing the proposals laid out in this modification would:

- i. Extend the deadline introduced by UNC Modification 0345 by one year, such that the transition to the new market arrangements expected with the implementation of Project Nexus will be seamless, and therefore more efficient.
- ii. Maintain the current number of sites daily settled, which brings an overall benefit to the entire market by materially improving the gas allocation process.

The modification is therefore expected to facilitate the securing of effective competition by continuing current levels of daily metering services for a longer period and so improving data accuracy and frequency. Improved data accuracy and frequency will in turn increase the potential for competition and therefore encourage efficiency improvements.

Implementation

While no implementation timescale is proposed, this modification is looking to extend the end date of current services and so can be implemented immediately following a direction to do so.

2 Why Change?

This modification proposes an extension of the deadline for phasing out the DMV service. Modification 0345 introduced a phased removal of an obligation on Transporters to provide Daily Read equipment and reading services for sites with an AQ above 732,000 kWh who requested to be daily settled. Such sites are referred to as Daily Metered (Voluntary). UNC Modification 0345 obligated Users to change the status of their DMV supply points to Non-Daily Metered (NDM) and, if they fail to do so, the Transporters would have the right to carry this out on their behalf. When Modification 0345 was implemented it was expected that the new daily metering products developed under Project Nexus would be available in 2014. It is now apparent that Project Nexus will not be implemented until 2015 at the earliest. In addition the DME service is still not a viable alternative as the deadlines for submitting reads under this regime are not supported by any commercial MAM (Meter Asset Manager) offering in the market.

The market is therefore in a situation where the number of sites settled on daily meter reads will significantly drop (our initial estimate is by more than half) in the period 2014-2015. Considering the efforts being made by the industry to rollout the next generation of metering to the market, this is a retrograde step and will negatively impact the benefits of smart metering¹.

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¹ The Government's Impact Assessment of the Smart Metering programme estimates an overall net benefit for the non-domestic sector, over the project lifetime, of £2.3bn (DECC, April 2012).

3 Solution

Solution

The proposed solution is to extend the timetable for implementation of the changes introduced under UNC Modification 0345, so that DMV services are available until the implementation of the new daily read services provided by Project Nexus. By extending the implementation date by one year, the new arrangements will be aligned to the implementation date of Project Nexus, as currently understood.

As it is intended that this modification allows for a seamless transition between the current DMV regime and the new regime introduced by Project Nexus, there would be no need to retain a phased implementation – it is proposed that the implementation deadline be set on the single date of 1st October 2015. Updated legal text, reflecting the outlined proposals, has been provided in the Legal Text section below.

Costs

Indicative industry costs – User Pays
Classification of the modification as User Pays or not and justification for classification
This is not a User Pays Modification as it does not create or amend any User Pays Services and/or Charges. This modification should not introduce further material costs for Transporters as the costs of the DMV service are currently directly recovered from customers by the Transporters.
Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification
None
Proposed charge(s) for application of Users Pays charges to Shippers
None
Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve
Not applicable

4 Relevant Objectives

Impact of the modification on the Relevant Objectives :	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) 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.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

This modification is expected to facilitate the securing of effective competition between Shippers by continuing current levels of daily metering services for a longer period. In the absence of this modification, no viable alternative daily metering service is expected to be available prior to delivery of the Project Nexus changes (Modification 0432). By ensuring sites can continue to be daily settled rather than being reclassified as NDM, implementation will improve data accuracy and frequency. This will lead to more accurate allocations of costs between Shippers, and so meet one of the fundamental objectives of a competitive market. Improved data accuracy and frequency will also increase the potential for competition and therefore encourage efficiency improvements.

The present UNC obligations are expected to result in a reduction in the number of daily settled sites when the DMV service is withdrawn, followed by an increase in the number when the Project Nexus proposals are implemented. Removing the temporary reduction would reduce Shipper costs and increase market efficiency, and therefore implementation would be consistent with promotion of efficiency in the implementation and administration of the Code.

Wales & West Utilities believe that Modification 0441 will not further relevant objective (f) since implementation will not retain an earlier change of contractual provision that is incentivised by competitive pressure rather than liabilities. Similarly by implementing 0441, relevant objective (d) is not met since it continues to restrict new service providers from entering the market.

5 Implementation

While no implementation timescale is proposed, given Users' and Transporters' need for clarity, it is recommended that this Modification be implemented as soon as possible.

6 Legal Text

Text

The following Text has been prepared by National Grid Distribution, and no issues were raised by the Workgroup regarding its content.

UNC Transition Document

Part IIC - Transitional Rules

Amend paragraph 1.7.9 to read as follows:

1.7.9 Sections G1.5.6(a) and (b) shall not apply in respect of a Supply Meter Point where the Daily Read Requirement applied, and Transporter Daily Read Equipment was operational, on 30 September 2013, ~~until 1 October 2015, which is comprised in a Supply Point which has an Annual Quantity greater than:~~

- ~~(a) — 5,860,000kWh (200,000 therms), until 1 April 2014;~~
- ~~(b) — 2,196,000 kWh (75,000 therms), until 1 July 2014; and~~
- ~~(c) — 732,000 kWh (25,000 therms), until 1 October 2014.~~

Amend paragraph 1.7.10 to read as follows:

1.7.10 The Registered User of a Supply Meter Point to which the Daily Read Requirement does not apply shall (where such Supply Meter Point has been classified as a DM Supply Meter Point with Transporter Daily Read Equipment installed) be required to reclassify the Supply Meter Point as an NDM Supply Meter Point, notwithstanding Section G1.11.2, ~~by 1 October 2015.:~~

- ~~(a) — by 1 April 2014, where the Annual Quantity of the Supply Point in which it is comprised exceeds 5,860,000kWh (200,000 therms);~~
- ~~(b) — by 1 July 2014, where the Annual Quantity of the Supply Point in which it is comprised exceeds 2,196,000 kWh (75,000 therms); and~~
- ~~(c) — by 1 October 2014, where the Annual Quantity of the Supply Point in which it is comprised exceeds 73,200 kWh (2,500 therms).~~

7 Consultation Responses

Representations were received from the following parties:

Company/Organisation Name	Support Implementation or not?
DONG Energy	Support
EDF Energy	Support
E.ON UK	Support
Gazprom	Support
GDF Suez	Support
National Grid Distribution	Support
RWE npower	Support
Wales & West Utilities	Not in Support
WINGAS	Support

Of the nine representations received, eight supported implementation and one was not in support.

Summary Comments

EDF indicated that, should the modification not be implemented, there would be a risk to Demand Estimation. The DMV assets that EDF Energy has experience of operating run inconsistently, not following a standard profile shape. Should this consumption not be nominated on Gemini in a timely manner then there would be a negative effect on National Grid's demand estimation algorithm, which would not be in consumer's interest.

Gazprom noted that in Ofgem's decision letter (<http://www.gasgovernance.co.uk/0345>) for Modification 0345 concern was highlighted about the low take up of the new DME product and this was recognised by Ofgem. However at the time Ofgem noted that:

"We do not consider that credible information has been provided that would lead us to conclude that DME is not a viable alternative to DMV. If such evidence arose, for example, shippers were unable to procure metering services at a similar or lower cost than they incur under DMV, then we note that a further modification could be raised to address this issue."

Gazprom believes that evidence is now clear that the DME product, as it stands, is not a viable alternative to the DMV and believe that continuation of the DMV product until Project Nexus implementation provides the most pragmatic solution.

Wales & West Utilities suggested that there is no evidence available which supports the assertion that DME is not a viable alternative to DMV. They would expect evidence that a procurement process had taken place and that no viable service providers had been identified. They believe the points raised in Modification 0345, and indeed much of Ofgem's decision letter, were still relevant, and on that basis they conclude that Modification 0441 should not be implemented.

8 Panel Discussions

The Panel Chair summarised that this modification seeks to continue the Daily Metered (Voluntary) service until the implementation of Project Nexus – an extension of about a year. Notwithstanding the existence of a Daily Metered Elective (DME) service, this would ensure that there is no loss of access to a daily metered service prior to the implementation of Project Nexus.

Panel Members recognised that the existence of an option to be daily metered is valuable, and provides for more accurate settlement and, consequently, appropriate cost allocations. Most Panel Members considered that, by ensuring sites can continue to be daily settled rather than being reclassified as NDM, implementation would be expected to improve data accuracy. This would lead to more accurate allocations of costs between Shippers, and so meet one of the fundamental underpinnings of a competitive market. Implementation of modification 0441 would therefore be consistent with facilitating the securing of effective competition.

Most Panel Members considered that the present UNC obligations are expected to result in a reduction in the number of daily settled sites when the DMV service is withdrawn, followed by an increase in the number when the Project Nexus proposals are implemented. Removing this temporary reduction would reduce Shipper costs and increase market efficiency, and therefore implementation of Modification 0441 would be consistent with promotion of efficiency in the implementation and administration of the Code.

One Panel Member did not believe a case had been made that the proposed services under Nexus will be significantly different to the present DME service. Consequently, there is no evidence to support the view that the Nexus changes will mean the sites concerned are daily settled under the proposed regime, and consequently there is no basis for changing the Authority's previous conclusion that withdrawing the DMV service better facilitates the relevant objectives.

Panel Members then voted and with 10 votes in favour determined to recommend that Modification 0441 be implemented.

9 Recommendation

Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0441 should be made.