

Draft Terms of Reference – V0.1
UNC Modification Reference Number 0270
“Aggregated Monthly Reconciliation for Smart Meters”

Purpose

The purpose of this Development Work Group proposal is to develop a process to enable Shippers to elect, on a voluntary basis, supply points with smart meters installed to be reconciled with settlement so that settlement is based on actual consumption for these sites.

Background

For smaller Non Daily Metered (NDM) supply meter points (i.e. those consuming <2,500 therms per annum), there is no incentive for the supplier to enter into energy efficiency initiatives with their customers to help them reduce their energy consumption because the supplier is charged for its entire costs based on the customers' AQ whereas its income from the customer will be based on its actual consumption.

To resolve this issue a shipper could choose to have all sites registered with a gas smart meter to be reconciled using “Individual NDM Reconciliation”, so that monthly or annual reads can be sent to settlement.

In doing so shippers would opt out of the NDM profiling process and instead submit an aggregated monthly meter read for all smart meter points in a relevant GTs area for use in balancing and settlement. There would need to be a supporting agent role to validate the aggregated monthly reads.

Smart meters are increasingly being installed at NDM supply points, a trend which is set to increase further once the mandate from Government to roll-out smart meters to all households and small businesses by 2020 is established.

The current process of allowing NDM sites to voluntarily become part of the DM regime is not economically viable at the household level (where costs are approximately £800/yr) and shippers that have installed smart meters in this sector are faced with disproportionate charges under the Reconciliation by Difference (RbD) mechanism.

Shippers have found that they are exposed to higher charges under RbD when compared with what they are able to bill customers for based on their actual use. As smart meter deployment increases (even in the absence of a Government mandate) the current RbD system discriminates against shippers providing these services as the selling point is often that such installations assist customers to reduce their usage, but shippers can only allow decrease their liability yearly (via the AQ) during the AQ review.

Without being able to utilise actual consumption information from installed smart meters in the balancing and settlement process shippers are unable to provide a truly cost reflective supply offer to customers with these meters.

This is in contrast to Government energy policy aims with regard to smart meter deployment which states: ‘The Government believes smart meters will both change our energy habits in the short term ... They will provide a step-change in the information available to consumers helping them to save money on their bills and to reduce their carbon emissions’¹.

The Low Carbon Transition Plan stated that: ‘Rolling out smart meters in every home by the end of 2020, which will enable people to understand their energy use, maximise opportunities for energy saving, and offer better services from energy companies.’²

Supporting documentation to the DECC smart meter consultation of May 2009 also noted that, ‘The deployment of smart meters will improve the settlements process given the availability of actual readings.’³

As actual smart meter reads are not used for balance and settlement purposes it is not possible to maximise opportunities for energy savings as the energy element of the transportation part of the consumers bill will be set annually on a profile based figure and hence remain fixed regardless of the customer consumption behaviour.

The issue is particularly acute for smaller shippers and prospective new entrants who either offer or wish to offer smart metering solutions as part of their supply offerings. Despite metering competition being introduced to encourage innovation in meter deployment (and associated tariff offers) to encourage demand side response and a clear policy steer in this direction shippers without a diverse customer profile (by consumption) are penalised by facing transportation costs which do not reflect actual volumes being transported and which can not be smeared across a wide portfolio. This proposal would effectively create a linkage between demand variations to billed energy such that the benefits of consumption variations can be taken into account in settlement. This should enable shippers to manage their own risks in terms of volume and price, thereby promoting competition between and amongst shippers and suppliers. Smart metering in balancing and settlement should promote more accurate allocations of gas, reducing the potential for cross subsidies through the RbD process and therefore also promote competition.

This approach would also encourage switching and if all shippers start to nominate smaller sites as needing Individual Reconciliation rather than Aggregate Nominations as they acquire new customers, there is an added benefit that this will produce a gradual transfer of customers away from RbD over several years in preparation for the mass roll out of smart metering technology and the switch of the entire industry to DM.

Alongside these concerns the ongoing code governance review⁴ being undertaken by Ofgem is, among other things, seeking to consider whether industry parties should have wider responsibilities to assess environmental impacts of modification proposals.

¹ ‘Energy metering—A consultation on smart metering for electricity and gas.’ DECC, May 2009. Pg. 5

² ‘Low carbon transition plan’. DECC, July 2009. Pg. 12

³ ‘Smart meter roll out: Market model definition & evaluation project’. Baringa & RedPoint, April 2009. Pg. 13

In June 2008 last year, Ofgem published its guidance⁵ on the treatment of greenhouse gas (GHG) emissions under the current industry code objectives. The guidance set out Ofgem's view that industry should assess and take into account the impacts on GHG emissions which a code modification proposal would have or be likely to have, if implemented, on the efficient and economic operation of the relevant system. Although not yet finalised the regulator has stated that it proposes 'to consult on a series of potential licence amendments which make clear the requirements on industry and code panels to consider GHG impacts where relevant.' The impact assessment⁶ accompanying the May 2009 smart meter consultation considered that smart meter deployment in the domestic sector could deliver 2% gas savings. To realise this customers will want to see that changes in behaviour which reduces consumption will be reflected in the volume related charges they pay for their gas.

Consequence of non-implementation

If the modification is not implemented new entrants and smaller shippers offering smart metering solutions will not be able to grow their businesses (and hence deploy smart meters) at a rate which would be achievable if this modification was implemented. This puts this sector of the market at a competitive disadvantage and would stymie attempts to offer customers with innovative tariffs to reward efficient gas use based on actual use charges. It would represent a lost opportunity to lock-in behaviour change resulting in earlier carbon emission reductions than if the proposal was not implemented.

Scope and Deliverables

The Group is asked to:

- Consider solutions
- Consider the management of NDM Profiling impacts
- Consider the management of RbD impacts

A Development Work Group Report will be produced containing the findings of the Group in respect of the work identified above.

Limits

The Development Work Group will consider changes required to the following:

- Uniform Network Code

The Development Work Group in its initial phase will not concern itself with:

- Detailed changes required to processes and procedures
- Detailed changes required to existing systems

⁴ <http://www.ofgem.gov.uk/Licensing/IndCodes/CGR/Pages/GCR.aspx>

⁵ <http://www.ofgem.gov.uk/Licensing/IndCodes/Governance/Documents1/Open%20letter%20response-%20final%20version%20of%20letter%2030%20June.pdf>

⁶ http://www.decc.gov.uk/Media/viewfile.ashx?FilePath=Consultations\Smart Metering for Electricity and Gas\1_20090508152831_e_@@_smartmeteriadomestic.pdf&filetype=4

- Development of detailed business rules

Composition

A Development Work Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Information Sources

- Uniform Network Code – Sections (to be identified).
- GT, Shipper and Supplier Licences.
- Gas Act.
- Various Industry legislation as appropriate – may include reference to:
 - Gas Safety (Installation & Use) Regulations.
 - Gas Safety (Management) Regulations.
 - Industry Codes of Practice as relevant.

Timetable

It is proposed that a total period of 6 months be allowed to conclude this review.

- Frequency of meetings – monthly. The frequency of meetings will be subject to review and potential change by the Development Work Group.
- Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.