

Stage 02: Workgroup Report

0441:

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

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



The Workgroup recommends that this modification should now proceed to consultation.



High Impact:
Customers



Medium Impact:
Transporters, Shippers



Low Impact:
N/a

At what stage is this document in the process?



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About this document:

This report will be presented by the Workgroup to the panel on xx xxx 2013.

The panel will consider whether the modification is sufficiently developed to proceed to Consultation and to submit any further recommendations in respect of the definition and assessment of this modification.



3 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 1 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. UNC 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 UNC 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 be 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.

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	Positive
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

The 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

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 Recommendation

The Workgroup invites the Panel to:

- AGREE that this modification should be submitted for consultation.

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Modification 0345 - - Removal of Daily Metered voluntary regime

Modification 0345 proposed the following regime was beneficial for relevant objectives d) and f):

- | | | |
|--------------------|--------------|--------------------|
| • MV Supply points | • AQ (KWh) | • Live date |
| • Phase one | • >5,860,000 | • 21 November 2010 |
| • Phase two | • >2,196,000 | • 21 November 2011 |
| • Phase two | • >732,000 | • 21 May 2012 |

The Authority approved implementation of the modification against relevant objective d) for the following reasons:

Costs of meter service provision

The Authority sets a tariff cap on how much GTs may charge for meter service provision under DMV15. GTs publish this tariff cap in their metering charging statements which is available on their websites. Although Ofgem incentivises GTs to maximise efficiencies through the incentives set out in their price controls, this is only a proxy for competition. Ofgem agrees with the proposer and some respondents that competitive pressures are likely to place greater incentives to promote innovation and determine the true costs of metering provision. One respondent noted that the DME regime was introduced to provide an alternative to the perceived excessive costs associated with the DMV regime. Under DME, shippers will be able to procure meter installation and meter reading services by negotiating a contract with a service provider that will reflect the costs incurred, expectations as to the level of service and an appropriate penalty regime for poor performance. Therefore the Authority consider that DME is likely to result in more reflective costs being incurred by shippers and ultimately being passed through to consumers.

The Authority notes that all non-domestic metering points with an annual consumption greater than 732,000kWh must have an advanced meter installed by 6 April 2014¹⁶. These meters are currently being rolled out by suppliers and are supported by service providers and shippers have not communicated any difficulties in obtaining related metering services. This provides some evidence that there is a developing competitive market for service providers that are likely to respond to the demand for advanced metering and its associated services for DME supply points. Furthermore we note that GDNs will still be able to provide these services albeit on a competitive basis.

Implementation and transitional arrangements

Some respondents to the consultation considered that it would be imprudent to phase out DMV whilst DME was at such an early stage given that there has been no take up of DME to date. We note that the zero take up of DME may be the result of its early stage in the phased roll-out. In addition, other changes to the market, for example the changes to the interruptible regime, may have reduced incentives to move from the NDM to the DME market¹⁷. However, the Authority do not consider that credible information has been provided that would lead it 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 they note that a further modification could be raised to address this issue.**

Modification 0345 will allow for existing DMV sites between 73,200kWh and 732,000kWh consumption to transition to DME; they note that there are currently 36 DMV sites within this band. Any other sites within this band will not be able to have a daily metered service without further modification to the UNC. Daily metering at a site ensures that the supplier is charged for daily consumption based on actual meter reads and not estimates, resulting in more accurate cost allocation. Therefore they have some concerns that preventing sites in this band from receiving DM services may lead to less efficient cost allocation. However, they have not received any strong evidence that these sites will be significantly disadvantaged, but if suppliers required daily metering for these sites, they could raise a modification to lower the threshold for DME.

The Authority notes that the original modification proposal set out indicative dates for transition from the DMV market to DME. In their correspondence with the Panel on 14 June 2011, they expressed concerns that these dates should be clear to industry parties and should not be capable of being amended during the implementation process. In particular, shippers should be able to provide views on the appropriate timescales that they required to make system changes to facilitate the migration of supply points from DMV to DME.

For this reason the Authority requested that the Panel address the issue of ambiguity in the implementation timescales for UNC345. The Panel considered this issue and, through a workgroup, developed a range of proposed dates and consulted on these. Of the responses received the preference was for all DMV sites to be transitioned to DME (or to be declared NDM) by 1 October 2014. The Authority notes that this preference has been included in the revised legal text. Some shippers were not in favour of a fixed date and suggested that DMV should only be removed once there has been sufficient take up of DME to prove that it is efficacious. **Were parties to experience difficulties in meeting the required timescales, further modification proposals could be raised or derogations from the UNC requirements sought from the UNC Panel.**

The Authority notes that there may be an initial cost incurred by shippers in migrating to DME due to internal system changes, procuring meter read services and a potential transactional cost for migrating each supply point. They have not received any information on shipper costs and have therefore not been able to assess their materiality.

Other issues

At least one GT uses the same system to process all DM meter reads, irrespective of whether they are DMM or DMV, and therefore incurs fixed costs associated with operating and maintaining the system. It notes that as meters migrate from DMV to DME, the number of meter reads it conducts and processes will decrease but the fixed costs will not, which will lead to a greater cost incurred per DMM meter read. The Authority notes that no evidence was provided on whether these costs are material and despite these comments, this respondent still considers that this modification better facilitates the relevant objectives. It further considers that full unbundling of the DM service should be considered as a whole. They consider that this is outside of the scope of this modification.

They note that the penalties for late meter reads for DMV supply points are the same as those for DMM18 but under DME it will be the shipper, rather than the GT, that incurs penalty charges. This may act as a disincentive to move away from the DMV regime. However, shippers and suppliers would be free to enter into contractual terms with providers that met their service standard requirements and potentially backed off any associated charges.

The provision of data has been incentivised in the DMM market to support the delivery of information for system balancing purposes. As DMV sites have been elected for daily metering we do not consider that there is a strong argument that data from these meters is necessary for the purpose of system balancing. Were GTs to consider that additional data was required then they would expect them to consider altering the DMM threshold or proposing other innovative solutions.

For the reasons set out above, we consider that this modification better facilitates relevant objective (d).