

Modification proposal:	<b>Uniform Network Code (UNC) 633V &amp; 638V: Mandate monthly read submission for Smart and AMR sites from 1 February 2018 (UNC633V) or 1 April 2018 (UNC638V)</b>		
Decision:	The Authority <sup>1</sup> directs that modification 638V be made <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	31 January 2018	Implementation date:	To be confirmed by the Joint Office

## Background

In its energy market investigation, the Competition and Markets Authority (CMA) found that, amongst other things, the current system of gas settlement for non-daily metered customers gives rise to an Adverse Effect on Competition (AEC) through the inefficient allocation of costs to parties and the scope it creates for gaming. The CMA considered that this reduces the efficiency and, therefore, the competitiveness of domestic and microbusiness retail gas supply.

The CMA subsequently decided on a package of remedies to be implemented in order to remedy, mitigate or prevent the Gas Settlement AEC. These are set out in paragraph 20.27 of the CMA's final report<sup>3</sup>. In addition to recommendations to Ofgem to ensure the timely implementation of Project Nexus and the establishment of a gas performance assurance regime, the CMA set out its intention to require that more frequent meter reads be obtained and submitted to Xoserve for gas settlement purposes. In the case of supply points with legacy (non-smart) meters, the CMA considered that reads should be submitted at least once a year. For all supply points with a smart or advanced meter, the expectation was that meter reads would be submitted at least once per month.

These meter reading requirements were given effect through an Order<sup>4</sup>, which modified the following licence conditions:

- Gas Supply Standard Licence Condition 21B;
- Gas Shipper Standard Licence Condition 11;
- Gas Transporter Standard Licence Condition 5; and,
- Gas Transporter Standard Special Licence Condition A50.

The Order came into force on 15 December 2016, except Article 3.3 which shall come into force on 1 April 2018. Article 3.3 applies to supply meters that are able to remotely transmit Valid Meter Readings<sup>5</sup>.

UNC570<sup>6</sup>, which was implemented on 3 November 2017, inserted a requirement in the UNC to correspond with the suppliers' licence obligation to obtain a Valid Meter Reading at least annually. When we directed the implementation of UNC570, we noted that it

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

<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> CMA Energy Market Investigation: [Final Report](#)

<sup>4</sup> [The Energy Market Investigation \(Gas Settlement\) Order 2016](#)

<sup>5</sup> Valid Meter Reading has the meaning given to it in Section M of the UNC.

<sup>6</sup> UNC570: '[Obligation on Shippers to provide at least one valid meter reading per meter point into settlement once per annum](#)'

would discharge the licence requirements only in respect of meters that are not able to remotely transmit Valid Meter Readings.

### **The modification proposals**

Both UNC633V and UNC638V seek to create a UNC obligation to obtain a Valid Meter Reading at least monthly from such meters that are capable of being read remotely. This would be consistent with Article 3.3 of the Order.

The difference between the two proposals is that UNC633V seeks to give effect to this requirement from 1 February 2018, whereas UNC638V would preserve the 1 April 2018 deadline set out in Article 3.3. The proposer of UNC633V considers that bringing forward the implementation of monthly read requirement may go some way to reduce the volume and volatility of daily unidentified gas (UIG).

In response to concerns with the legal text highlighted in the original workgroup report, the UNC Panel sent both proposals back to workgroup for further development. Whilst this further development was focused primarily on the legal text, it also meant that the implementation date of 1 December 2017 originally proposed as part of UNC633 could no longer be met. As the subsequent variation to both proposals was considered to be material, the original UNC633 and UNC638 were deemed to have been withdrawn and replaced by UNC633V and UNC638V.

### **UNC Panel<sup>7</sup> recommendation**

At its meeting of 18 January 2018 the UNC Panel considered that either UNC633V or UNC638V would further the relevant objectives of the UNC. The individual Panel votes therefore reflect that UNC633V and UNC638V were recommended to be implemented. However, as these are mutually exclusive alternative proposals, the Panel additionally provided its preference, that of the two proposals UNC638V should be implemented.

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 18 January 2018. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR<sup>8</sup>. We have concluded that:

- implementation of UNC638V will better facilitate the achievement of the relevant objectives of the UNC;<sup>9</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>10</sup>

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<sup>7</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>8</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>9</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>10</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 as amended.

## Reasons for our decision

The Joint Office received 18 responses to its original consultation on UNC633 and UNC638. Of these, 6 supported the implementation of UNC633, with 14 supporting the implementation of UNC638. Only one respondent, a Gas Transporter (GT), was opposed to the implementation of either proposal. The majority of respondents considered that UNC633 and UNC638 should be assessed against relevant objective (d), while one respondent also thought that relevant objective (f) should be considered.

Following the variation of the proposals and their re-designation as UNC633V and UNC638V, the Joint Office re-issued the consultation. Of the nine responses to the second consultation, two supported the implementation of UNC633V and six were opposed. There was marginally more support for UNC638V with four responses supporting implementation and other offering qualified support. All respondents to this consultation related their comments to relevant objective (d).

We agree that the proposals should be assessed against both relevant objective (d) and (f), and that they have a neutral impact upon the other relevant objectives.

*Relevant objective (d) - the securing of effective competition between relevant shippers;*

Gas Suppliers have since 2014 been obligated under the conditions of their licence to obtain a meter reading at least once each year for each of their customers for billing purposes. As such, the obligation did not extend to those meter readings also being entered into the gas settlement process. Gas Shippers therefore retained a degree of control over how many meter readings they required from the Supplier (to the extent they are different organisations) and which would be forwarded onto Xoserve for gas settlement purposes. As noted by the CMA, this left the calculation of the AQ from which the Shippers' energy invoices were derived, open to opportunity for gaming, and more generally of sub-optimal accuracy. With the implementation of Project Nexus, smaller supply points can now be individually reconciled<sup>11</sup> and each valid meter reading submitted allows for a reconciliation between the amount of energy allocated and that actually consumed.

We therefore agree with those respondents who considered that the increased frequency of Valid Meter Reads being submitted into gas settlements will have several beneficial impacts upon accuracy and cost-reflectivity for the wider shipper community as well as the shipper registered to the supply point. Firstly, even following the implementation of UNC570 there may still be a considerable period between each reconciliation. In this time, there may be a material divergence between the profiled consumption of supply points based upon their prevailing AQ and their actual consumption. The extent of this differential between profiled and actual consumption, whether positive or negative, impinges upon the accuracy of non-daily metered (NDM) gas allocation, with a corresponding effect of the volume of unidentified gas (UIG). More frequent Valid Meter Reads would both maintain the relative accuracy of AQs, and ensure that any error is more quickly reconciled, with costs appropriately finding their way to the relevant shipper, rather than sitting as unreconciled UIG with the wider community.

To the extent that the increased accuracy of cost allocation will allow efficient operators to further differentiate themselves from their competitors, we consider that the additional

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<sup>11</sup> Prior to the implementation of the UK Link replacement (Project Nexus) systems, only larger supply points were individually reconciled, with smaller supply points being subject to Reconciliation by Difference.

monthly reads as required by either UNC633V or UNC638V would in due course further effective competition between relevant gas suppliers, as compared to the current UNC provisions. However, we are concerned that the manner of implementation could have a detrimental impact.

We are sympathetic to the argument that the earlier implementation of UNC633 could have provided additional benefit in terms of a greater number of meter reads being submitted into settlement and potentially contributing to a reduction in UIG volumes and/or their earlier reconciliation. However, the delay in completing the legal text has largely negated this additional benefit, with there now being only two months between the respective implementation dates. We are also concerned that the implementation of what is now UNC633V would now leave insufficient notice for parties to respond appropriately. This could place some parties who have been working in good faith towards the original CMA deadline of 1 April 2018 at an undue disadvantage, albeit temporarily, but could also undermine confidence in the general market arrangements. We therefore consider that in the round, of the two proposals UNC638V would best facilitate relevant objective (d).

*Relevant objective (f): the promotion of efficiency in the implementation and administration of the UNC*

One respondent to the consultation on the original proposals considered that neither of them had been sufficiently well developed. One of the issues that they and several other respondents raised was the application of 'must read' provisions to Class 4 supply points that happened to have Smart or AMR devices installed.

Currently<sup>12</sup>, GTs are able at their sole discretion to use reasonable endeavours to obtain a meter reading where the shipper has failed to submit one within the required timescales. The cost of procuring such a read would be passed through to the relevant shipper. Annually read Class 4 supply points would not be exposed to these 'must read' provisions unless 24 months had elapsed without a Valid Meter Read. However, UNC633 and UNC638 would have captured smaller supply points under the prevailing monthly read requirements that apply to sites with an AQ above 293,000 kWh. As such, the GT could procure its own read at the shipper's cost, if there hasn't been a Valid Meter Read for 4 months. This concern was heightened by the view that in placing an absolute requirement upon shippers the proposals were more stringent than the suppliers' licence, which requires that the licensee 'take all reasonable steps' to obtain the meter reading. When these concerns were discussed at the November 2017 UNC Panel meeting, its members determined that they were new issues and warranted the proposals being sent back to workgroup for further development.<sup>13</sup>

Despite the additional time that has been allowed, we note further concerns with the legal text applicable to both modifications when they returned to the UNC Panel for a recommendation in January 2018. In particular, it was suggested that the required frequency of meter readings may be ambiguous as the text requires that:

*"the Meter Read Frequency **shall be no greater than Monthly** in any case and the Shipper User shall take all reasonable steps to obtain and submit a Valid Meter Reading **at least once per month.**"*

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<sup>12</sup> [UNC Section M 5.10](#)

<sup>13</sup> See Minutes: [UNC Panel 24 November 2017](#)

However the GT responsible for drafting the text considered that it was fit for purpose. Noting that a further delay would rule out any potential to meet the revised implementation date for UNC633V and that a fast track modification could be considered if necessary, the UNC Panel proceeded to finalise the modification report and submit the proposals to us for a decision. We agree that taken in isolation, the requirement set out in this specific piece of text may not be as clear as it could have been. However, when the stated intent of the proposal and the supporting legal commentary<sup>14</sup> are also taken into account, it is clear that the shipper is required to submit not less than one meter reading per month; they are not precluded from submitting more than one.

With respect to the 'must read' provisions, we consider that it is appropriate to retain the option of procuring a Valid Meter Read other than through the relevant shipper where there is an enduring failure to provide one. However, we would expect all parties to act reasonably and it does not appear to be in the GTs' interest to procure meter reads unnecessarily. However, the implementation of the revised requirements may provide an opportune time to revisit these legacy arrangements and consider whether they could, for instance, be an area over which the Performance Assurance Committee has influence over policy, rather than left solely to the discretion of each GT.

The majority of respondents who favoured UNC638V over UNC633V did so on the basis that UNC638V maintained the implementation date set by the CMA in the Order, and subsequently confirmed in its letter to the UNC Panel Chair.<sup>15</sup> We are sympathetic to the argument that the earlier implementation date of UNC633V would bring forward the benefits set out above and assist with some of the current issues around UIG. However, most shippers have been working towards the 1 April 2018 implementation date since the Order was made in December 2016, if not before. Whilst some Shippers may have been able to bring forward the necessary changes to their own systems, this would have come at a cost and still required a reasonable notice period. Given the time that has lapsed and the brief period now available between the FMR being submitted to us and the proposed effective date of UNC633V, we do not consider that it would provide reasonable notice; directing its implementation would therefore likely place several Gas Shippers in technical breach of the UNC. We do not consider that this would be efficient implementation and administration of the UNC, or good regulatory practice. In contrast, there is nothing to prevent any Shipper who is able to submit monthly meter reads from electing<sup>16</sup> to register relevant supply points as being monthly read in advance of 1 April 2018. We therefore consider that UNC638V would better facilitate relevant objective (f).

## **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC638V: *'Mandate monthly read submission for Smart and AMR sites from 1 April 2018'* be made.

## **Rob Salter-Church**

### **Interim Senior Partner, Consumers and Competition**

Signed on behalf of the Authority and authorised for that purpose

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<sup>14</sup> See: [www.gasgovernance.co.uk/sites/default/files/ggf/book/2018-01/Legal%20Text%20Commentary%200633V%200638V%20V3.0.pdf](http://www.gasgovernance.co.uk/sites/default/files/ggf/book/2018-01/Legal%20Text%20Commentary%200633V%200638V%20V3.0.pdf)

<sup>15</sup> [CMA letter to UNC Panel and Performance Assurance Committee Chairs](#)

<sup>16</sup> In accordance with UNC Section G 1.11