

Modification proposal:	iGT UNC: Remove the Must Read process for annually read sites (iGT028)		
Decision:	The Authority ¹ has decided to reject this proposal		
Target audience:	Independent Gas Transporters (iGTs), Parties to the iGT UNC and other interested parties		
Date of publication:	31 January 2011	Implementation Date:	N/A

Background to the modification proposal

The independent Gas Transporters Uniform Network Code (iGT UNC) requires that where, for an annually read site, a shipper has not obtained a meter reading for at least 24 months, the relevant independent Gas Transporter (iGT) will procure one on a reasonable endeavours basis.

Suppliers have a licence obligation to take all reasonable steps, including in particular trying to obtain a warrant for entry to the premises, to inspect a meter every two years². This inspection will, in addition to safety and meter tampering checks, require a meter reading to be taken. It is generally anticipated that a meter reading accompanies the inspection notification³ from the shipper to the iGT. Occasionally a reading may not be sent by the shipper when providing notification of a safety inspection, or when sent it may be rejected by the iGT on receipt. In this instance the iGT may carry out a read on the shipper's behalf, commonly referred to as a 'must read'.

An annually read supply point can be gained without a recent accepted actual meter reading being held by the transporter and a must read may become due relatively quickly after a change of supply. Some parties have argued that this may result in the supplier having insufficient time to carry out a meter reading. The iGT may then carry out the must read and charge the shipper.

Some iGTs notify shippers before a must read is due, but this is not done by all iGTs. In addition, there is not a centralised database that shippers can access to determine when a must read will fall due. This may lead to a must read being due without the shipper's prior knowledge.

iGTs are contractually obliged to provide aggregated Smaller Supply Point (SSP) Annual Quantities (AQs) (along with individual Larger Supply Point (LSP) readings) to the Large Transporters⁴ on a weekly basis⁵. This facilitates the energy reconciliation process and the calculation of Connected System Exit Point (CSEP) charges under the Uniform Network Code.

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

² See Supply SLC12. Where a supplier has been the Relevant Supplier for less than two years, the two year period will be deemed to have expired at least four months after notice that an inspection read has become due (from either the shipper or transporter). If the transporter does not record the date of meter inspections, and has notified the supplier of this, the supplier must inspect the meter every time it reads the meter.

³ Shippers are required to submit meter readings to the iGT within 25 business days of the meter read (Paragraph E3.1 of the iGT UNC).

⁴ Large Transporters are responsible for the transportation of gas from the National Transportation System (NTS) to customers on their network. They are also responsible for the transportation of gas from the NTS to the boundary point with the iGT network.

⁵ This requirement is detailed in Annex A: Part2, paragraph 1.4 of the Connected System Exit Point Network Exit Agreement.

The modification proposal

This modification seeks to remove the requirement on iGTs to carry out the must read obligation for SSPs. The proposer considers that the reasonable endeavours qualifier for the SSP must read process and the lack of a contractual requirement to send individual SSP meter reads (as opposed to aggregated SSP AOs) to the Large Transporters, has led to a disparity between how iGTs meet this obligation. They consider that some iGTs make efforts to complete SSP must reads whilst others do not conduct must reads in practice.

Panel recommendation

At its meeting on 15 December 2010, the iGT UNC Panel did not recommend the modification proposal for implementation. Two members were for the proposal whilst four members were against.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 22 December 2010. The Authority has also considered and taken into account the responses to the iGT UNC's consultation on the modification proposal. The Authority has concluded that implementation of the modification proposal would not further the relevant objectives as defined in Standard Condition 9 of the Gas Transporters Licence⁶.

Reasons for Authority decision

We consider that, based on the analysis provided, iGT028 does not better facilitate relevant objective (d). We note that respondents have provided arguments both for and against relevant objective (a). We have addressed these comments and do not believe that objective (a) is relevant to this modification. We consider that the proposal is neutral in relation to all other relevant objectives.

Objective (a): the efficient and economic operation of the pipe-line system

The proposer and some respondents to the FMR consider that the must read process for SSPs is not essential to the operation of the iGT networks. This is because there are no contractual obligation on iGTs to provide individual SSP meter reads to Large Transporters, and must reads are qualified by a reasonable endeavours requirement. They consider the must read process to be inconsistently applied by different iGTs, and the costs of obtaining a must read a burden on the industry. One respondent has noted that some iGTs notify a shipper one month before a must read falls due, but that this is not the case for all iGTs.

We note that there appears to be inconsistency in how the iGTs approach their must read obligation. We consider that iGTs and shippers should investigate how this process could be improved and made more consistent. This suggestion was raised by several respondents and we note that a separate modification (iGT027v) has been raised to ensure shippers receive adequate warning before a must read is due. We are looking to parties, in particular to iGTs, to develop other improvements to the must read process.

One respondent considers that removing the must read process may result in suppliers not meeting the requirement to carry out a safety inspection on a meter. Suppliers have

⁶ http://epr.ofgem.gov.uk/document_fetch.php?documentid=13355

a licence obligation to complete an inspection at least once every two years. We would expect suppliers to meet this obligation irrespective of whether this modification was approved or rejected. For this reason, we do not consider this argument to be relevant when assessing this modification. We further note that the iGT must read does not perform the full range of activities required by a meter inspection.

We note that this modification has identified issues with the must read process but we disagree with the arguments both for and against relevant objective (a) and consider that the removal of the must read process would have minimal effect on the operation of the pipe-line systems. For this reason, we consider that this modification does not better facilitate objective (a).

Objective (d): the securing of effective competition between relevant shippers and suppliers.

The proposer and some respondents to the FMR note that, as the related supplier may have recently acquired the customer, passing through the total cost of a must read to its shipper may not be proportionate. They note that the shipper may not have been responsible for this meter point for the whole of that two year period. We consider that this is not a compelling argument for the removal of the must read process and that information from one iGT indicates that this accounts for a low proportion of must reads undertaken. If parties considered that this was a material issue then it could be considered further under any potential review of the must read process. However, in doing so we would also expect other impacts, such as any impact on the incentives for suppliers to carry out two year meter reads, to be explored under alternative options.

We also note the concerns raised about communication between iGTs and shippers on when a must read is due. Whilst we consider that this is a material issue, we do not consider that provides a compelling reason for removal of the must read process. As noted above, we consider that this matter should be addressed by the industry. Shippers have raised concerns on the number of meter reads rejected by iGTs and we note that the percentage of submitted meter reads that are rejected is significant. We consider that any review of the must read process should investigate the causes for these rejections and assess any potential remedies.

Some respondents to the FMR consider that removing the must read requirement will result in less accurate Annual Quantities (AQs⁷) as meter reads are used for calculating and reviewing AQs. iGTs carry out an annual AQ review of all AQ values; for SSP sites, the latest meter readings provided to the iGT by the shipper are used for calculating the new AQ value for that meter point. Updated meter readings will not alter the AQ that is used for transportation charges on the iGT network as these AQs are not impacted by the AQ review. However, SSP AQs are aggregated by shipper and passed on by the iGT UNC to Xoserve⁸ weekly. This aggregated AQ is used by Xoserve for calculating the Connected System Exit Point (CSEP) and Energy Balancing charges that shippers are required to pay. Providing more recent meter reads may lead to a more accurate AQ and consequently more accurate CSEP and Energy Balancing charges. We consider that this will, in turn, lead to a more accurate allocation of costs to shippers. A more accurate allocation of costs should increase certainty in the market and therefore further competition between shippers.

Respondents further note that Large Transporters do not carry out must reads for SSPs and removing the must read process would bring iGT UNC processes in line with those

⁷ An AQ is an estimation of the annual consumption for a supply meter point

⁸ Xoserve are responsible for providing transportation transactional services on behalf of the Large Transporters to shippers.

under the UNC. We consider that irrespective of the process with the Larger Transporters, the iGT must read process is likely to lead to improvements in meter read held by iGTs so that AQs can be updated to reflect changes in consumption.

We note the concerns that the must read process is currently being conducted in an inconsistent manner between iGTs and the concerns around the costs that are being incurred by shippers. We consider these to be important concerns, however, we do not consider that information has been provided to demonstrate that the value in updating AQs and improving allocation of charges is outweighed by the costs of the must read service.

For the reasons set out above we consider that this modification does not better facilitate objective (d).

Notwithstanding this decision, given the cost of the must read process we consider that parties, including iGTs, should seek to ensure that: must reads are only undertaken when necessary; and that shippers are provided with adequate warning that a must read is becoming due; and that iGTs do not reject meter reads provided by shippers that could improve the AQ.

Decision notice

The Authority directs that modification proposal 'iGT028: Remove the Must Read process for annually read sites' is rejected.

Ian Marlee

Partner, GB Markets

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