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| Modification proposal: | Uniform Network Code (UNC) 344: Removal of the D+1 11am meter read liabilities regime for Daily Metered Voluntary (DMV) Supply Points (UNC344) | | |
| Decision: | The Authority ¹ has decided to reject this proposal | | |
| Target audience: | The Joint Office, Parties to the UNC and other interested parties | | |
| Date of publication: | 05 May 2011 | Implementation Date: | To be confirmed by the Joint Office |

Background to the modification proposal

A Gas Transporter (GT) is required² to install meter read equipment, that can be read daily, for any supply point with an Annual Quantity (AQ)³ of over 58,600,000kWh. The GT is also responsible for taking meter reads for this supply point⁴. These supply points are commonly referred to as Daily Metered Mandatory (DMM) sites.

If the AQ for a supply point is greater than 73,200kWh, the relevant shipper may choose to have daily read equipment installed by the GT⁵. The GT will carry out the installation and the daily meter reads and it will charge the shipper for this service. These supply points are commonly referred to as Daily Metered Voluntary (DMV).

Both DMM and DMV supply points are classified as Performance Relevant Supply Meters. This means that the GT must read 97.5% of these meters by 11am on the day after the settlement day. If the meter has not been read by this time, the GT faces a penalty, payable to the shipper, of £30 per day. If the meter has not been read four days after the settlement date, this penalty increases to £75 per day.

UNC modification 224 (UNC224) was implemented in November 2010. This modification introduced a new regime known as Daily Metered Elective (DME), which is currently in the process of being rolled out. DME is similar to DMV in that the shipper may elect to have a meter point fitted with equipment that allows for daily meter reads. The difference is that, under DME, the shipper is responsible for procuring and installing the metering equipment and carrying out daily meter reads⁶, and the AQ for the supply point must be between 732,000kWh and 58,600,000kWh. DME meters are not classified as Performance Relevant Supply Meters, but if a meter is not read by 11am on the day after the settlement day the supplier must pay £2 to the relevant GT.

The modification proposal

This modification will remove the requirement on GTs to read 97.5% of DMV meters by 11am on the day after the settlement day. The £75 per day penalty for DMV meters, that haven't been read four days after the settlement date, will continue to apply. DMM meters will be unaffected by this modification.

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 In accordance with Section M, paragraph 4.1.4 of the UNC Transportation Principal Document (TPD).

³ The AQ is the estimated annual consumption for a supply point.

⁴ In accordance with Section M, paragraph 4.2.1 of the UNC TPD.

⁵ As set out in Section G, paragraph 1.5.9 of the UNC TPD.

⁶ The shipper may contract with a meter reading agent to carry out the meter reads on its behalf.

The proposer considers that this modification will incentivise GTs to focus their efforts in obtaining meter reads on DMM supply points rather than for DMV supply points. It considers that understanding throughput on DMM supply points is likely to be more important to enabling the efficient operation of the pipe-line system.

With the introduction of DME, the proposer considers that there is no need for GTs to provide an incentivised service. If the shipper considers that the meter read data is of value then it is able to procure this service from a competitive market. It further considers that, as DMV is an elective regime, obtaining reads from these sites is not material for system balancing and therefore the incentive on GTs to obtain these reads is not proportionate.

UNC Panel⁷ recommendation

This modification was voted on at the Panel meeting on 20 January 2011. Of the 11 voting members present, six votes were cast in favour of implementing the modification. Therefore the Panel voted in favour of implementing UNC344.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 25 March 2011. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁸.

The Authority has concluded that implementation of the modification proposal will not better facilitate the achievement of the relevant objectives of the UNC⁹.

Reasons for the Authority's decision

We consider that UNC344 does not facilitate relevant objective (d) and (f), and that it is neutral in relation to the other relevant objectives.

The proposer and respondents to the FMR felt that this modification also affected relevant objective (a). We do not consider this to be the case but have addressed these comments below.

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

The proposer and some respondents to the FMR consider that this modification will place incentives on GTs to ensure they prioritise reads of DMM over DMV sites. Currently the charge for not completing a read for either a DMM or DMV site by 11am on the day after the settlement day is the same¹⁰. They consider that, as meter reads at DMM supply points are more material for system balancing, there should be greater incentive on GTs to read these meter points. We consider that, as the UNC currently obligates GTs to

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

⁸ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com.

⁹ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547.

¹⁰ GTs must pay shippers £30 per day until the meter reading is submitted. This charge increases to £75 per day after the fourth day of failing to submit a meter read.

carry out meter reads for both DMV and DMM supply points, GTs should be assigning adequate resource to carry out meter reads for both regimes. For this reason we do not consider that the DMV regime should have a detrimental effect on a GT's ability to carry out meter reads for DMM supply points.

One respondent questioned whether DMV supply points need to be read daily, and that if this is not the case then any associated penalties for a late read should be removed. A further respondent noted that DMV accounts for 20.8% of all energy allocated to the DM sector¹¹. It believes that this is a material volume, and therefore important for system balancing, so current incentives to obtain meter reads should remain in force. We consider that evidence has not been presented to support removal of the 11am day after settlement meter read penalty payment in terms of system operation. As discussed in more detail below, we also consider that there are wider issues on the efficiency of access to daily meter reads, in advance of DME being fully rolled out, that have not been addressed in this proposal.

We do not consider that sufficient argument has been put forward either for or against relevant objective (a) and therefore we consider that this modification is neutral with respect to this objective.

Relevant objective (d): securing of effective competition between relevant shippers

We note that shippers currently pay to have supply points registered under DMV and therefore we assume that registering a site under DMV must be beneficial to shippers. Part of this service is the provision of daily meter reads by the GT to the shipper. Therefore we consider that receiving accurate and timely meter reads is important for maintaining effective competition between shippers.

One respondent expressed concern that, as DME has not been fully rolled out, the current incentive should remain in place until this has been achieved. We note that this may be the case for some DME sites, as this modification is for immediate implementation and DME does not fully roll-out until 21 May 2012. The modification proposal therefore does not provide a grace period to allow for supply points to migrate from DMV to DME. As migration of supply points between the two regimes may take several months, this may result in supply points that are in the process of migrating from DMV to DME, operating without any liabilities associated with the 11am day after settlement day meter read.

With the full implementation of DME, DMV is no longer a monopolistic regime for sites above 732,000kWh, therefore some respondents consider that there is no longer the need for an incentive for GTs to carry out meter reads when a viable alternative exists. We agree that once shippers have an effective choice in service provider that it may be prudent to review the requirement for GTs to have penalty payments set out under UNC arrangements.

One further respondent considers that this modification removes the incentive on GTs to resolve issues at DMV sites in a timely and prudent manner. They note that a similar, albeit weaker, incentive exists in the DME regime¹² and consider that providing consistent incentives to both DME and DMV regimes may be a more appropriate solution. We consider it may have been more appropriate to consider decreasing the £30 liability

¹¹ The DM sector consists of DMM, DMV and DME supply points

¹² Shippers must pay the GT £2 per day if a DME read is not provided by 11am on the day after the settlement date

rather than removing it entirely, however, such a modification proposal has not been forthcoming.

We recognise that there is a disparity between the charges for late meter reads between the DMV and DME regimes, both under the current regime and if this modification was implemented. Two similar sites could be DME or DMV with the latter carrying a higher penalty for a late read than the former under the current UNC rules. However, if the DMV charge is removed, a disparity, albeit much reduced, will remain between the two regimes. We consider that a broader review of the performance assurance framework for meter read submission would be of benefit here (and in the market more generally).

We agree with the concerns of some respondents that removing the penalty for a late meter read will reduce the commercial incentive on GTs to provide the required level of service. A poorer standard of service would increase costs and risks for shippers, to the detriment of competition between shippers. While we consider that where possible, competition is preferable to a regulated market, we note that the DME regime has not been fully rolled out. As this modification would be for immediate implementation, we would therefore have concerns that shippers using DMV were not able to secure the service standards that they required or that they may be required to take additional services from third party agents to secure meter read data which may be inefficient.

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

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

The proposer and respondents to the FMR consider that this modification will increase efficiency in the implementation of the code, by having a service which is regulated and incentivised by competitive pressures rather than liabilities.

If the liability on GTs is removed as proposed, we consider that this will decrease the incentive on the GT to discharge its obligations under the UNC to carry out meter reads efficiently.

We understand that, under DME, a shipper is likely to competitively procure a service provider to provide meter reads at these supply points. In these instances, we consider it reasonable to assume that there will also be financial penalties associated with said service provider if they fail to provide DME meter reads efficiently. By removing a liability associated with DMV, this modification may produce inequality between the DME and DMV regimes.

We agree that a competitive approach may lead to a more efficient meter reading process than a liability regime. However, we consider that arguments have not been clearly set out on how this modification is expected to better meet this relevant objective.

In particular, we note that the UNC would retain the requirement on GTs to carry out meter reads at DMV sites irrespective of any associated liabilities. In addition, we note that implementing this proposal, in advance of shippers being able to access alternative arrangements in the DME market, may lead to inefficiencies for those sites that wish to retain their DM status and to secure accurate and timely meter reads.

We therefore consider that this modification is not expected to better meet objective (f).

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC344: Removal of the D+1 11am meter read liabilities regime for DMV Supply Points be rejected.

Colin Sausman
Partner, Smarter Markets

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