

Modification proposal:	<b>Uniform Network Code (UNC) 345: Removal of Daily Metered Voluntary regime (UNC345)</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	16 December 2011	Implementation Date:	To be confirmed by the Joint Office

## Background to the modification proposal

A Gas Transporter (GT) is required<sup>3</sup> to install meter read equipment, that can be read daily (Daily Read Equipment), for any supply point with an Annual Quantity (AQ)<sup>4</sup> of over 58,600,000kWh. The GT is also responsible for taking meter reads for this supply point<sup>5</sup>. These supply points are commonly referred to as Daily Metered Mandatory (DMM) sites.

For a supply point with an AQ greater than 73,200kWh, GTs are required to install Daily Read Equipment if requested to by the relevant shipper<sup>6</sup>. In this situation the GT will charge the costs of the installation of the meter and provision of a meter reading service back to the relevant shipper in line with their published metering charging statements<sup>7</sup>. These supply points are commonly referred to as Daily Metered Voluntary (DMV) sites.

UNC modification UNC224<sup>8</sup> was implemented in November 2010. This modification provides for a new regime, known as Daily Metered Elective (DME), to be rolled out in phases. There are two key differences from the DMV requirement:

- Under DME the relevant shipper is responsible for procuring and installing metering equipment and carrying out daily reads; and
- DME only applies for supply points with AQs between 732,000 and 58,600,000kWh.

DME is being rolled out in three phases, as shown in the following table:

	AQ (KWh)	Live date
Phase one	>5,860,000	21 November 2010
Phase two	>2,196,000	21 November 2011
Phase three	>732,000	21 May 2012

UNC224 provides the option for the shipper to transition their DMV supply points to DME. However, it does not mandate this.

Information provided by shippers to GTs suggests that there has not been any take up of DME to date.

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

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

<sup>4</sup> The AQ is the estimated annual consumption for a supply point.

<sup>5</sup> In accordance with Section M, paragraph 4.2.1 of the UNC TPD.

<sup>6</sup> As set out in Section G, paragraph 1.5.9 of the UNC TPD.

<sup>7</sup> GTs are obligated under their licences (Standard Special Condition A5) to provide any charging methodologies to Ofgem for approval and once approved, publish them on their respective websites.

<sup>8</sup> All documentation related to UNC224 can be found here: <http://gasgovernance.co.uk/0224>

## The modification proposal

UNC 345 would remove the obligation on GTs to supply and install daily read meters and metering services on request, for sites with an AQ between 73,200kWh and 58,600,000kWh and hence remove the DMV regime.

It is proposed that UNC 345 would be implemented in phases aligned with the roll out of DME. Once DME is rolled out for an AQ band<sup>9</sup>, the shippers responsible for DMV supply points within that band would have a set date to transition them to the DME regime or move the site to the NDM market as shown in the following table:

DMV 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

Under the proposal, sites between 73,200kWh and 732,000kWh already registered as DMV, would be allowed to migrate into the DME regime on an exceptional basis. However, sites in this band that are not under DMV, at the time of implementation, would not be able to register as a DME site in the future without further modifications to the UNC.

This modification proposal was raised by Wales and West Utilities. The proposer considers that this modification better facilitates relevant objectives (a), (d) and (f). It considers that this modification may facilitate the transition from a regime incentivised by liabilities to one incentivised by competitive pressures, and remove the need for a regulated metering regime when there is a viable competitive alternative.

The proposer considers that this modification will result in more cost effective meter reads through the furthering of competition in the provision of meter read services and hence remove the monopoly role of the GTs, in this activity. Furthermore, the proposer considers that the proposal provides a sufficient transition period to incentivise other service providers to enter the market for the provision of meter read services.

## UNC Panel<sup>10</sup> 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 recommended the implementation of UNC 345.

The Panel considered that this modification may be beneficial for competition as DME provided a market based alternative to DMV. However, some members expressed concern that the DME regime was unproven as a sustainable alternative to DMV.

Although we considered that there were potential merits to this modification, the legal text did not provide sufficient clarity on the proposed implementation dates<sup>11</sup>. Further,

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<sup>9</sup> As DME rollout is phased, dependent on the AQ of a supply point, different supply points will become eligible for DME at different phases of implementation.

<sup>10</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

we considered that the modification did not take into consideration the time that shippers may need to make the necessary system changes to migrate sites from DMV to DME, and requested further information from the Panel. In response, the Panel facilitated the development of, and consulted upon, a Supplementary Report to establish the views of shippers on implementation timescales. We have received this report and the revised legal text has addressed our previous concerns.

### **The Authority's decision**

The Authority has considered the issues raised by the modification proposal, the Final Modification Report (FMR) dated 14 November 2011 and the Supplemental Report dated 6 September 2011<sup>12</sup>. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC<sup>13</sup>; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>14</sup>.

### **Reasons for the Authority's decision**

We have assessed the proposed modification against the UNC Relevant Objectives. We consider that this modification proposal better facilitates relevant objective (d), and that it is neutral with respect to all other relevant objectives.

#### ***Standard Special Condition A11.1 (d): the securing of effective competition between relevant Shippers***

##### *Costs of meter service provision*

We set a tariff cap on how much GTs may charge for meter service provision under DMV<sup>15</sup>. 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

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<sup>11</sup> The dates in the legal text were in square brackets so may have been subject to change after the modification would have been approved.

<sup>12</sup> UNC modification proposals, modification reports, representations and the Supplemental Report can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.com](http://www.gasgovernance.com)

<sup>13</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/index.php?pk=folder590301>

<sup>14</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.

<sup>15</sup> If the cost incurred by the GT is greater than that specified in the metering charging statement, the GT is unable to recover this cost from the shipper. In this instance the GT would be delivering a service that is not reflective of the costs that they have incurred, nor would it allow for the relevant GT to recover all of the costs incurred. GTs are able to provide evidence to Ofgem to increase their tariff caps, Ofgem will then assess this evidence and decide whether the tariff cap should be increased and to what degree; this process may take several months.

performance. Therefore we consider that DME is likely to result in more reflective costs being incurred by shippers and ultimately being passed through to consumers.

We note that all non-domestic metering points with an annual consumption greater than 732,000kWh must have an advanced meter installed by 6 April 2014<sup>16</sup>. 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 market<sup>17</sup>. However, we do not consider that credible information has been provided that would lead us 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 we note that a further modification could be raised to address this issue.

UNC 345 will allow for existing DMV sites between 73,200kWh and 732,000kWh consumption to transition to DME; we 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 we have some concerns that preventing sites in this band from receiving DM services may lead to less efficient cost allocation. However, we 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.

We note that the original modification proposal set out indicative dates for transition from the DMV market to DME. In our correspondence with the Panel on 14 June 2011, we 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 we 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. We note 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

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<sup>16</sup> A requirement under Supply Licence Condition 12.

<sup>17</sup> DMV sites can be interruptible but DME sites cannot.

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.

We note 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. We 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. We note 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. We consider that this is outside of the scope of this modification.

We note that the penalties for late meter reads for DMV supply points are the same as those for DMM<sup>18</sup> 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 we 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).

#### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 345: 'Removal of Daily Metered Voluntary regime' be made.

**Colin Sausman**

**Partner, Smarter Markets**

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

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<sup>18</sup> If a DMM or DMV meter has not been read by 11am on the day after the settlement date, there is a £30 per day penalty that the GT must pay to the shipper. If the meter still has not been read after four day, this increases to £75 per day.