Modification proposal:	**Uniform Network Code (UNC) 428/428A: Single Meter Supply Points**		
Decision:	The Authority[1] directs that UNC428 be made[2]		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	25 July 2013	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

Whilst the majority of Supply Points connected to the Gas Transporters' ('GTs') networks are associated with a single meter point, many Supply Points are at sites which have several individual meter points downstream of them. These multi-meter Supply Points ('mmSPs') were generally configured in such a way in order to meet the historic requirements of both the consumer and, in many cases, the former monopoly British Gas plc. For instance, the aggregation of several meter points may have made the initial installation of a gas service to the premises more economic for the provider, and/or more affordable to the consumer by offsetting those installation costs against future energy purchases.

Since privatisation there has been a significant restructuring of the gas industry, both in terms of the corporate structure of the parties operating within it and the basis on which they recover costs. The now separate Gas Distribution Network ('GDN') businesses must charge their customers, the Gas Shippers, on a cost-reflective basis. Gas Shippers therefore pay distribution charges for each site registered to them, which may differ according to the relative consumption band[3] the site falls within. The difference in charge between each band is intended to reflect the average use a typical site within a given consumption band makes of the distribution network. Sites within large consumption bands are considered typically to impose a proportionally smaller cost upon the network and are therefore charged at a lower unit rate, and vice versa.

As mmSPs may include many individual meter points that would otherwise have fallen within varying consumption bands, there is a concern that these sites are not being charged in a cost-reflective manner.

The modification proposals

UNC 428

National Grid Gas (Distribution) raised UNC428, which seeks to prohibit the practice of aggregating meter points into mmSPs, establishing a rule that would permit only one meter point per Supply Point. With effect from 1 April 2014, no mmSPs would be permitted to be created, nor could any existing mmSP be extended through the addition of further meter points.

[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] This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.
[3] There are 10 consumption bands in total, each of which is based in terms of the quantity of gas consumed annually. The smallest consumption band starts from 0-73.2 MWh and the largest consumption band is any volume that is above 293,071 MWh.

Gas Shippers would also be responsible for managing the disaggregation of all existing mmSPs. While this process could commence at the Gas Shippers' own discretion, it is proposed that it would have to be completed 3 months prior to the 'go-live' of Project Nexus[4] (which does not yet have a fixed date but is expected to be Q4 2015[5]). Should any mmSP not be disaggregated and reconfirmed as single meter Supply Point by this date, the relevant GT could take actions on the Gas Shippers' behalf to effect the disaggregation.

UNC 428A

Gazprom raised an alternative modification UNC428A, which also seeks to preclude the further creation or extension of mmSPs, but would not require the disaggregation of any existing mmSPs. Therefore, no action would be required by Gas Shippers. The proposer recommended that the implementation date of UNC428A should also be aligned with that of Project Nexus.

UNC Panel[6] recommendation

At its meeting of 20 June 2013, the UNC Panel considered that either proposal would be expected to further the relevant objectives of the UNC. Therefore both UNC428 and UNC428A were individually recommended to be implemented.

However, as these are alternative proposals, the UNC Panel then considered which of the two modifications, if one were to be implemented, would be expected to best facilitate the relevant objectives. With 6 votes preferring UNC428 and 4 votes preferring UNC428A, the UNC Panel determined by majority that, of the two, UNC428 would be expected to best facilitate the relevant objectives.

The Authority's decision

The Authority has considered its statutory duties and functions in reaching its decision. The Authority has considered the issues raised by the modification proposal, the Final Modification Report (FMR) dated 20 June 2013 and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR[7]. The Authority has concluded that:

1. implementation of either UNC428 or UNC428A will better facilitate the achievement of the relevant objectives of the UNC[8];
2. of the two modifications, UNC428 would best meet the relevant objectives; and
3. directing that UNC428 be made is consistent with the Authority's principal objective and statutory duties[9].

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[4] Xoserve's project to replace key IT systems that support the competitive gas market.
[5] See: UK Link programme Update - www.gasgovernance.co.uk/Nexus/170613
[6] The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules
[7] UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com
[8] As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART_A__-_Consolidated_-_Current+Version.pdf
[9]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.

Reasons for the Authority's decision

We note that there was no support among respondents for maintaining the current arrangements for the connection of new Supply Points. Each of the fourteen respondents was in favour of either prohibiting mmSPs entirely or precluding any further additions.

We agree with the UNC Panel and those respondents who specifically commented that these proposals should be considered against relevant objectives c) and d) and that they are expected to be neutral against the other relevant objectives.

Relevant Objective c) - the efficient discharge of the licensee's obligations under this licence

We agree with those respondents who suggested that both modifications would introduce greater reflectivity of costs in transportation charging, though to a varying degree. UNC428 would ensure that distribution charges are levied on all Supply Points on a like-for-like basis. In contrast, while UNC428A would limit the extent of the disparity in charges, it would not address the issue of existing mmSPs not being charged on a cost-reflective basis.

Some respondents raised concerns that UNC428 would result in increased charges for affected Supply Points, many of which are in the public sector. One respondent referred to a sample of three sites which may be facing increased charges of up to £15,000. We acknowledge that UNC428 may result in higher charges to affected sites, though in each case this would be no more than the appropriate charge for an equivalent site that is not currently subject to aggregated arrangements. Any increase for affected Supply Points would be offset by reduced charges to all other Supply Points.

The charging impact of UNC428 will differ on a site-by-site basis, depending on the extent of the existing aggregation. However, we note that distribution charges typically make up less than a sixth of a customer's bill[10], which may indicate the significance of this change relative to their overall energy costs. We would also note that GT distribution charges are levied upon Gas Shippers and the extent to which they seek to pass this on is at their own discretion.

We acknowledge that Gas Shippers and consumers are likely to have acted in good faith in accepting Supply Point aggregation and note the concerns raised by some respondents that further costs may now be incurred in re-engineering configurations through a single primary meter in order to further avoid the increased charges. UNC428 allows for up to two years notice before these changes take effect, which we consider should provide sufficient time for Gas Shippers and consumers to make appropriate arrangements. The age profile of these Supply Points indicates that around 97% were installed prior to 2000. As such, if mmSPs were prohibited under UNC428 the relevant Gas Shippers and consumers would have obtained 15 years or more economic benefit from these aggregated arrangements. Therefore, while we have some sympathy with the intent of UNC428A, we do not consider that past investment can justify the enduring difference in treatment.

Although some of the existing mmSPs may disaggregate due to factors such as a customer-initiated change in the metering configuration or a change in property boundaries, there is no certainty of this. In the meantime, the differentiated treatment

[10] See: www.uswitch.com/gas-electricity/guides/utility-bills/#step9

of otherwise comparable sites would continue. We therefore consider that UNC428A would have only a marginal benefit in furthering this objective, insofar as it would ensure that no further Supply Points receive differentiated treatment.

Given that the circumstances which initially led to the creation of mmSPs no longer apply, we consider that both UNC428 and UNC428A would allow the GTs to take account of developments in the transportation business in the levying of charges. For the reasons set out above, UNC428 would do so to the greater extent. We also consider that UNC428 would allow for charges which better reflect the GTs' costs incurred. We therefore consider that UNC428 will further the efficient discharge of the licensees' obligations as set out in Standard Special Condition A5 of their GT licences[11].

Relevant Objective d) - the securing of effective competition between relevant shippers, suppliers and/or DN operators

We agree with those respondents who suggested that UNC428 would remove what is in effect a subsidy between non-aggregated and aggregated sites. Accurate cost allocation would benefit effective competition between Gas Shippers to the extent that it would allow the more efficient operators to compete more effectively on price, without undue distortions from legacy metering arrangements.

As we consider that UNC428A would offer only a marginal improvement to cost-reflective charging, its benefit to effective competition would be similarly limited. Further, in seeking to introduce a cut-off date for sites being exempted from the single meter per Supply Point requirement, it would create a further differentiation in treatment between what may otherwise be comparable sites. We have seen nothing to suggest that the sites which are currently subject to mmSP warrant such different treatment on an enduring basis. We therefore consider that UNC428A is unlikely to materially improve competition and cannot conclude that it would further relevant objective d).

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC428: 'Single Meter Supply Points' be made.

Neil Barnes
Associate Partner, Energy Market Monitoring and Analysis
Signed on behalf of the Authority and authorised for that purpose.

[11] Standard Special Condition A5: 'Obligations as Regard Charging Methodology'