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Modification proposal:	**Uniform Network Code (UNC) 652: Introduction of winter read/consumption reports and associated obligation (UNC652)**		
Decision:	The Authority[1] directs this modification be made[2]		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	9 April 2019	Implementation date:	To be confirmed by the Joint Office

Background

The Uniform Network Code (UNC) requires any pply point with an Annual Quantity (AQ) above 293,000 kWh (10,000 therms) to be read at least monthly.[3] Amongst other things, this granularity of meter read data is intended to indicate how much gas the supply point consumes over the winter period as compared with the rest of the year, and subsequently be allocated an appropriate Winter Annual Ratio (WAR) band. These WAR bands indicate how sensitive to changes in weather the consumption at that supply point is likely to be, i.e. whether or not consumption is largely for heating purposes and will increase as the temperature drops.

However, a sizeable proportion of supply points in End User Category (EUC) bands 3 to 8[4] have not had sufficient meter reads submitted in order to assign the appropriate WAR band, requiring that they are instead placed in the default WAR band *bucket*.[5] This means that the profiled non-daily metered (NDM) demand estimation is unlikely to accurately reflect the consumption characteristics of those sites.

The extent of difference between estimated and actual consumption will feed into Unidentified Gas (UIG) volumes. Analysis undertaken by the Xoserve's UIG taskforce[6] suggests that if supply points currently in the default *bucket* were re-distributed to appropriate WAR bands at the ideal ratio, UIG would be proportionally up to 2.5% lower on peak winter days, while summer would be up to 1.5% higher.

The modification proposal

UNC652 proposes to introduce new performance assurance reports to allow for the more effective monitoring of shipper compliance with the existing monthly read requirements. It also proposes to introduce a new obligation requiring shippers to send the Central Data Service Provider (CDSP) upon request, Winter Consumption Data where reads have not previously been made available. This will enable the CDSP to assign the supply point the appropriate WAR band.

A new definition of "Winter Consumption Data" will be introduced into the UNC for these purposes.

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[1] 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.
[2] This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.
[3] UNC Section M 5.9.1(b)
[4] EUC band 3 starts at 293,000 kWh, while a supply point with an AQ above 58,600,000 kWh will be in EUC band 9 and mandatorily daily read.
[5] The UNC652 FMR gives an unattributed figure of 25% of eligible supply points without an assigned WAR band, though the Xoserve UIG taskforce has put this figure as high as 40% as at 1 October 2018: https://www.xoserve.com/media/2635/uig-brochure-2019-revision-190215.pdf
[6] Established by UNC658: '*CDSP to identify and develop improvements to LDZ settlement processes*'

UNC Panel[7] recommendation

At its meeting of 21 March 2019, the UNC modification panel unanimously supported the implementation of UNC652.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 21 March 2019. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR[8]. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;[9] and
- directing that the modification be made is consistent with our principal objective and statutory duties.[10]

Reasons for our decision

We note the strong support for the implementation of this proposal, with seven of the eight respondents offering support, and the last offering qualified support.

We agree with the UNC panel and consultation respondents who considered that this proposal should be considered against relevant objective (d), though we also consider that there is an impact upon relevant objective (a). We agree that there would be a neutral impact upon the other relevant objectives.

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

Whilst the rationale for UNC652 was focused primarily on the reduction of UIG, as set out below, the FMR also refers to the fact that an inappropriate EUC WAR band could result in an inappropriate load factor[11] being applied. This would result in an inaccurate calculation of Supply Point Offtake Quantity (SOQ). The SOQ is important both as a system management tool and in setting cost-reflective transportation charges.

To the extent that the implementation of UNC652 ensures supply points are assigned an appropriate WAR band, we consider that there will be consequential benefits to the accuracy of SOQs and that this will further the efficient and economic operation of the network.

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[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.co.uk
[9] 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
[10] The Authority's statutory duties are wider than matters which the Panel must take into consideration; they are detailed mainly in the Gas Act 1986 as amended.
[11] UNC Section H: The "EUC peak load factor" for an End User Category is a load factor reflecting the average daily load (on a seasonal normal basis) of any Supply Meter Point in that End User Category as a proportion of the 1-in-20 peak day demand of such Supply Meter Point.

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(d) the securing of effective competition between relevant shippers

The purchase of energy is a key component of gas shippers' and suppliers' costs, making up around 40%[12] of the end consumer's bill. Efficient operators are able to differentiate themselves from competitors by passing through efficiencies in the form of lower tariffs. Cost reflective charging therefore facilitates competition between relevant gas shippers and suppliers.

Much of the benefit of Project Nexus was expected to come from reforms to the gas settlement arrangements. Whilst NDM supply points are now capable of being individually reconciled, they are still allocated and initially settled on the basis of profiled estimates of consumption. The relative inaccuracy of these profiles is considered to be one of the biggest contributors to the daily volume of UIG.

If a supply point has an inappropriate WAR band, it is unlikely that the demand profile shape will accurately reflect the actual consumption characteristics. We note that the Xoserve UIG taskforce assess that this error could be impacting UIG by as much as 2.5% on peak winter days, but this is a net figure. The impact of the profiling error on individual supply points and their relevant shippers is likely to be much greater. All of the respondents to the Joint Office consultation considered that UNC652 would improve the accuracy of WAR band allocation and/or reduce UIG.

We agree that UNC652 will be an improvement to the extent that it provides greater transparency of shipper performance, though remain concerned that there is no obvious and immediate consequence to shippers if they fail to comply with either the existing or new obligations. We note that UNC672 seeks to introduce performance targets and incentives for both annual and monthly read supply points.

Whilst it seems appropriate for the CDSP to request winter consumption data where the requisite reads have not been submitted, this should be seen as a safeguard rather than an acceptable alternative to the shipper complying with the monthly read requirements. Indeed, where the supply point has advanced meter reading equipment installed, the submission of a monthly read is required by both the UNC and by licence.[13] Given these existing obligations, we disagree with those respondents who considered that there should be a later implementation date for the reporting requirements proposed in UNC652.

Further, whilst UNC652 may improve the accuracy of demand estimation, we consider that there would be greater benefits if more supply points were moved out of NDM profiling altogether, and instead utilise settlement product Class 2. We recently accepted UNC665 in order to prevent the exposure to ratchet liability charges deterring greater take up of this settlement product.[14] With all supply points in EUC bands 4 to 8 now having AMR installed[15] and those in lower EUC bands requiring a smart meter to be installed before the end of 2020,[16] we consider it is no longer sustainable to rely so heavily on NDM demand estimates when actual consumption data is readily available. However, while the industry is reliant upon NDM demand estimation, we agree that the appropriate use of WAR bands will improve the accuracy of those estimates. It is

[12] See: www.ofgem.gov.uk/publications-and-updates/infographic-bills-prices-and-profits
[13] Gas Supply Standard Licence Condition 21B and Gas Shipper Standard Licence Condition 11;
[14] UC665: '*Changes to [the] Ratchet Regime*'
[15] Subject to all reasonable steps having been taken – Gas Supply Standard Licence Condition 12: Matters relating to Gas Meters
[16] Gas Supply Licence Condition 33: Smart Metering System – Roll-out, Installation and Maintenance

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therefore disappointing that this relatively simple proposal took over a year to complete, having first being considered by the workgroup in March 2018. Whilst no implementation timescales are proposed in the FMR, we see no reason to disagree with the workgroup that UNC652 should now be implemented in time for Winter 2019/20.

For the reasons set out above, we consider that the implementation of UNC652 will further facilitate relevant objective d).

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC652: '*Introduction of winter read/consumption reports and associated obligation*' be made.

Rachel Clark
Programme Director, Switching Programme
Signed on behalf of the Authority and authorised for that purpose

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