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27 May 2005

ESP Networks Ltd, Shippers and other parties.

Dear Colleague,

Modification Proposal ESPN 106: Procedures to support Meter Asset Unbundling

After consideration Ofgem has decided to direct ESP Networks Ltd (ESPN) to implement the above modification. This letter explains the background to the modification proposal and gives Ofgem's reasons for making this decision.

Background to the proposal

Under the existing regulatory framework, suppliers and consumers can choose their meter service provider. Gas suppliers are obliged under their licence to arrange for the provision of a meter to any of their domestic customers. Historically, this obligation has been discharged by requesting the transporter (via the shipper), in accordance with the Gas Transporters' Licence, to provide meters to domestic customers. However, in recent years the gas metering market has become increasingly competitive.

Review of Gas Metering Arrangements

The Review of Gas Metering Arrangements (RGMA) project, which was implemented in July 2004, developed business processes and data flows to underpin competition in gas metering services, enabling market participants to communicate effectively in the evolving metering market.

The Modification Proposal

Modification Proposal ESPN 106 seeks make changes to the provisions of its Code to deliver the functionality contained in the following implemented Transco Modifications;

- Mod 664: *Provision of the identity of the incoming supplier to incumbent Meter Asset Managers and Meter Operators*”;
- Mod672: *“Amendments to facilitate the unbundling of Supply Meter ownership and associated works in accordance with the Review of Gas Metering Arrangements (RGMA)”*;
- Mod673: *“Supply Metering Unbundling - Meter Information requirements in accordance with the Review of Gas Metering Arrangements (RGMA)”*; and
- Mod675: *“Isolations - Changes required in accordance with the Review of Gas Metering Arrangements (RGMA)”*

The Proposer considers that Modification Proposal ESPN 106 will ensure that information concerning meter assets continues to flow in line with obligations under licenses and appropriate codes set out in the legislation, and provide consistency with Transco’s provisions. The Proposer therefore considers that the modification will facilitate the unbundling of meter asset ownership and management, and facilitate competition by allowing Shippers to adopt, as far as possible, the same procedures in their dealing with ESPN as they adopt in their dealing with Transco.

Respondents’ views

Two representations were received regarding this modification proposal; one respondent supported the proposed changes; the other respondent supported the principle of the Proposal but not the timing. This respondent considered that problems may arise through the operation of parallel flows and processes for IGTs, if ESP Networks became RGMA-enabled ahead of the rest

of the IGT community, and considered that a more detailed understanding of the impacts of this change to dataflows and processes was required before an agreement to the modification could be made. The respondent therefore considered that Modification Proposal ESPN 106 should be deferred and raised as an issue at the next meeting of the IGT Workshop.

Ofgem's view

Ofgem is keen to facilitate the unbundling of meter asset ownership and management, and considers that these market developments may lead to an increased competition in the gas metering market and significant benefits to consumers through lower prices and improved standards of service.

With regards to concerns raised in the respondent's views to Modification Proposal ESPN 106, Ofgem considers the merits of each final modification report on a case by case basis and gives due consideration to the relevant objectives¹ and Ofgem's statutory duties. Therefore Ofgem does not consider that there is a sufficient ground to reject the modification on the sole basis of obtaining further information on the proposed changes, especially given that this view does not appear to be shared by other respondents. However Ofgem considers that this does not preclude further industry discussions at the iGT workshop, or similar fora.

Ofgem has also taken into consideration concerns regarding the disruption to shipper processes, and has noted ESPN's agreement to enter into discussions with other iGTs to discuss the degree to which co-ordination of processes can be introduced to minimise such disruptions. In this respect, Ofgem has made a note of the possible implications to the proposed implementation date.

It is Ofgem's view that Modification Proposal ESPN 106 is consistent with the implementation of modification 0664, 0672, 0673 and 0675 in Transco's Unified Network Code. In addition, Ofgem considers that the alignment of IGT Network Codes with that of National Grid Transco (NGT) Unified Network Code would improve consistency between the Codes, and facilitate competition in shipping and supply by allowing Shippers to adopt, as far as possible, the same procedures in their dealing with ESPN as they adopt in their dealing with Transco. Ofgem considers that the consistency between the Codes may reduce ambiguity and disputes, and may therefore enhance the efficiency of operation of the pipeline systems.

¹ For the applicable objectives see condition 9. of the Network Code

Ofgem's is therefore of the view that Modification Proposal ESPN 106 will further facilitate the unbundling of meter asset ownership and management, and the achievement of securing effective competition between relevant shippers and between relevant suppliers.

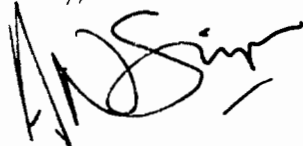
Ofgem's decision

For the reasons set out above Ofgem has decided to direct ESPN to implement Modification Proposal ESPN 106. Ofgem considers that the Modification Proposal will further the relevant objectives of the ESP Networks Network Code, as set out in Standard Licence Condition 9 of its Gas Transporters Licence.

In accordance with condition 9 (9) (b) of the standard conditions of ESP Networks Ltd Gas Transporter's Licence, dated 27 July 2000, ESP Networks Ltd is directed to make the above proposal (as contained in ESP Networks Ltd Network Code Modification report ESPN106 dated 15 April 2005) as a modification to the Network Code.

If you have any queries in relation to the issues raised in this letter, please feel free to contact Ndidi Njoku on 020 7901 7157.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'N Simpson', written over a horizontal line.

Nick Simpson
Director, Modifications

Signed for and on behalf of the Gas and Electricity Markets Authority (Ofgem).