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ESP Networks Limited, shippers and other parties.

Dear Colleague,

**Modification Proposal ESPN 104: Removal of Restrictions on Valid DM Reads**

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.

*Meter Reading Competition*

In 2001, Transco separated its meter reading activities from its transportation activities to facilitate the development of competition in the provision of Non-Daily Meter (NDM) reading. Transco, however, retained responsibility for the provision of Daily Meter (DM) reading for DM

supply meter points, including those on ESPN's system (pursuant to a LDZ CSEP Ancillary Agreement).

The DM reading regime involves the provision, installation and maintenance of Daily Read Equipment (DRE) which allows meter readings to be obtained remotely at set intervals. This data facilitates system balancing, thereby promoting safety and efficiency. A supply meter point is classified as a DM supply meter point where it is read daily (where operational DRE is installed as a part of the supply meter installation), and either:

- The daily read requirement applies (in that the supply meter point (with an Annual Quantity (AQ) greater than 2,196,000 kWh) is comprised in any supply point whose AQ is greater than 58,600,000 kWh, or is comprised in an interruptible supply point); or
- The user elects to classify the supply meter point as a DM supply meter point (providing that the AQ exceeds 73,200 kWh).

#### *Modification of Transco's network code*

On 24 June 2004, Ofgem directed the implementation of modification 0674 'Daily Meter Reading – Impacts of the Review of Gas Metering Arrangements (RGMA)' to Transco's network code. In addition to removing metering supply provisions from code and including new provisions to ensure that Transco fulfils its obligations under RGMA arrangements, modification 0674 involved amendments to ensure the continuance of the existing DM reading regime in a liberalised metering market.

#### *Transition from Transco's network code to the Uniform Network Code (UNC)*

Following the implementation of modification 0745 on 1 May 2005, Transco's network code was modified such that virtually all of the operative text was removed, and in its place text comprising Transco's 'short form' network code, which incorporates the UNC by reference was introduced. These changes were made as a part of the process of hive-down of four gas distribution networks from Transco plc. In reflecting a multi-transporter environment, DM reading obligations, as set out above, now rest with the relevant transporter under the UNC, rather than exclusively with Transco.

### **The Modification Proposal**

Consistent with modification 0674 to Transco's network code, it is proposed that the definition of DRE be amended such that it is no longer be required to be capable of enabling metering readings to be obtained at intervals of 6 minutes (and greater intervals) and of having the intervals at which meter readings are obtained set remotely.

### **Respondents' views**

Two representations were received. Both gave support for the proposal, with one offering specific support for the principle of aligning IGT network codes with that of NGT and agreeing that the proposed modification would improve consistency.

### **ESPN's View**

ESPN indicated its belief that the proposal will bring requirements for DRE into line with those specified by Transco, enabling other providers to supply the market more easily. It went on to suggest that the proposal facilitates competition in shipping and supply by increasing options for the provision of DRE while promoting efficient and economic operation of the pipeline system through removal of unnecessary restriction in the provision of such equipment.

### **Ofgem's View**

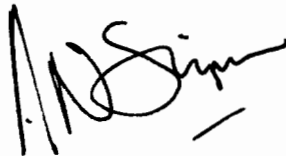
As indicated in the background section of Ofgem's decision letter for modification 0674 to Transco's then network code, a sub-group of the Supply Point and Billing Workgroup previously considered the structure of the DM reading regime in the light of RGMA and concluded that its unbundling from Transco's business was not viable. With this in mind, the modification amended DM reading provisions to ensure the continuance of the existing DM reading regime in a liberalised metering market, which, as detailed above, involves the provision, installation and maintenance of DRE by the relevant GT. This proposal would not, therefore, enable competition in the provision of DRE as suggested.

Modification 0674 did, however, remove redundant provisions relating to the technical specification for DRE from Transco's network code. Given the role of GTs in the DM reading regime, the alignment of ESPN's network code with the UNC would enable the relevant GT to employ DRE in the most efficient manner, in line with operational needs to ensure the security and safety of the system.

### **Ofgem's decision**

Having taken all of the above into consideration it is Ofgem's decision to direct ESPN to implement modification proposal 104 as we believe that it will better facilitate the relevant objectives of their Gas Transporters Licence, in particular the efficient and economic operation of its pipe-line system.

Yours sincerely

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

**Nick Simpson**  
**Director, Modifications**