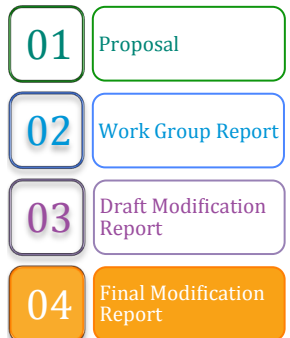


Stage 04: Final Modification Report

0345:

Removal of Daily Metered voluntary regime

What stage is this document in the process?



Modification Proposal 0224 "*Facilitating the use of AMR in the Daily Metered Elective Regime*" will be implemented in November 2010 allowing Shippers to provide their own Daily Read Equipment for Larger Supply Points (LSPs) that are not mandatory Daily Metered (DMM). This Modification Proposal seeks to introduce a phased removal of the obligation on Transporters to provide Daily Read Equipment for sites that are not DMM; these sites are known as voluntary Daily Metered (DMV).



The Panel recommends implementation of 0345, Title [Panel recommendation due on 20 January 2011]



The Panel does not recommend implementation of 0345, Title [Panel recommendation due on 20 January 2011]



High Impact:



Medium Impact:
UNC Parties and Consumers



Low Impact:

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Any questions?

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About this document:

This document is a Final Modification Report, which will be sent to the Authority following the 20 January 2011 Panel meeting. The Authority will consider the Panel's recommendations, and decide whether or not this change should be made.

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Why Change?

Modification Proposal 0224 "*Facilitating the use of AMR in the Daily Metered Elective Regime*"¹ (commonly known as 'DM Elective') will be implemented on 21 November 2010. This will introduce a regime whereby Users can benefit from daily settlement by providing their own DRE. It is therefore logical that the bundled legacy obligation on Transporters to provide a DM Voluntary (DMV) regime is removed when the competitive alternative is available. Implementation of this Modification Proposal will therefore remove the availability of this service and promote competition in the DMV market.

Solution

This Modification Proposal proposes that the DMV regime is discontinued in line with the introduction of the three phases of the DM Elective (DME) regime. It is proposed that, in relation to Phase 1, there will be a six month transition period following the implementation date of this Modification Proposal.

For Phase 2 and Phase 3, there would be a three month transition period to allow Users to move to the DME regime if they so desire.

All Supply Points that are still DMV and eligible to participate in the DME regime but have not done so, at the end of each transition period will have to become Non-Daily Metered (NDM). Users will have an obligation to make these sites NDM and, if they fail to do so, the Transporters would have the right to carry this out on their behalf.

Impacts & Costs

There is no significant development or capital costs for Transporters in relation to the implementation of this Modification Proposal.

There are no significant costs for Users as migration of DMV sites to DME or NDM will be carried out using current established processes. Those Shippers that wish to take advantage of the DME regime may incur costs in relation provision of equipment and processes or through the appointment of a DME service provider, however, these costs would not be as a direct result of the implementation of the Modification Proposal.

Implementation

This Modification Proposal can be implemented shortly following a direction by Ofgem. A small period of time maybe required to confirm transition dates and provide Users with any portfolio information that they may require. The modification will come into effect in three stages as outlined above (following the 3 DME Phases).

The Case for Change

This Modification Proposal will facilitate achievement of relevant objective (a) "*the efficient and economic operation of the pipe-line system to which this licence relates*" by removing the obligation on Transporters to operate a small volume, price capped service that is by its nature is not provided in the most efficient manner; and

¹ <http://www.gasgovernance.co.uk/0224>

(d) “*the securing of effective competition between shippers*”. The removal of the regulated DMV option will result in an opportunity for new service providers to enter the market resulting in more competition. This will allow Shippers to compete in this area as a wider choice of service provision will allow those Shippers that wish to benefit from the DME regime to do so. This will also lead to a greater choice, and potentially financial savings, for end consumers as Shippers/Suppliers may offer a greater range of supply services to them.

Implementation of this Modification Proposal will also be good for efficient administration and implementation of the UNC by having a service which is regulated and incentivised by competitive pressures rather than liabilities. This will therefore help to facilitate achievement of relevant objective (f) “Promotion of efficiency in the implementation and administration of the Code”.

Recommendations

The proposer believes that this proposal should proceed to Consultation as the basis and content of this Modification Proposal has already been discussed at Distribution Workstream meetings in June and August 2010.

The presentation given at the August Distribution Workstream reflected comments from Shipper representatives made in June, the Modification Proposal has been further refined following comments made at the August meeting.

Background

Users can currently request that any supply point over 73,200kWh but below the mandatory Daily Metered (DMM) threshold of 58,600,000kWh has Transporter Daily Read Equipment (DRE) installed. Meter reading became a competitive activity in July 2000 although some aspects including DM reads remained a Transporter activity. DN operators have continued to offer this price capped DMV service as it remains an obligation within the UNC.

Modification Proposal 0224 "*Facilitating the use of AMR in the Daily Metered Elective Regime*"² (commonly known as 'DM Elective') will be implemented on 21 November 2010. This will introduce a regime whereby Users can benefit from daily settlement by providing their own DRE. This is consistent with meter reading being a competitive activity. It is therefore logical that the bundled legacy obligation on Transporters to provide a DM Voluntary (DMV) regime is removed when the competitive alternative is available. Transporters may wish to offer a DM service (as a Daily Metered Service Provider (DMSP) but this should not be a requirement within the UNC and, as with other DMSP, should be offered in the competitive market place.

Some responses to the consultation on Modification Proposal 0224 referred to the high cost of the DMV regime and the lack of competition making the DM regime unattractive to Shippers and end consumers. The presence of the Transporter regulated service is likely to restrict the growth of a fully competitive DME market as its continual use will restrict the volume of potential business for a competitive service provider. It is therefore more efficient to allow the entire service provision to be offered on a competitive basis and be provided in response to market signals rather than through a cross subsidised Transporter obligation.

Implementation of this Modification Proposal will therefore, by removing the availability of this service, promote competition in the DMV market and potentially provide a greater choice to end consumers.

² <http://www.gasgovernance.co.uk/0224>

This Modification Proposal proposes that the DMV regime is discontinued in line with the introduction of the three phases of the DM Elective (DME) regime. It is proposed that, in relation to Phase 1, there will be a six month transition period following the implementation date of this Modification Proposal.

For Phase 2 and Phase 3, there would be a three month transition period to allow Users to move to the DME regime if they so desire.

All Supply Points that are still DMV, and eligible to participate in the DME regime but have done so, at the end of each transition period will have to become Non-Daily Metered (NDM). Users will have an obligation to make these sites NDM and, if they fail to do so, the Transporters would have the right to carry this out on their behalf.

National Grid Distribution understand the principle of the above statement but would suggest that in the event that, as the end of each transition period approaches, relevant Supply Points remain in the DMV category and action is necessary, Transporters would need to engage with Users to determine how this would be best achieved.

If the Implementation of this Modification Proposal was delayed, so that the transition period for either Phase 2 or Phase 3 fell within the initial 6 month transition, the transition for both Phases would become 9 months and 12 months from Implementation.

The DME Phasing is shown below with the corresponding transition dates (based on 2 theoretical Implementation dates):

Example 1

- Modification Proposal Implementation Date: 1 April 2011 (example only)
- DME Phase 1 (AQ > 5,860,000kWh): 21 November 2010
- DME Phase 2 (AQ > 2,196,000kWh): 21 November 2011
- DME Phase 3 (AQ > 732,000kWh): 21 May 2012

The transition period for Phase 1 would end on 1 October 2011, at this stage any DMV site with an AQ > 5,860,000kWh that had not become DME would revert to NDM.

The transition period for Phase 2 would end on 1 February 2012, at this stage any DMV site with an AQ > 2,196,000kWh that had not become DME would revert to NDM.

The transition period for Phase 3 would end on 1 August 2012, at this stage any DMV site with an AQ > 732,000kWh that had not become DME would revert to NDM.

Example 2

- Modification Proposal Implementation Date: 1 December 2011 (example only)
- DME Phase 1 (AQ > 5,860,000kWh): 21 November 2010
- DME Phase 2 (AQ > 2,196,000kWh): 21 November 2011
- DME Phase 3 (AQ > 732,000kWh): 21 May 2012

The transition period for Phase 1 would end on 1 June 2012, at this stage any DMV site with an AQ > 5,860,000kWh that had not become DME would revert to NDM.

The transition period for Phase 2 would end on 1 September 2012, at this stage any DMV site with an AQ > 2,196,000kWh that had not become DME would revert to NDM.

The transition period for Phase 3 would end on 1 December 2012, at this stage any

DMV site with an AQ >732,000kWh that had not become DME would revert to NDM.

There are currently³ 36 DM Supply Points that have an AQ between 73,200kWh and 732,000kWh, of these 18 are Firm Supply Points and 18 are Interruptible Supply Points. These sites are not eligible for DME because they are below the Phase 3 DME threshold of 732,000kWh. Concern has been raised within the Distribution Workstream that removal of the Transporter provided DMV service would result in these 36 Supply Points having no ability to DM (as they are not eligible for DME). To address this concern, the implementation of the Modification Proposal will allow for any DM Supply Point that is DM at the date of implementation with an AQ in the range 73,200kWh to 732,00kWh would be allowed to become DME during Phase 3 (up until the end of the Phase 3 transition period).

³ As of September 2010 across all Distribution Networks

4 Legal Text

Draft Legal Text has been provided separately for this Modification and is available at <http://www.gasgovernance.co.uk/0345>.

Impacts

There is no significant development or capital costs for Transporters in relation to the implementation of this Modification Proposal.

There are no significant costs for Users as migration of DMV sites to DME or NDM will be carried out using current established processes. Those Shippers that wish to take advantage of the DME regime may incur costs in relation provision of equipment and processes or through the appointment of a DME service provider, however, these costs would not be as a direct result of the implementation of the Modification Proposal.

There will be some impact on central systems (Uk Link) and xoserve if Users were not to make the necessary change to DME or NDM within the requisite timescales. There will also be a minor impact on the need for manual processes if any sites with an AQ <732,000kWh, that are eligible for the DME regime through the implementation of this Modification Proposal, opt to become DME. However, the impacts are not significant.

User Pays

This is not a User Pays Modification Proposal as it does not create or amend any User Pays Services and/or Charges.

Impact on Transporters' Systems and Process

Transporters' System/Process	Potential impact
UK Link	<ul style="list-style-type: none"> Minor Impacts
Operational Processes	<ul style="list-style-type: none"> Minor Impacts
User Pays implications	<ul style="list-style-type: none"> None

Impact on Users

Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> Minor Impacts⁴
Development, capital and operating costs	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> None
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> Users may decide to contract with a DME service provider

Impact on Transporters

Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> None

⁴ This does not include impacts of participating in the DME regime

Impact on Transporters	
Development, capital and operating costs	<ul style="list-style-type: none"> None
Recovery of costs	<ul style="list-style-type: none"> None to be recovered
Price regulation	<ul style="list-style-type: none"> None
Contractual risks	<ul style="list-style-type: none"> Removal of risk of DMV liabilities
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> May be an impact on Transporters' contract with DM service provider
Standards of service	<ul style="list-style-type: none"> Reduced number of sites within the DM liabilities regime

Where can I find details of the UNC Standards of Service?

In the Revised FMR for Transco's Network Code Modification **0565 Transco Proposal for Revision of Network Code Standards of Service** at the following location:

<http://www.gasgovernance.com/networkcodearchive/551-575/>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> None
UNC Committees	<ul style="list-style-type: none"> None
General administration	<ul style="list-style-type: none"> None

Impact on Code	
Code section	Potential impact
G	Removal of Users right to opt for Supply Points to be DMV
Transition Document	Amendments to the Phasing of DME to allow for additional sites at Phase 3 and to introduce the DMV removal transition period

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	None
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	None
ECQ Methodology (TPD V12)	None

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Impact on UNC Related Documents and Other Referenced Documents	
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	None (no impact to document)

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None
Transportation Pricing Methodology Statement	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	None
Operation of the Total System	Fewer daily/hourly reads collected by the Transporter
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	Provides opportunity for DM Elective service providers to enter market

6 Implementation

This Modification Proposal can be implemented shortly following a direction by Ofgem. A small period of time may be required to confirm transition dates and provide Users with any portfolio information that they may require. The modification will come into effect in three stages as outlined above (following the 3 DME Phases).

7 The Case for Change

Advantages

Transporter Advantages

- Removal of price capped Transporter obligated service
- Potential to reduce liabilities
- Allows focus of attention/effort to be on DMM and other activities

Industry Advantages

- Increase in number of DMV service providers (new entrants, greater competition)
- Greater choice for end consumers
- Potential for improved/cheaper service to be provided

Disadvantages

- Some Shippers may not wish to participate in DME regime which may result in a loss of customers that wish to remain in the DM regime.

Proposer's view of the benefits of 0345 against the Code Relevant Objectives	
Description of Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	Yes
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	No
c) Efficient discharge of the licensee's obligations.	No
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Yes
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	No
f) Promotion of efficiency in the implementation and administration of the Code	Yes

Achievement of Relevant Objective (a)

This Modification Proposal will facilitate achievement of relevant objective (a) "*the efficient and economic operation of the pipe-line system to which this licence relates*" by removing the obligation on Transporters to operate a low volume and price capped meter reading process where there is a viable competitive alternative. The provision of a regulated price capped service for a small number of sites when there are commercial operators capable of offering a service is inefficient and therefore the removal of the obligation will contribute to achieving this objective;

Achievement of Relevant Objective (d)

(d) *"the securing of effective competition between shippers"*. The removal of the regulated DMV option will result in an opportunity for new service providers to enter the market resulting in more choice for shippers; this together with the opportunities for shippers to provide and in house service will allow competition to develop in this area of meter reading. It will also allow those shippers that wish to benefit from the DM elective regime to manage the meter reading at these sites in the way that is most appropriate for their business.

This will also lead to a greater choice, and potentially financial savings, for end consumers as Shippers/Suppliers may offer a greater range of supply services to them; and

Achievement of Relevant Objective (f)

Implementation of this Modification Proposal will also be good for efficient administration and implementation of the UNC by having a service which is regulated and incentivised by competitive pressures rather than liabilities. This will therefore help to facilitate achievement of relevant objective (f) *"Promotion of efficiency in the implementation and administration of the Code"*.

8 Consultation Responses



Representations were received from the following parties:

Respondent	
Company/Organisation Name	Support Implementation or not?
E.ON UK	Not in Support
National Grid Distribution	Qualified Support
Northern Gas Networks	Supports
RWE npower	Not in Support
Scotia Gas Networks	Supports
Shell Gas Direct	Not in Support
SSE	Supports
Wales & West Utilities	Supports

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Of the eight responses received four representations supported implementation of the modification, one offered qualified support and three were not in support.

Summary Comments

E.ON UK understands that since implementation of modification 0224 "Facilitating the use of AMR in the Daily Metered Elective Regime" there has been very little take up. This concerns them, as they believe that it is essential that the new regime should be tried and tested and its efficacy demonstrated to all parties before it is judged to be fit for purpose. They consider that until such time as the industry can be assured that the DME regime is operating effectively, the regulated service should continue to be provided as a service of 'last resort.' Without the necessary assurances customers choosing to be DM may be forced to retreat to the NDM market, which must be seen as a retrograde step.

National Grid Distribution (NGD) recognised that this modification is an opportunistic first step, however by limiting the modification to a sub-set of the DM population it presents NGD with some financial issues. Given that a significant proportion of their costs associated with provision of the DM Read service relate to the operation of their service provider's systems, they are effectively fixed and would not diminish proportionately with the reduction in the Daily Read Equipment ('datalogger') population. Conversely, the reduced number of chargeable dataloggers in service would lessen income to a greater extent. Furthermore, whilst the lower number of operational dataloggers would mitigate contractual risk in terms of liabilities, given the resilience of the systems employed, the risk reduction is marginal. They consider that whilst implementation would be a step to full unbundling of the DM service, they believe it would be more satisfactory and efficient if all aspects of the DM regime were examined as a single issue.

RWE npower are concerned about the proposed removal of Daily Metered Voluntary Regime in its current format, although they appreciate there is a requirement for a phased removal of the obligation on the transporters to provide daily read equipment for sites that are DMV, they also feel that there isn't sufficient uptake of DME sites at

present to justify the implementation of this modification at this time. However, they recognise that in the future when there is a higher uptake of DME sites it may be more viable.

RWE npower would like to see visibility of a more robust structure and, specifically, the necessary steps taken to ensure the modification is fully developed, taking into consideration the consequences of customers with DMV sites being forced into the NDM market.

Scotia Gas Networks argue that though the take up of the opportunity to participate in the DME regime has been low since the implementation of the service, the central system changes are now in place (introduced at considerable cost to all Users) and can be utilised by all Users to facilitate a DM service to their Supply Points if they so wished. Were a Shipper User to choose not to participate in the DME regime, end users have the ability to move to an alternate Supplier who has invested in the necessary internal system changes to allow access to the regime and as result benefit from the advantages the DM regime may offer. Therefore, with the introduction of the DME regime, it would seem appropriate for the existing obligation for Transporters to provide a bundled DMV service to be removed to allow a fully competitive regime to flourish for Supply Points permitted to participate in the DME regime.

Shell Gas Direct, although supportive of increasing competition in Daily Meter Read provision services, do not feel that the newly implemented DME regime has been given the opportunity to prove itself a viable alternative to the regulated DMV service and therefore think the timescales proposed in the modification are not workable. In particular, they note the DME regime was intended as an optional service when it was implemented. They consider that customers would find it unhelpful for there to be a change to the optional nature of this service so soon after its implementation.

Wales & West Utilities highlight a typographical error within the main body of the Modification Proposal; appearing on Page 6 of the Draft Modification Report (DMR) within the 3rd paragraph of the "Solution" section. The first sentence states "*All Supply Points that are still DMV, and eligible to participate in the DME regime but have done so, at the end of each transition period will have to become Non-Daily Metered (NDM).*" It should read "*... but have not done so....*" They do not consider this typographical error will have misled anyone and the statement is correct within the summary section of the DMR.

Wales & West Utilities considers that this modification is seen as a forerunner to full DM unbundling. If full DM unbundling is delayed, or does not happen, the Transporters may be exposed to increased costs in providing the legacy DM service but unable to reflect this in the service charge to Users (due to existing tariff caps).



Panel's consideration of Consultation responses

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10 Recommendations



Panel Recommendation

Having considered the 0345 Modification Report, the Panel recommends:

- that Proposed Modification 0345 [should/should not] be made;

Recommendation

Modification Panel

recommends

Insert text here