

## Stage 03: Draft Modification Report

# 0345 Removal of Daily Metered voluntary regime

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 UNC Modification Panel has determined that this Proposal be issued for consultation.  
Closing date: Friday 7 January 2011



Medium Impact:  
UNC Parties and Consumers

What stage is this document in the process?

- 01 Proposal
- 02 Workstream Report
- 03 Draft Modification Report
- 04 Final Modification Report

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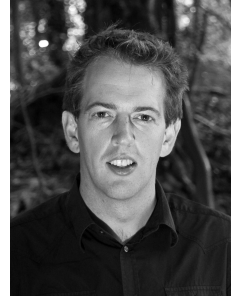
This document is a Draft Modification Report, which was issued for consultation responses, at the request of the Panel on 18 November 2010. The close-out date for responses is 17:00 07 January 2011. The Panel will consider the responses and agree a recommendation on whether or not this change should be made.



### Any questions?

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## Why Change?

Modification Proposal 0224 "*Facilitating the use of AMR in the Daily Metered Elective Regime*"<sup>1</sup> (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.

1.

## 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.

2.

## Impacts & Costs

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

4.

5. 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.

6.

## Implementation

7. 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).

8.

## 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

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

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

(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

9. 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.

10. 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*"<sup>2</sup> (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.

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<sup>2</sup> <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.

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.

11. There are currently<sup>3</sup> 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).

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<sup>3</sup> As of September 2010 across all Distribution Networks

## 4 Legal Text

No legal text provided



### Impacts

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

13.

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"> <li>Minor Impacts</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>Minor Impacts</li> </ul>
User Pays implications	<ul style="list-style-type: none"> <li>None</li> </ul>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li>Minor Impacts<sup>4</sup></li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>None</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>None</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>Users may decide to contract with a DME service provider</li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> <li>None</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>None</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>None to be recovered</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>None</li> </ul>

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<sup>4</sup> This does not include impacts of participating in the DME 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 Transporters	
Contractual risks	<ul style="list-style-type: none"> <li>Removal of risk of DMV liabilities</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>May be an impact on Transporters' contract with DM service provider</li> </ul>
Standards of service	<ul style="list-style-type: none"> <li>Reduced number of sites within the DM liabilities regime</li> </ul>

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

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
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	None

Impact on Core Industry Documents and other documents	
Safety (Management) Regulations	
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 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).

### 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

14.

### 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 Recommendations



The Panel invites respondents to:

- SUBMIT a recommendation that Proposed Modification 0345 should/should not be made.
- SUBMIT comments in support or opposition to the statements made in this Draft Modification Report and any further comments in support or opposition to implementation.

All representations should be forwarded to the Code Administrator by 07 January 2011 at [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

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**Consultation Ends**

17:00 on 07 January 2011

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**Recommendation**

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