



*Promoting a secure, efficient
and competitive gas market*

Our Ref: Net/Cod/Mod/0674
Direct Dial: 020 7901 7256
Email: iain.osborne@ofgem.gov.uk

24 June 2004

Transco, Shippers and other parties.

Dear Colleague,

Network Code Modification Proposal 674: Daily Meter Reading – Impacts of the Review of Gas Metering Arrangements (RGMA)

Having considered the issues raised by Network Code Modification Proposal 674, Ofgem has decided to direct Transco to implement the proposal as Ofgem believes that it better facilitates the relevant objectives of Transco's Gas Transporters Licence. In this letter Ofgem provides some background to the modification proposal and explain the reasons for reaching this decision.

Background to the Proposal

Metering Competition

Under the existing regulatory framework, suppliers and consumers can choose their meter service provider. Suppliers are obliged under their licence to arrange for the provision of a gas meter to any of its 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. In recent years the gas metering market has become increasingly competitive as demonstrated by suppliers such as British Gas engaging a range of competitive meter providers. In July 2002 Transco established Transco Metering Services (TMS), a wholly owned subsidiary for the provision of gas metering services.

Ofgem has welcomed these market developments as competition in the gas metering market will deliver significant benefits to consumers through lower prices and improved standards of service.

Review of Gas Metering Arrangements

In August 2000 Ofgem initiated the Review of Gas Metering Arrangements (RGMA) in order to address the remaining non-price barriers that were considered to be inhibiting the development



of competition in gas metering services. Key amongst these was the integrated nature of Transco's monopoly transportation and metering businesses. The RGMA developed business processes and data flows (as specified in the RGMA Baseline) which will underpin competition in metering and the separation of Transco's transportation and metering business arms. The development of industry standards for business processes and data flows will allow market participants to communicate effectively in the evolving metering market. It is anticipated that the RGMA regime will come into effect on 12 July 2004.

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. Meter readings are obtained from Non-Daily Read Supply Meters by service providers and forwarded to Transco for the purposes of determining Annual Quantities and NDM reconciliation. The NDM reading market has proved very competitive with significant benefits being realised. Transco, however, has remained responsible for the provision of Daily Meter (DM) reading for supply meter points classified as a DM supply meter point. A supply meter point is read daily if the Daily Read Requirement applies (greater than 2,196 MWhs) or the User elects to classify the supply meter point as a DM supply meter supply (providing the Annual Quantity is greater than 73.2 MWhs).

The Modification Proposal

Modification proposal 674 in conjunction with 672, 673, 675, 676 and 678 seeks to remove metering supply provisions from the Network Code and include new provisions to ensure that Transco fulfil their Network Code obligations under the new arrangements.

The Daily Meter Reading regime involves the provision, installation and maintenance of Daily Read Equipment which enables Meter Readings to be obtained remotely by Transco at set intervals. This data allows Transco to balance the system thereby promoting safety and efficiency of the system.

A sub-group of the Supply Point and Billing Workgroup considered the future structure of the Network Code Daily Read regime in light of the RGMA and identified modifications that would be required. This sub-group undertook substantial research and concluded that the unbundling of the Daily Read regime from Transco's business was not viable due to the size and structure of the market. This is to a large extent dictated by the applicable consumption threshold of 73.2 MWhs if elected by the User or if the Daily Read Requirement applies.

This modification proposal involves amendments to daily meter reading provisions in the Network Code to ensure the continuance of the current Daily Read Metering regime in a liberalised metering market.

The following are the principal requirements identified by the Daily Meter Reading (DM) sub-group of the SPA/Metering Workstream:

- Measures to ensure that a Supply Meter Installation is suitable for Daily Read Equipment to be connected to it.

- Measures to ensure that Transco is able to install and make operational Daily Read Equipment.
- Measures to ensure that Transco is able to inspect and maintain such equipment.
- Measures required in the event of Works being carried out on the Supply Meter Installation.
- Measures to be taken by Transco where Daily Read Equipment is unavailable at a New Supply Meter Point.
- Measures required for Transco to determine Daily Reads in the event that Daily Read Equipment is unavailable.
- Removal of redundant provisions relating to access to Transco's Daily Read Equipment.
- Amendments to the provisions governing the supply of Daily Meter Readings to Users including:
 - Definition of a Performance Relevant Supply Meter.
 - Measures required in the event of failure of the Supply Meter Installation.
- Miscellaneous enhancements to the 'Daily Read Error' provisions.
- Miscellaneous minor amendments in the following areas:
 - Preheating offtake.
 - Supply Point Offers.
 - Partial Interruption.

The principal requirements ensure consistency with the new Network Code provisions (as approved by Ofgem under Modification Proposal 672) unbundling supply meter ownership and associated works.

The Modification Proposal did not include any amendments to the current DM pricing structure and price controls to reflect that data procured as part of the Daily Read Requirement (different from installation of Daily Read Equipment) is for transportation purposes. Ofgem had previously communicated to the sub-group that changes to the price control to reassign DM meter reading related revenue would not be viewed favourably.

Respondents' views

Four representations were received in response to Modification Proposal 674. Three respondents support the implementation of this modification proposal while one does not offer a view.

One respondent provided comments on the legal text which has been incorporated by Transco where appropriate.

Transco's View

Transco supports the implementation of this Modification Proposal. Transco's ability to obtain Daily Meter Readings as a pre-requisite for meeting its Network Code obligations may be compromised by an inability for it to attach and maintain Daily Read Equipment.

Ofgem's View

It is Ofgem's view that modification proposal 674 will facilitate the achievement of efficient and economic operation by the licensee of its pipe-line system. Ofgem believes that Transco's ability to obtain accurate and timely valid daily meter readings is critical to its transportation business and the security and safety of the network.

Ofgem's decision

Having taken all of the above into consideration it is Ofgem's decision to direct Transco to implement modification proposal 674 as we believe that it will better facilitate the relevant objectives of their Gas Transporters Licence.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Iain Osborne', written in a cursive style.

Iain Osborne
Director of Consumer Markets